

Visions of Housing Policy

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Visions of Housing Policy I

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Visions and Logistics

The Conservative party has dominated the wider issues of housing policy for nearly forty years and by their lack of an alternative vision, the Labour Party appears to have accepted the constraints of working within these [structures](#). Perhaps it is not surprising that tensions exist between the logistical strategies of labour councillors and their government ministers. It is important that the dangers should be very clearly recognised. The logistical strategies, which exist within the physical and financial structures of housing policy have a great momentum and can have a huge effect on the viability of new reform.

In a Fabians Society tract "[Transfer of Affections](#)" (15th December 2005) Jeff Zitron claims that the "Government and Party seem to be on different sides of a sterile debate over the future of council housing". It goes on to recommend the "end of the era of council-owned housing by compelling all local authorities to transfer their housing stock to third sector landlords", which "could give them real control over the management of their homes and restore a degree of democratic accountability that no longer applies to local authorities".

Zitron's paper raises important issues, which need to be addressed; the empowerment of tenants, the difficulties of funding and measures required to meet the 2010 deadline for all social housing to achieve the Decent Homes Standard. These are logistical issues, which involve the administration of huge resources. But the paper also calls for the extension of the Right to Buy across all social housing, a terminal change in the nature of those resources. It strays far beyond any justification of its presentation, apparently not recognising the difference between logistics and the core structures of housing policy.

This paper attempts to trace the [visions of housing policy](#) that have led us to the present time and the need for a new vision of Complementary Housing. It seeks to address, not only the problems of social housing, but the structures of housing policy, which influence every section of the housing market. However, it must first address the points raised in the Transfer of Affections paper, which could further compromise our capacity to solve the deep problems of the housing market and especially the issue of the right to buy. I have no doubt that the confusion, between the logistical policies of best practice and the overall structures of housing policy lie at the heart of Labour Party disputes.

Getting a Wider View

It is tempting to claim that the 'Transfer of Affections' paper "can't see the wood for the trees", but it identifies realities observed at ground level of such controversial and pressing concern that the wider visions of housing policy have got lost.

"The division between the Labour Government and the Labour Party over stock transfer is undermining the interests of tenants and preventing many of our worst estates from being improved. A policy of universal stock transfer could give them real control over the management of their homes and restore a degree of democratic accountability that no longer applies to local authorities. Labour's third term should end the era of council-owned housing by compelling all

local authorities to transfer their housing stock to third sector landlords."

"The Government, whilst claiming that stock transfer is just one of several options available to tenants and councils, offers no comparably funded route for councils that want to retain all their stock... The Party's attitude towards council housing reflects a political relationship between local authorities and their tenants that simply doesn't exist any more; tenants no longer control their homes through controlling their council. Meanwhile, the Government creates the illusion that tenants are choosing from a range of investment options. But, in reality, many tenants are simply being asked to choose between transfer to a housing association or no investment."

"We also need to see the Right to Manage and the Right to Buy extended to all housing association tenants... Council tenants in place at the time of a stock transfer keep their Right to Buy. Tenants coming in after transfer (and many tenants of non-transfer associations) do not have that right".

Indeed, "this disparity cannot be justified", but Zitron makes little attempt to justify its removal by extending the right to buy. It is irresponsible to ignore the huge balance sheet losses, which are the reality of discounted sales and it is a non-sequitur argument to claim that Glasgow's transfer under the new Scottish Secure Tenancy regime changes that fact, or the evident difficulty it adds to the problem of raising private finance.

"This paper proposes that the housing association and co-operative sector should be the provider of social housing, not councils, and that the demonstrable scope of that sector to give tenants greater control should be tapped. New standards of accountability for the housing association sector need to be set, and greater opportunities provided for tenants to shape how the sector develops... All transfers would follow the Community Gateway Model".

It seems that a further confusion is emerging. The co-operative housing sector maintains a clear distinction between the Community Gateway Model, which is to do with management and the ideas of New Mutualism/Community Land Trusts, which define the policies of financial provision for co-operative housing (MHO). Mutual Home Ownership is a form of shared ownership, which uses a sophisticated (Canadian) spreadsheet to calculate the monthly components of rent, capital repayment, inflation and value appreciation. It prohibits the crude concept of the right to buy, since it fairly attributes the chosen proportions of usage and investment. It is an alternative choice, which depends on available income. It falls in the middle of what I would call, a complementary spectrum, between the financial idea of council housing and homeownership. It is not compatible with the right to buy and because of its dependence on income does not fit the concept of social housing.

It seems obvious that we are buried in the consequences of Conservative housing policy and haunted by the shibboleth of council housing. The discussion is about the logistics of social housing, which dominates the attention of local council decision-making and therefore the debate between councils and government. But it lacks any clear vision; about how we arrived here and about exactly where it is that we wish to go.

"Social housing development and management should be delivered through a regulated independent sector, with the regulators ensuring competition and diversity, and actively supporting and enforcing user involvement".

"No one holds anything like the powers of the housing association regulator, the Housing Corporation, to whip a non-performing or inept landlord into line."

