

Think Piece

Time to step in:

*Why it's no good being hands-off
with housing*

James Murray

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He has been on the Executive since May 2010, since when Islington has embarked on a major building programme of new council and social housing, as an alternative to the government's 'Affordable Rent' programme.

Before joining the council's Executive, James worked for Islington South and Finsbury MP Emily Thornberry. In that role, he worked on a range of projects including Emily's private members bill to improve the control of housing association tenants over their landlords. In 2005, James co-authored a report for the IPPR think tank about tenants' attitudes to tenure. He went to university in Oxford and grew up in west London.



Executive summary

People on the left and right broadly agree we need more homes. But consensus quickly breaks down when we consider how we get the homes built – and crucially what kind of homes we build and where.

The current Government favours a hands-off approach: if only supply could rise unfettered, they believe the market would resolve problems of scarcity and affordability. They favour more private home-building in a freer market – thus their policies allowing ‘affordable rents’ at near-market levels, letting developers build with no affordable housing, and dismissing any private rent regulation.

This paper argues instead that the market will fail to meet our housing challenges: the government must step in to ensure we build enough new homes, of the right sort, in the right places. We must confront the government’s stance, as the historic record shows that private house-building alone will not produce enough new homes, and furthermore a market free-for-all will not solve the country’s complex housing crisis.

It is only in recent years that government responsibility for building homes has been challenged – it had been a core part of social policy for most of 20th century Britain. This reflected the understanding that beyond a purely economic model of housing supply, government needs to step in to make sure people in different parts of the country have access to decent, secure, and affordable homes.

To face our current housing crisis, the state must step in. The left must argue for investment in social housing across the country – ensuring that people on low incomes are not forced to areas far from jobs and transport. A mix of housing is essential for social and economic success, and helps avoid the financial and societal consequences of segregation.

A progressive response is needed by those households, increasingly families, who are facing insecurity and rising rents in the private sector. Especially in areas where rents are rising fastest, renters need protection from being forced out or expected to spend ever more of their income on rent. The predominant belief must be

challenged that greater regulation of the private rented sector will hamper supply, as this ignores international comparisons with countries like Germany where a large and decent private-rented sector is balanced with limits on rent increases and long-term stability for tenants.

The problems faced by those trying to buy a home will also not be solved quickly or effectively by relying on the free market. Government intervention in the housing and financial markets is needed to help people facing the gulf between earnings and house prices, and difficulties getting mortgages or deposits that are often insurmountable.

The government's vision of a hands-off free-for-all will not solve our country's housing problems. Our housing crisis calls on us to step in.

Not enough homes

“The core housing challenge we face is supply”¹, according to the Mayor of London's Housing Deputy. This argument is broadly accepted by people on the left and the right across the country, with a consensus that Britain needs more homes. But the consensus quickly breaks down when we consider how we get the homes built – and crucially what kind of homes we build and where.

Government ministers and the Mayor of London are focusing, with increasing urgency, on increasing supply at any cost. Behind their approach is a belief that if only supply were allowed to rise unencumbered, the market would resolve issues of scarcity and affordability. Although some initiatives have been floated to tackle access to housing, these are tacked on to a free market solution at the centre of current Conservative thought.

On this basis, we have seen public investment in new affordable homes cut, with new homes instead funded through higher ‘affordable rents’ at near-market levels. We have seen planning rules weakened, so that developers can ignore affordable housing requirements if they build their promised numbers. And we see a dogged aversion to firmer regulation of rent levels or greater security of tenure in the private rented sector, for fear of this hampering supply.

This shows a clear belief in the market provision of homes at market cost – with state support limited largely to housing benefit payments. This approach takes as gospel that a free market is the best way of achieving a greater housing supply, and that increasing the supply of any sort of homes is the best way of solving the country’s housing crisis. But this logic is deeply flawed.

For starters, the housing market is dysfunctional, riddled with problems that prevent it from operating. But more than this, the focus on supply at any cost ignores the complexities of people’s housing needs and how to meet them. As a recent consultant's report for Shelter spelt out, “the supply of housing is considerably more complex than the number of units of housing supply”².

Our approach to housing policy must consider the social consequences of what homes we build. We are well aware of the costs to society of inadequate housing, and so if we are to make sure that people with different means and different needs have a chance at finding a home in different parts of the country, it matters what kind of homes we build and where. This is a challenge that certainly will not be met by a hands-off approach.

Market failure in housing

Our current concern over the shortage of housing in the UK is not new. This shortage has been seen as the dominant housing problem in the UK for most of the past century³. And for most of the past century, governments of both the left and right have stepped in to build the homes we need as a core part of social policy.

