2023 UK HOUSING REVIEW

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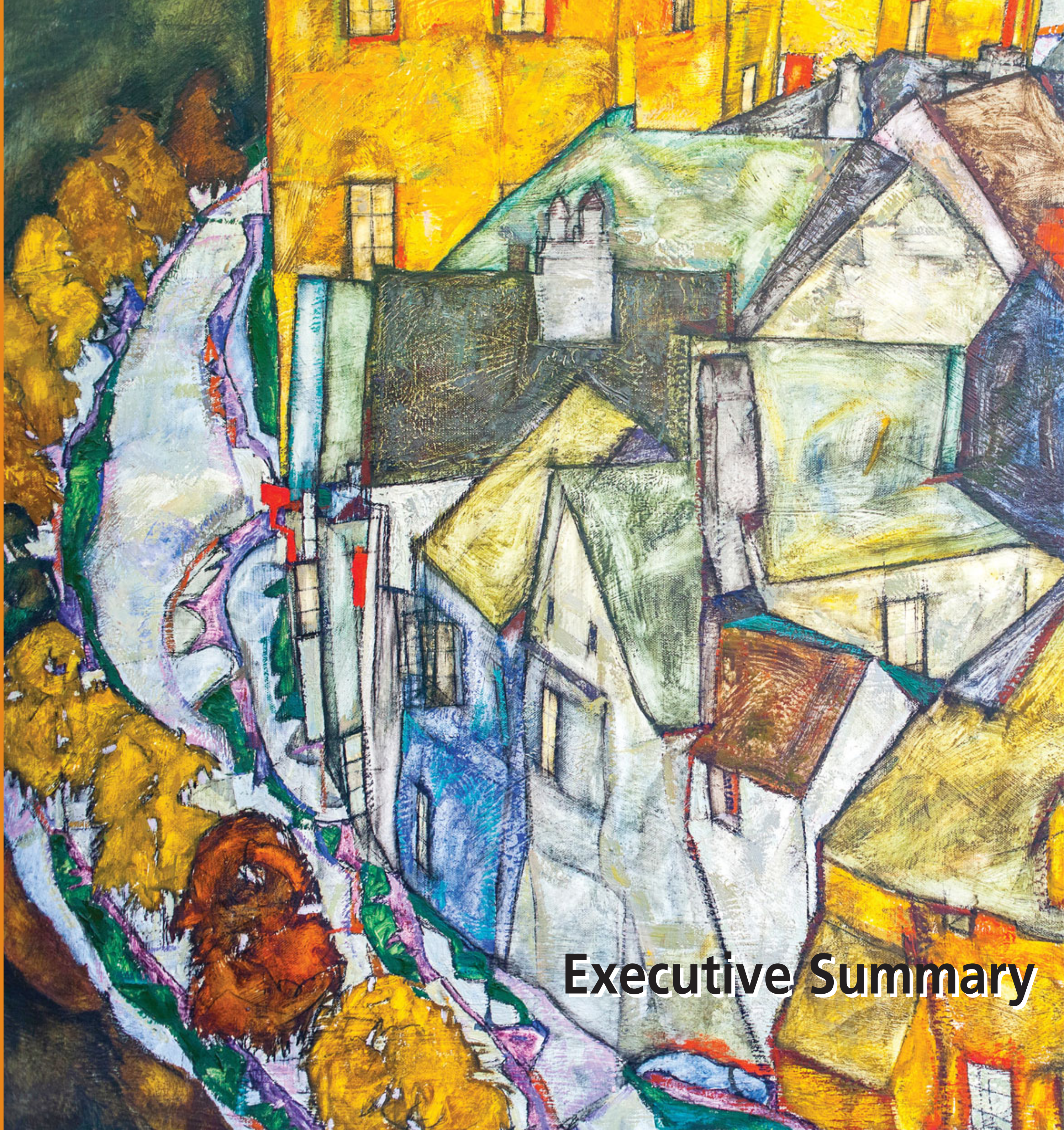

Executive Summary

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This is a summary of the key points from the Contemporary Issues and Commentary Chapters of the *UK Housing Review 2023*.

Contemporary Issues Chapters

1. Housing, the economy and levelling up (*Mark Stephens*)

As the housing system plays a vital role in economic performance, a poorly performing system can contribute to economic instability, limit labour mobility and damage city competitiveness. Improving the housing system is therefore seen as being beneficial not only in terms of housing standards and affordability, but in helping to improve the UK's poor economic performance. However, the political economy of housing, where for example it is politically difficult to allow house prices to fall to restore affordability, makes it difficult to introduce fundamental reforms. Instead, poorly conceived demand-side interventions are introduced as short-term palliatives, often placing further upward pressure on prices.

Debate has focussed on policy instruments such as planning deregulation to expand supply, but this has proved politically contentious and a huge simplification. It neglects the oligopolistic nature of housebuilding and the positive role that the state might play in overcoming other barriers such as infrastructure costs.

Debate has also revolved around demand-side instruments: monetary policy and land/ property taxation. Whilst the long period of low interest rates has made credit cheap for those who can access it, extending the Bank of England's inflation remit to include house prices is unlikely to be effective. A well-devised land- or property-value tax could be effective, but is politically contentious. Reforms could be phased in over time, or combined with other instruments, for example to create a hybrid income- and land-value tax.