But these powers were created in 1982 to enforce the alignment of HA rent levels with the deregulated private rented sector. In 1989, they were refined to this end still further and in effect have not been much reformed. But that is not to say, that they couldn't be used to promote tenant empowerment.

The Right to Buy

One paragraph, in Zitron's paper, makes a serious attempt to justify the policy of the Right to Buy.

"on the grounds of consistency and fairness", ... "the Right to Buy provides the seeds of empowerment in a different way. Given the relatively low income of social housing's customers, the Right to Buy is about encouraging mobility and wealth transfer to tenants. It has been an important mechanism for doing just that. The better-off, including many politicians and housing professionals, accumulate capital (and then use it as an additional source of spending power) with help from the taxpayer through tax relief on pensions, saving schemes and, in the past, mortgage tax relief. They release equity and do so without attracting derision. Why cannot social housing tenants have the same kind of economic power?"

Two wrongs don't make a right. The argument is full of flaws and a wider view shows that it would extend a central injustice of current housing policy.

- ◆ The financial consequences of balance sheet losses, due to discounted sales, hits all of the remaining tenants. The losses must be regained from higher rents, by reduced maintenance or by allowing the rented stock to diminish.
- ◆ It is a sad excuse to conjure the luck of a few, against privileged groups, when not these, but the remaining poor must pay. It is puerile to describe discounted sales as an empowerment of tenants.
- ◆ If it is 'consistency and fairness' that is to redistribute wealth, then let it be £12 billion/yr¹ in negative income tax or let it fall as an argument no better than that of its boastful creator "to persuade thousands of people to vote Conservative for the first time".
- ◆ Most social housing tenants are tenants because they cannot buy in to that kind of economic power, but not surprisingly, new property companies were quickly formed to persuade older tenants of ways that they could.
- ◆ The right to buy was the weapon that destroyed the investment based low-cost rented sector. By squandering generations of investment in that largely paid-for resource, it has destroyed the whole basis of affordable housing in the UK.

The loss of a low-cost rented alternative to home ownership has created problems far beyond those of social housing.

- ◆ Choice has been reduced to a single option --- how to Buy; since anything less is a sentence. This is the Dilemma of the Single Option for those seeking to form new households.
- ◆ It has escalated the cost of housing subsidies, now required to keep average families in rented accommodation they can no longer afford.
- ◆ The task of saving to buy, while paying high rents is huge. 40% of first-time buyers now depend on help from family or friends to get them started on the housing ladder. For those on low income or without aid from parents willing to borrow on homes with completed mortgages, there is no solution.
- ◆ The risk of failing to buy has lead young couples to gamble on loans up to ten times their income (Channel 4 investigation) and has caused instability in the UK house price market for nearly forty years.
- ◆ For those unable to buy or without a parent's help, housing benefit supported high rents become a poverty trap from which it is difficult to escape, because 69p of benefit is withdrawn from each extra pound they struggle to earn.

The present structures of housing policy have created a significant new class of poverty, the 'property-less poor'. Why are we the least socially mobile country in Europe? Why do more of

¹ £12 billion is the housing benefit cost of supporting current policy. Coincidentally equal to lost stock/yr of 2 million houses sold over 25 years, if current house values calculated at £150,000; a dubious calculation, but interesting?

our children from poor families fail to escape from poverty themselves? These questions are affected by housing policy in ways that no change in logistics can solve.

Poverty Education and Poor Households

It is a contention of this paper that the failure to reform housing policy is damaging the government's efforts, in education and health, to combat poverty in the UK. Whilst Sure Start Local Programmes to improve services for young children have been hailed as a success by the Lancet medical journal², the overall picture is bleak. Despite billions being invested in education, children born in deprived homes are no more likely to escape poverty than they were 30 years ago, it is claimed. Sir Peter Lampl, chairman of the Sutton Trust, called for an independent inquiry into how to break down the UK's rigid class barriers. He said: "Shamefully, Britain remains stuck at the bottom of the international league tables when it comes to social mobility."³

Because of its price and durability [investment](#) is the only means of providing affordable housing. Homeownership, over the period of a lifetime is cheap. It's how the free market works. Initially the loan repayment costs are very high, but these fall with inflation and are usually completed in 25-30 years. For low-income families the initial cost of repayments is prohibitive. Without a loan, the free market has another solution. A landlord makes the investment and sells accommodation by rent as a consumer service i.e. private rented accommodation. As the value of the house increases, the rent increases and the tenant has no share in the investment. The market works against the tenant in a private market.

It is because the free market makes this fundamental distinction between a consumer service and investment, that so often, it has the effect of making a distinction between the rich and the poor. It is the task of government to create structures, which allow investment to work also for the benefit of the poor. Council housing did that; the investment value of the stock created rents that low-income families could afford. The discounts of the Right to Buy policy destroyed the investment value of the stock and enforce the levy of high rents.