Toward the end of the 19th century, the failings of a free market approach to housing had become evident. The squalor and disease associated with inadequate housing in an industrialised Britain meant the government had to act. In successive decades we saw slum clearance and home-building programmes as national policies to raise the supply of good quality homes. It has only been over the last thirty years that the central role of national and local government in building homes has been challenged.

Building homes was not the centrepiece of 1980s housing policy – the focus of the right-to-buy was changing people's tenure. There began a shift toward a greater reliance on private home-builders to provide new homes; government investment in new housing was cut, with the state's role focused more narrowly on making housing benefit payments.

The near-disappearance of new-build council housing over this period largely explains the substantial fall in overall home-building. With the number of homes built by private house-builders having been surprisingly consistent since the war, neither they nor housing associations have been able to fill the gap left by the retreat of councils from new building projects.

And we now have a government who believes an even greater reliance on private home-building in as free a market as possible is the solution to our housing problems. Even before we address issues of affordability and meeting housing needs, it is clear that such an approach ignores the historic record of endemic market failure.

Indeed, a research paper for the former Mayor of London points out that problems such as the slow delivery of new supply and its unresponsiveness to demand means

the housing market is “so complex that the concept of the market clearing, a situation where supply and demand find a balanced equilibrium position, can seem absurd”⁴. The paper suggests a range of reasons for market failure – for instance, the UK housing market may be predisposed to under-supply as small building firms, keen not to overstretch themselves on speculative projects, act more conservatively by favouring the less-risky position of under-supply.

It is clear that the housing market faces difficulties providing the investment needed to build new homes. As Richard Rogers wrote recently, the government’s attack on the planning system ignores the glaring lack of investment in new housing: “The problems are financial. From institutional investors, to grants for social housing, to mortgages for first-time buyers, the funding that fuels construction has dried up. Our problem is not too much planning; it is not enough investment.”⁵

The effect of funding drying up is stark in the construction of social housing, with many housing associations having already scaled back their building plans following the Comprehensive Spending Review’s dramatic reduction in grant for new affordable homes. And the private sector is not picking up the slack – as the Council of Mortgage Lenders have said, despite recent government announcements “the underlying issues affecting funding and supply of housing finance markets clearly remain”⁶.

We are therefore faced with the problems not only of growing waiting lists for social housing, but also first-time buyers unable to access homeownership, and families being stuck long-term in expensive private rented accommodation with no security of tenure. A response that relies on free-market alone to supply new housing will not build the number or the sort of homes we need to address these problems.

As Peter Shapely of Bangor University argues: “just as housing reformers of the late 1800s recognised that central and local government were the only agents capable of easing the problems of slum housing and high prices, so today’s commentators argue that the current situation demands government action.... An unregulated market with no government interference will surely exacerbate the problems.”⁷

Government responsibility for housing

The current Government believes that “light-touch policies will enable developers to increase supply” - as the Building and Social Housing Foundation put it in a recent paper⁸. In that paper, the authors argue that such an approach will fail not only because the market will not respond, and because of underlying economic issues, but also because it will not “deliver new housing on a sufficient scale in the right locations.”

As this suggests, it is not just that the housing market functions poorly, and that the government's hands-off approach will fail to increase supply enough. More than this, a bare focus on the number of new homes without regard for their affordability and location risks obscuring a large part of the reason for having housing policy.

Housing policy should aim to offer people a decent, secure, and affordable home. The free market may provide this for people with wealth, but it will not help us meet the wider needs of local communities across the country.

To help meet these needs, social housing plays a vital role. As well as housing people who are vulnerable, it offers low-income families security and prevents segregation which would be bad for the whole of society.

Take the case of a young mother in my borough who, earlier this year, was living in Finsbury Park and working part-time in an Oxford Street department store a few miles away. She had not been able to get a home for social rent – and so with her job paying around the minimum wage, she could get by as long as she got housing benefit toward her private rent and lived a single bus ride from work. Following the government’s housing benefit caps, however, she faced a rent shortfall and eviction, meaning she would have to move much further out of London and therefore lose her job.

Our big cities like London need a mix of housing in different areas to work socially and economically, avoiding low-income households being forced to the edge of town where there are no jobs and poor transport. The best solution to this is to invest in social housing alongside privately-built homes, rather than letting the benefits bill

drift up as we subsidise private rents. The current government spends twenty times more on housing benefit than it invests in new affordable housing; this annual benefit bill of more than £20bn could be reduced by investing far more in the bricks-and-mortar of new social housing.

We can look to New Zealand to reinforce the dangers of shifting away from investment in new housing toward benefit payments alone – when this happened there in the 1990s, it “increased social polarisation and overcrowding, as market forces drove poor households into low-quality private rented homes in cheaper areas”⁹, and as a result the country has now returned to capital investment in housing.