² <http://www.guardian.co.uk/society/2008/nov/07/children-social-exclusion-sure-start>

³ <http://www.telegraph.co.uk/news/uknews/1572437/Deprived-UK-children-'still-trapped-by-poverty'.html>

Visions of Housing Policy II

In 1971 the post war policy of investment in a low cost rented sector was radically reformed by new financial structures, which transformed the rented sector into a rented consumer service. This section explains the financial basis of council housing and its use of investment to yield low cost-balanced rents. A model is used to illustrate the principle with evidence that the record of performance did match the model. Rents of the rented consumer service now equal the first year cost of a mortgage. The policy has failed to provide an alternative for affordable housing and has resulted in a huge rise in the level of risk that first time buyers are willing to take.

Public Investment in Housing

The Labour Party vision of housing policy used to be investment in council housing to achieve affordable low rents. It was a good vision, because the investment value of the stock, increased so much that by the end of the 1960's these affordable rents could be achieved at cost-balance and from then on could largely self-finance the expansion of the stock without further subsidy (see [Colchester](#)).

In 1968, when housing benefit was negligible, the subsidy of £157 million (£2 billion at 2008 values) to 5 million council houses was already less per household than the £300 million tax subsidy to 7 million owner-occupiers and six times less in real terms than the current £12 billion in housing benefit rent subsidy.

[Fig.1](#) shows a financial model of how investment can be used to yield low cost-balanced rents. After a period of time, cost-balanced rents fall within the affordable range of almost every household. The parameters are arbitrary and can be changed by downloading the model. However, by removing the subsidies to council house building in 1972, Mr Heath proved that the majority of non-city councils were able to maintain building programmes after only 26 years, a much shorter time than indicated by this example.

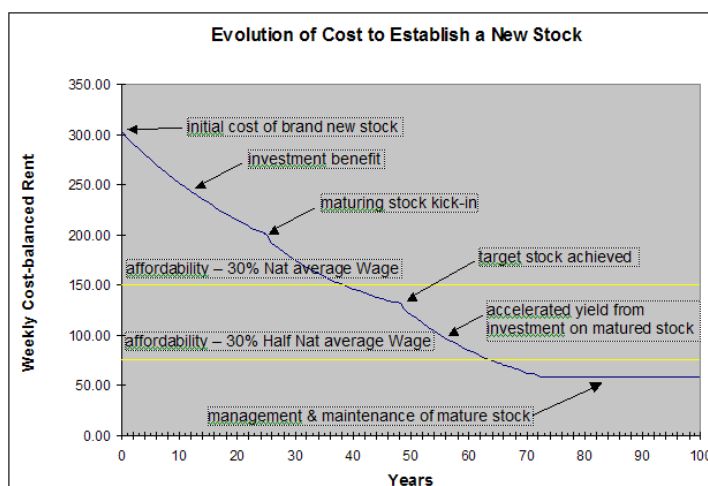


Fig.1 The principle of using investment to yield low cost-balanced rents

Model parameters based on Year 2004

| | | | | | |
|----------------|----------|----------------|--------|--------------|-------|
| Unit cost: | £150,000 | Loan Rate: | 7% | Loan period: | 25yrs |
| Target stock: | 20,000 | Building rate: | 400/yr | RPI: | 5% |
| Manag & maint: | 2% | Nat avg wage: | £500 | | |

The success of that vision was that aspirations were raised, people moved on. Most children of council tenants became house owners. It was also a success because it kept house prices stable, low cost rents were a viable alternative when house prices rose and an economical refuge for those saving to buy. But the vision was damaged by lack of reform in the 1960s. Rather than opening up this low cost-balanced rented sector to supply the needs of a more wealthy and mobile population, it narrowed to serve the restricted needs of welfare housing. Mea maxima culpa. This was where the Labour Party completely lost its vision.

In truth, it was also damaged by the much-publicised problems of council housing within cities. For them, the cost of land for housing development was prohibitive. High-rise flats, built to solve the problem, were demolished because of bad architecture; Gladys Dimson of the GLC Housing Authority petitioned for the release of disused railway land for housing. But these were the exceptional problems of cities, pressured by the commercial valuation of land. They required planning decisions on the balance between commercial and domestic development within cities, beyond the scope of normal housing policy. Then as now there were reasons, much to do with logistics that caused us to lose sight of a wider vision of housing policy.

Promoting the Private Rented Market

Labour and Conservative governments competed to build more council houses in the early years, but as wealth increased, the subsidies became an argument for more restricted access and in the politics of local government; council housing estates came to be seen as Labour Strongholds.

From 1971, Conservative housing policy was dedicated to the revival of the private rented sector by means of policies that progressively diminished council housing and used its historic resources. When the removal of building subsidies and the imposition of "economic rents" in place of "cost-balanced rents" failed, the right to buy policy finally succeeded in the elimination of the low-cost rented sector. For the first time in 50 years, the private rented sector began to grow, but much too slowly to replace the loss of rented stock.

Subsidies no longer support building investment to yield low rents. Instead, they are dissipated by the high rents of a consumer service. Yet building rates have fallen. The market has not responded to need. The reasons are not difficult to explain. Spectacularly in the UK, we have a mismatch between the private rented and private buyers markets.

Home ownership and council-housing expanded together, to supply the different needs of the housing market. At the same time, the private rented sector failed to compete and it rapidly declined. By removing the investment principle, low rents have disappeared. The similar cost of a loan-to-buy and a private-rent, now places these two suppliers of housing-need into a mismatched competition.

In spite of small growth, due to the support of housing benefit, the private rented sector has failed to fill the gap left by the elimination of the low-cost rented sector. Private rents have risen to the level of first buying a mortgage. Even so, by commercial standards, the profits are relatively modest.

The low supply compared to demand proves either that, real demand is depressed by attempts to restrain housing benefit, or that the profits are not attractive enough to encourage a sufficient supply. More probably, it's a combination of both, limits on housing benefit and not enough profit in the private rented market.

The Conservative policy to revive the private rented market has failed to provide an alternative for affordable housing. Within the UK profile of incomes and of housing and land costs, the Current Housing Policy has enforced structures of supply, which have failed to meet our housing needs. The huge rising cost of this failed policy, so far contained by the strength of the UK economy is now exposed to our economy weakened by the global credit crunch.

Private Rent v A Mortgage

The price of an average house is £210,000. A relatively modest return of 7% on capital plus 2% maintenance and administration amounts to

£18,900

which means a Private Rent of
£365.46 / week or £1,575 / mth.
(increasing at inflation rate)

Which is more expensive than

The repayment amount for a 25 year mortgage at 6%
£1,353.03 per month
(decreasing at inflation rate)

The Credit Crunch

Our visions of housing policy are more confused by the current crisis. The global credit crunch is the fault of reckless bankers. The banks have stopped lending so Housing is heavily affected, but it had nothing to do with the cause.

While often linked in the press, British and American Housing bear not the slightest resemblance to each other. American housing is big, it's cheap and land is no

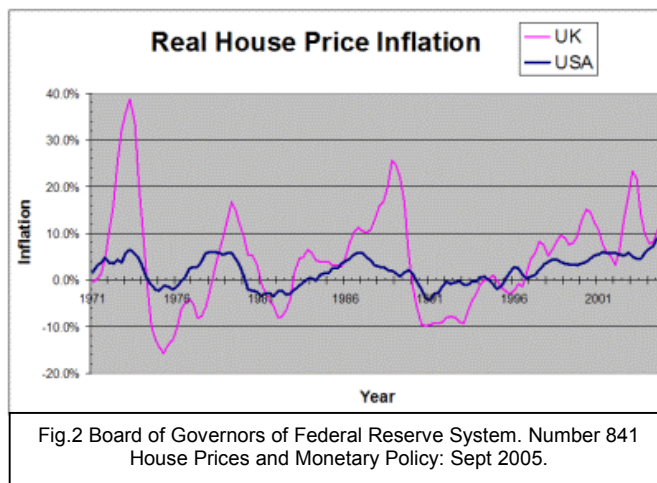
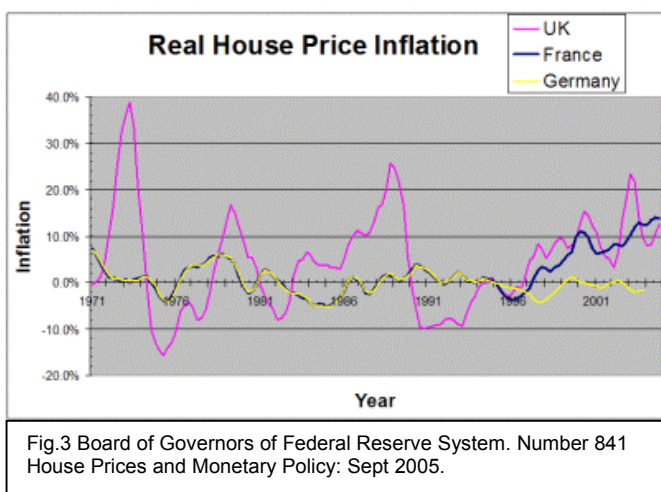


Fig.2 Board of Governors of Federal Reserve System. Number 841 House Prices and Monetary Policy: Sept 2005.

problem. Until this crunch, American house price inflation was low and stable. In the UK, average houses of half the size and ten percent more expensive than the US average, have been racked by grossly unstable price inflation for nearly 40 years. The current large fall in prices has happened before, several times, between the peaks and troughs of that instability. So solving the economic crisis is not directly related to our persistent housing problems.

The profiles of national wealth and the history of housing policy have much to do with the outcome of national housing. In the US, with very much lower cost for equivalent housing and with higher incomes, the problems of the 2% public housing sector raise little electoral concern. The present problem is a failure to control irresponsible banking in the new global computer economy.