By avoiding such segregation, we can reduce the long-term costs of a less equal society – costs that can be measured financially, and also in terms of the negative impact for everyone of a more unequal society, as Professors Richard Wilkinson and Kate Pickett have argued¹⁰.

Of course we are also risking segregation and greater inequality thanks to the increasing private rents in many areas. In those places with the greatest rises, private renters – both those receiving benefits and those not – are being forced out of their homes. If they can arrange to stay, they are asked to put up with rents taking up more and more of their income in the hope that this will act as a 'market signal' for more housing to be built.

In the capital, more than half of Londoners are now paying more than half their salaries in rent¹¹. Last year rents in inner London went up by 7.4%, whilst the average London wage for nurses and teachers went down by 1%, and police officers down by 2%¹². It's not good for renters, and it's not good for the economy either.

In the UK we are an outlier in our aversion to greater regulation for private renters. It is perhaps our country's experience with a very tough system of rent control in the 20th century that has made people shy away from modern models of rent regulation. Countries like Germany and France, and to a degree U.S. cities like New York, limit increases in rent by linking them to measures such as inflation or interest rates, whilst offering longer security of tenure. The argument that this rent regulation reduces the size of the sector and discourages investment is not borne

out by these international comparisons – Germany in particular balances a large and decent private sector with limits on rent increases and long term stability for tenants¹³.

The pressure on the private rented sector in the UK, particularly the increase in those renting long-term, is of course linked to problems faced by those trying to buy a home. With a wide gulf between house prices and earnings, and mortgage-lenders requiring hefty deposits, the owner-occupation market and associated financial markets are failing us too, with first-time buyers in particular needing help.

Whilst being wary of focusing too heavily on London, the example of inner-London is particularly strong in explaining why government must have a responsibility for what kind of homes are built. In the capital, the need for housing is unlikely ever to be met – to talk of letting supply rise to meet demand is not meaningful – and so it matters what homes we build, where they are built, and how we keep them affordable.

The pressures on housing will vary in different parts of the country, but with a growing number of people facing difficulty getting a decent, secure, and affordable home, we need a radical response. New homes need to be built to help those on a range of incomes rent somewhere in the social or private sector, and those who want to buy need a better deal.

Time to step in

There is a pace gathering behind a housing policy that involves the government taking action. A recently published report by the Housing Voice campaign argued a central proposition that “the government needs to take greater responsibility for supply and do more to support those whose needs are not being met by the market”¹⁴

With needs and desires being so complex and varied as they are in housing, there is of course no single solution. There are different needs, and therefore different solutions, for every local area. Some areas will need more of a particular sort of housing than others, and most will need a mix. But it is clear that the market cannot sort this out.

A comprehensive response means investing in new social housing, with councils – who in many places are landlords with huge stocks – helping to solve the crisis. Investing in new social housing, rather than spending on benefits to subsidise private rents, would help raise the number of new homes, of the sort we need in the places we need them. Regulating the private rental market should play a role in any solution, whilst potential homebuyers could be helped through financial regulation, and by looking at new solutions like cooperative models of ownership.

I am not offering here a definitive list of the action we should take, but with these suggestions I make the case that we move beyond a pure economic model of housing supply and be prepared to act radically to intervene and make housing work for people across our country.

We cannot step back and hope in vain that the housing market will right itself. If we want to build more homes, and to have the right homes in the right places, it is time to step in.

Notes

¹ Richard Blakeway, Guardian Housing Network, September 1, 2011

² 'Understanding Supply Constraints in the Housing Market', FTI Consulting report for Shelter, July 2012

³ 'The Economics of Social Problems', Le Grand, Propper and Robinson, 1992

⁴ 'Market failure and the London housing market', GLA Economics, May 2003

⁵ Financial Times, September 10, 2012

⁶ Mortgage analysis: Recovery hampered by lack of mortgage finance, Money Marketing, September 13, 2012

⁷ BBC History Magazine, April 2008

⁸ 'More Homes And Better Places', Building and Social Housing Foundation, September 2011

⁹ Toby Lloyd (Navigant), Inside Housing, Letters, May 22, 2009

¹⁰ 'The Spirit Level', Richard Wilkinson and Kate Pickett, 2010

¹¹ 'Private Rent Watch Report One', Shelter, October, 2011

¹² 'London Rent Watch', Shelter, March, 2012

¹³ 'Re-thinking the private rented sector', this author, Guardian Housing Network, November 14, 2011

¹⁴ 'To Have, or Not To Have?', Housing Voice, September 12, 2012



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