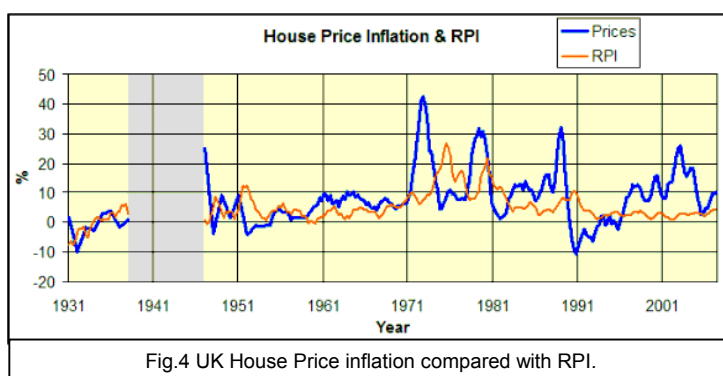
In Europe, the comparison is more complex and varied, especially with the entry of eastern block countries into the EU. France and Germany, with similar or worse war damage to our own, followed our example of the Welfare State. And, like us, being bankrupt, they did it with the help of American loans (our repayments were completed in 2002). However, we employed the single agency of local government to create the council housing system, while they used a multitude of agencies, including Trade Unions, Churches, Charities and Government. The

local government monopoly of the UK low-cost rented system made it easy for government to abolish it, while theirs remains a large sector of housing. Figs. 2 and 3 show that the UK house price instability since 1971 is exceptional. The previous stability of the US housing market might be explained by the relatively low Price/Income ratio, while the French/German comparison might be explained by the existence of large low-cost rented alternatives to house purchase.

Risk in the UK Housing Market

Our loss of the low-cost rented sector is the reason that unlike the US, France and Germany, peaks and troughs of this magnitude have been occurring in the UK house price market for nearly 40 years.

The increased risk, which leads young couples to gamble up to ten times their income (Channel 4 investigation) on a mortgage loan has not been solely due to easier lending; it is the absence of any alternative choice, which was a conscious act of government policy.



This measure was designed to revive the declining private rented sector, in the dogmatic belief that "the market would provide". Where choice exists, the market is very efficient. But the bare essentials of health and homes are not a choice; they are fundamental needs, which history shows the private market has always failed to adequately meet.

It all began in 1971, when Heath announced the doubling of council rents and switched government support from council housing to market rented Housing Associations. The first great peak in house price inflation was an entrepreneurial response to that announcement. It was an

announcement to eliminate the low cost rented sector.

In spite of the withdrawal of subsidies in 1972, council housing survived because the previous investment in the stock supported the continuation of building programmes within balanced budgets⁴. The economic instability, first triggered by Heath's announcement was followed by a large rise in general inflation and then inflation due to the oil crisis. But the huge peaks in house price inflation were now leading general inflation; one result was that council house rent rises were significantly neutralised and the private rented sector continued to shrink. It became apparent that the private rented market could not be revived without eliminating its dominating rival, low-cost council housing.

In 1979, Mrs Thatcher introduced the sale of council houses plus legislation to raise HA rents, which still lagged behind the level of deregulated private rents. The losses incurred by large (60-70%) discounts on the sale of council houses halted all new building and prevented replacement of the diminishing stock. The rump of council housing that remains serves only as welfare housing for the very poor and to save the exchequer from even larger housing benefit bills being paid into the private rented market.

The Dilemma of the Single Option

With no differential between rent and mortgage costs, there is no choice; there is only one option and therefore one question. How is it possible to buy?

New households face the Dilemma of the Single Option. It is very difficult to save for a deposit while paying high rents, but when housing benefit is required to support a rent, it is impossible because extra earnings are penalised at 69p in the pound. In order to avoid this poverty trap, first time buyers are forced into seeking high-risk mortgages. Even worse, they are tempted to misrepresent their income in order to get onto the property ladder. This will not be changed by the solution of the current banking crisis unless the financial structures of housing policy are also abandoned and replaced by investment, which is allowed to mature into a low cost rented alternative to ownership.

Increased risk makes the capital market very nervous. The graph in Fig.4, shows the record of house price inflation and it is very clear that a watershed change took place in 1971. The fall in a single year following the war is easily discounting. Low price inflation in line with general inflation was suddenly replaced by persistently large fluctuations in 1971. These large fluctuations led general inflation and continued even when the economy became very stable. Without further evidence, a 'control systems' engineer would be convinced that the 'damping factor' of the system had changed i.e. a system property that made its output (prices) much more sensitive to changes of inputs (supply and demand). A similar effect is seen to happen to a man, who gets drunk and tries to drive a car; his reaction to changes in the road become exaggerated and erratic.

Yet in a search over many years, I have discovered no economic study into the effects of our 'loss of the low-cost rented sector', which spans the period before and after the watershed change of UK housing policy in 1971. Each new crisis of instability in the housing market has been a matter of great concern, but our economists have failed to provide us with any reasons.

'we still can't explain the pattern of behaviour in the UK'.

Andrew Farlow, UK House prices: a critical assessment, January 2004. Oriel College, Oxford.

'In the decision, taken earlier this year, not to join the Economic and Monetary Union for the time being, the structure of the UK housing market was identified as a key difference from the rest of Euro area. ... the UK is probably more suited to monetary union than many of the countries that have already joined. However, housing market differences were the main reason why the convergence test was not met. The balance of the empirical evidence indicates that, as a result of housing, the UK economy is more sensitive to changes in interest rates than other major European economies.'

The Dilemma of the Single
Option

If we can't afford to buy
then we can't afford to rent!

But we must escape
the poverty trap!

How is it possible to buy?

⁴ <http://www.ukhousingpolicy.com/Archive/Local.htm>

Regional Housing Supply Elasticities in England, Geoffrey Meen, October 2003.

The Dilemma of the Single Option is a driving force for new households to enter into contracts of high risk in order to achieve their objectives, which in the UK, long precedes the problems of the credit crunch. The prudent size of a loan, some 30-40 years ago was considered to be 2.5 times the buyer's income. Until very recently TV adverts offered loans at 5 times income and a few years ago Channel 4 TV revealed that some mortgage agents encourage misrepresentation to obtain loans at 10 times income. Why do first time buyers take such risks? The answer is that they must think it is worth it. They face this risk, because opportunities are determined by their successful escape from the divisions of the property-less poor.

Easy loans are often blamed for inflation in the housing market and sometimes, they are used by governments to encourage supply. So which comes first in this chicken and egg situation; easy loans or Risk driven by the dilemma of the single option? The persistence of instability, throughout many changes in the national economy, indicates that the second should be considered to be the most important.

Visions of Housing Policy III

Housing Benefit supported high rents and the discounted sale of rented stocks is a policy of tenure, which has failed to provide affordable housing in spite of its huge and rising cost to the taxpayer. Instead, it has created a poverty trap for the property-less poor and conditions of risk for first-time buyers, which has made the house price market unstable. The evidence for the advantages of using investment to provide a rented stock, rather than a consumer service is stunning. A Complementary Housing policy exploits the different timing of investment structures with a policy of open access to bring these advantages to everyone, with the further advantage of stabilising the housing market and eventually removing the burden of subsidies.

The Need for Radical Reform

The loss of the low-cost rented sector marked a watershed change in the stability of the UK housing market because it created the conditions of risk, for first time buyers, that drive the instability. From the success of the "bricks and mortar" policy of investment in housing, which achieved parity between houses and households for the first time in 1969, the policy since 1971 has resulted in continuous decline of the housing supply required to meet the demand. The rising cost of this policy is now six times greater, in real terms, than the falling investment costs that supported social housing in 1968.

The policy of support for the private rented market is not compatible with homeownership or with the balanced choices required to achieve affordable housing in the UK. It was always madness to expect that "the market would provide" a retail profit from renting, when the majority of the population were buying into the investment of home ownership. The fundamental importance of decent housing requires government intervention. It is impossible to be fair to tenants and to private landlords at the same time.

The high cost rented consumer service, supported by housing benefit, has caused even more significant changes in our social structures. The poor are distinguished more clearly than ever before, now trapped by the disadvantages of the "property-less poor". While the policies of residualisation burdened the poor in the past, the tenants of council houses were never so separated from the opportunities and aspirations of the majority population. The property-less poor observe, as people once their peers, exploit cheap foreign markets with undreamed of adventures offered by transferring their equity abroad. We are a wealthier nation than ever before, but we are divided more starkly on the basis of property ownership.

A Policy of Investment

Homeownership is based on investment, which yields low cost over the period of a life time for those who can afford the initial high cost. Paradoxically, council housing was the complement of home ownership, because it too was based on investment. The public investment matured to yield low cost-balanced rents.

It is time that we put aside the political rivalry of tenancy and ownership, seeds sown when we allowed the brilliant idea of council housing to decline into welfare housing. The key idea was that investment would yield affordable rents that would become cost-balanced rents with no need for further subsidy.

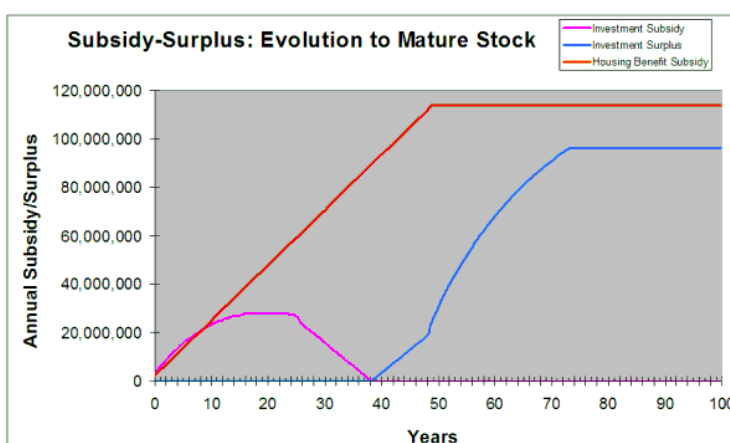


Fig.5 Evolution of subsidies and surplus in building 20,000 houses. Real values at 2004. Tenants on National avg. wage, 30% on rent.
a) Red: Housing benefit to private rented houses (7% capital return)
b) Purple: Subsidy required to establish cost-balanced stock.
Blue: Surplus available to lower rents and build more.

The investment model of Fig.1, while very simplified, is true in principle and as previously shown is conservative compared with the record of 26 years after the war. Fig.5 Shows the subsidies and the surpluses of that model against the Housing Benefit subsidies for very low-profit private rented houses.

After ten years the public cost of subsidy is transformed by the benefits of investment. Long before the stock fully matures, these benefits produce a surplus (shown in blue). In contrast, the taxpayers burden of housing benefit (shown in red) is just depressing.

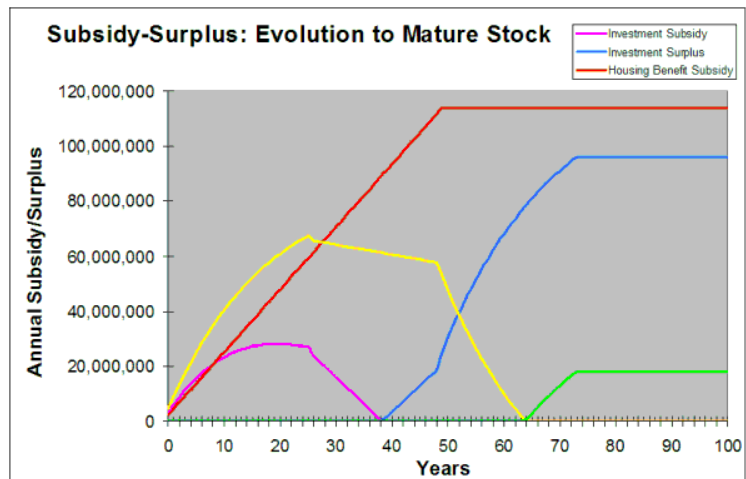


Fig.6 The effect of much lower rents on the investment stock.
Yellow/Green: Rents = 30% of Half the National avg. wage,
Housing benefit case not added, it would be too far off scale

In 1971, the vision of post-war housing was 25 years into the benefits of this investment process and they were very visible. Why did we, as a nation, fail to see and hold on to them?

There is a fear that another government will come along and burn up the invested resources, but the will of the electorate has protected the health service. Labour must draw courage from that. Everyone has had problems under the present policy and a strong case can be made. We can also look to the logistics of using more diverse providers, which would make disinvestments more difficult.

Investment in rented houses leveraged by initial subsidies and the powers of the Housing Corporation to achieve cost-balance, with low rents and independence from further subsidies, is at the core of a new solution. Let the not-for-profit provider management schemes come from any quarter, be it council, private, HA, co-operative society, charity or Union.

Away with Social Housing

'Public housing', 'council housing', 'private not-for-profit rented housing', 'social housing' and 'welfare housing' are varied names used to describe the provision of a housing safety net for the poor. But they are used by our prejudices to label people, who we have to support with our taxes. Social housing is a bad idea and it is so unnecessary. Unlike the Conservative policy of private tenure, public subsidy for rented stock is backed by the market power of investment; it is cumulative and not dissipated as a consumer service. We should do away with the restrictive and exclusive concepts of social housing.

The evidence of Figs. 1 and 5 for the advantages of using investment, rather than a consumer service is stunning. The public costs to provide homes for low-income households, initially the same, quickly becomes many times less expensive and progresses to become self-funding. The low rents no longer entrap the poor, nor prevent them from earning more and moving on. Indeed, how can we justify the idea of employing high-rent consumer services to house those least able to afford them? .

A Policy of Open Access

But why should we be so exclusive in our definition of the poor, others are entrapped by high rents. Those with incomes, even substantially above the national average are trapped by the lengthy time that it takes to save a deposit, when paying high rents. Why should we not expect such a rented system to provide the level of vacancies normal to the private sector, which allow choice and the needs of mobility? Both of these issues involve a broadening of our vision of

housing policy, which begins to do away with narrow concepts of welfare housing with the advantage of being no more expensive in the short term and infinitely less expensive in the long term. We are approaching an integrated vision of housing policy that is capable of meeting all needs, without the disadvantage of being labelled social housing.

A policy of open access would require a larger stock, but it would open the way to a more integrated housing policy. The larger stock would be more responsive to the urgent needs of the homeless, which has always been a problem for the restricted building of welfare housing. Why should we be so exclusive? We have seen that a policy of open access to the low cost rented sector would ease the access to homeownership for first time buyers. It would also increase the options for second-time buyers; the problems of broken chains and of promptly completing both a sale and a purchase could be solved by inexpensive and temporary accommodation.

The ideas, which changed our lives in 1946, brought the fruits of an industrial economy to the majority of the population for the first time; an economy that had existed here for 200 years. Complementary Housing is not such a big idea; it's even questionable that something similar doesn't already exist in Germany and France. But for us it would be a big step forward; for the first time it would combine the interests of tenant and homeowner alike.

Complementary Housing

The concept of Complementary Housing is becoming clear. It is a spectrum of housing, which spans all incomes by using investment in different ways to buy into the high valued, but durable housing market. These different schemes are the structures of a Complementary Housing Policy. The advantages of that are naturally yielded with time, can be modified by policy structures to change the timing and the purpose of equity in a way that allows the whole spectrum of household incomes to take advantage of them. This can be done, precisely because; housing is cheap, when measured over the period of its lifetime.

Mostly we have been discussing Complementary Rented Housing, the low end of the spectrum, which needs subsidy to get the power of investment working. It is designed to minimise rent at a level that is fixed in real terms, by anticipating the benefits that will come with time. It is a scheme, which makes investment work also for the poor and it matures to become self-sustaining. Open access extends this power to middle incomes and facilitates their choices.

For low-incomes households: cost (rent) is fixed in real terms at an affordable level by means of subsidy for a time and then by means of equity, which may even be capable of repaying the original subsidy. For home ownership, cost is fixed high at purchase, falls with inflation and yields equity. In between are a huge variety of shared cost/equity schemes. The right to buy policy cannot coexist with this concept because discounts destroy its use of equity.

Because the schemes change the timing of costs, they are complementary in a way that allows them to work in a supportive way. We have already considered some of the ways in which open access to the rented scheme would facilitate house purchase.

An Authority such as the Housing Corporation could control the investment and standards of a Complementary Housing Policy. It would be designed to meet demand and to fully use the advantages of investment and equity in order to achieve these objectives. A true right to buy, at the market price, would serve the principles of diversity important to the concept of a Complementary Housing Policy and recognise the changing choices or aspirations of a tenant, but discount could not be justified by the financial basis of its provision, which they would threaten to destroy.

Key Principles For a New Vision of Housing Policy

- ◆ Housing is a fundamental requirement of life. In the capital market, its initial cost is high compared with average income; but its durability of two or more lifetimes, can easily bring its

long-term cost within the range of low-incomes.

- ◆ Home ownership is cheap, when measured over the period of a lifetime. The initial high costs of a loan diminish with time and the investment provides security or the option of convertible equity later in life. Affordability lies in the initial struggle to buy, which depends on income, the ability to raise a deposit and the stability of the banking market.
- ◆ The market provides us with two options to provide rented housing, investment or consumer service. For decent standards of housing, both options require subsidy.
- ◆ The cost of investment to establish a rented stock falls with time. As the investment matures it becomes capable, both of providing rents affordable to low income households and of supporting continued building, at cost balance.
- ◆ The subsidy of rented stock investment matures to provide affordable housing at cost-balance with an end to subsidy, providing the principle of investment is protected and not given away. Low rents free the property-less poor from imprisonment by the poverty trap of housing benefit. It opens the opportunities to earn more and move on.
- ◆ The subsidy of a rented consumer service always increases and cannot provide affordable housing with an end to the subsidy. It perpetuates the dependence of low-income households on subsidies, which swell the escalating costs of Housing Benefit and secures them little sympathy from taxpayers.
- ◆ Affordable housing, whether ownership or rented is achieved only by investment. It's the way the capital market works.
- ◆ Affordability is the key concern of the voting public, but affordable housing within the Conservative financial structures of housing policy is not possible, nor is it reversible under the policy of the "Right to Buy".
- ◆ Unlike Housing Benefit, a bricks and mortar subsidy in rented stock is accumulative, which brings affordability not only to individuals, but also to government policy.
- ◆ We must link the policy of investment to serve the more widespread needs of the majority population by adopting a policy of Open Access. There is no reason to restrict access to this viable market option. The lesson of history is not that council housing failed, but that its success was made vulnerable by the failure to adapt it to the changing needs of the population.
- ◆ Open access will reduce the problems of social separation and it will gain the protective support of the electorate. Unlike the Health Service, the public did not protect investment in the restricted vision of council housing and had no evidence to link that decision with the stability of house prices.
- ◆ There is a widespread need, at some stage in the life of almost every family, for a low cost rented alternative to house purchase. The high cost rented consumer service is an expensive and unduly prolonged refuge for those trying to save for a deposit. The transient needs of a more mobile population, the movement of employment and of those struggling with the problems of divorce, in addition to the long-term needs of low-income households.
- ◆ An open access low-cost rented alternative to buying would stabilise the huge fluctuations of the UK house price market by eliminating the risk due to the dilemma of the single option.

Government cannot escape the realities of the capital housing market; but nor can it ignore the criteria of affordability, either in its use or its cost of provision. The evidence for the advantages of using investment to provide a rented stock, rather than a consumer service is stunning. A Complementary Housing policy exploits the different timing of investment structures with a policy of open access to bring these advantages to everyone, with the further advantage of stabilising the housing market and eventually removing the burden of subsidies.

Our history is an assurance, that public investment in a Complementary Housing Policy to regain a low-cost rented sector would be financially successful. From the experience of council housing

finances, low cost-balanced rents could be achieved in 25 to 30 years and we could see an end to the crippling costs of housing benefit and to the miserable trap that it has come to represent. Open access is the imperative, not only to supply the more widespread need, but also to command the recognition and support of the whole population. Council Housing is dead, but so too is the Conservative dream for the private rented sector; we need a new solution.

No better project exists than to meet this need of every section of the community. The public expenditure required to lift us out of the current economic crisis could also begin to solve our long-term housing problems and provide labour intensive work to counter rising unemployment.