Recent attention to the role that 'lagging' regions play in affecting the UK's economic performance draws on evolving theories that emphasise the benefits of agglomeration, when firms cluster together (as in Silicon Valley). Investment in transport infrastructure and skills could create larger core labour markets in the north, bringing the benefits of agglomeration. A more flexible approach towards productive and social investment may allow housing to play a greater role in regional economic strategies.

Devolution within England is taking place within one of the most centralised polities in Europe. It has been ad hoc and evolutionary, and there is scope to define the role of housing more clearly, to integrate housing into economic strategies and increase the housing-related powers of the English regions. Resourcing remains a key issue, with funding so centralised and the combined authorities having only a minor tax base.

This fluid debate will continue to evolve under whichever party wins the next general election.

2. The private rented sector in the UK: Changes at different pace and trajectory (*Kenneth Gibb*)

The UK has seen substantial, market-driven but unplanned growth of the private rented sector (PRS) in the last two decades, which may now have plateaued. Devolved policy responses have differed significantly. At the risk of over-simplification, Scotland and Wales have introduced more regulation and legislation to improve standards and rebalance rights, whereas Northern Ireland and England have retained a more deregulatory stance.

However, there is now considerable demand for reform, regulation and change across the UK. Lively debate is underway on issues such as landlord taxation, rent controls and minimum energy-efficiency standards. This chapter considers:

- To what extent has PRS growth ceased or even started to reverse and does that matter?
- Is policy and regulation for the PRS really converging across the UK?
- As the PRS is likely to remain a key part of the housing system, how appropriate are the different policy frameworks to meet the visions for the PRS set out by respective governments?
- What are the most important innovations underway across the UK that other jurisdictions might learn from as part of this process of PRS convergence?

Some voices seek to shrink the sector and might be relaxed if more regulation, tax increases, crude rent regulation, etc. have this effect. But pushing for this is difficult to justify when there are not sufficient complementary policies to fill the gaps if landlords exit. Where are the other forms of housing provision that would meet such a policy-induced shortage, or provide suitable alternatives in the social sector or via homeownership?

This indicates that policy in areas like rent control should be carefully and cautiously developed, sensitive to local institutional and market contexts and to interdependencies with other parts of the housing system. Policymakers must be aware of the social costs of bad design and of poor implementation of the regulations they might seek to impose.

3. Private finance for affordable housing investment: from debt to equity (*Steve Partridge*)

There has been rapid growth in the use of equity investment to fund affordable housing in England. In contrast to the established sources of finance from debt or bond investors, equity investors provide and retain an equity stake in the new homes. Equity investment in affordable housing is potentially attractive to pension and insurance funds. This chapter explores these issues and the prospects for a significant boost to the sector in the form of equity investment. It explains how different types and different sources of capital might be used in delivering new affordable housing.

There is massive interest from investors worldwide in UK affordable housing, specifically in England. There is also growing interest from housing associations for alternative funding solutions to support investment. There is a mix of activity and a range of models and there is an emerging market for all types of partnerships. The key market drivers are clear, and despite the challenges of inflation, interest rates and general economic volatility, they are unlikely to fundamentally change:

- New equity investors focus on the acquisition of section 106 schemes and grant-funded development schemes.
- New equity investors finance housing association development pipelines as housing associations (HAs) ‘retrench’ into asset management on their existing stock (dealing with fire and building safety, net zero and energy efficiency).
- New equity investors acquire stabilised housing association assets with management maintained by the HA, releasing capital for HA reinvestment – there is a large pool of buyers with for-profit providers capable of acquiring at scale.

Just as occurred with the introduction of private finance in the 1980s, which led to rapid growth in debt funding sustained over a 25-year period, the new age of equity investment has arrived. Far from seeing the growth of equity investment as somehow a separate sector, it is more likely that such investors and the established sector will become important partners in addressing the supply of affordable housing for decades to come.

4. Social housing regulation – A fundamental shift? (*Jules Birch*)

The tragic case of Awaab Ishak, whose poor living conditions contributed to his death, added to the earlier Grenfell Tower tragedy, gave a new imperative to change the regulatory balance in social housing, to put consumer regulation on an equal footing with financial regulation. New measures also include a stronger Housing Ombudsman role and regular inspections of the largest landlords, driven by political pressure from an active secretary of state.

This new regime represents several big steps back to the system that existed before 2010 and the coalition government’s ‘bonfire of the quangos’. Chronicling the changes since then shows how regulation in England was cut back and is now being strengthened, albeit with key differences from the pre-2010 regime. In the rest of the UK, while attention is being given to building safety issues, regulatory systems have not been radically changed and remain broadly the same as they were pre-2010.

Regulatory change faces new challenges, in addition to concerns about building safety, including the threat that stricter controls might trigger 'reclassification' of housing association expenditure, and the greater role being played by self-regulation. Above all, landlord finances are under intense pressure, meaning that regulation is only one factor in achieving better conditions for tenants.

Commentary Chapters

1. Economic prospects and public expenditure (*Mark Stephens*)

The world economy has experienced a huge energy-price shock arising from the war in Ukraine, putting paid to notions of 'building back better' after the pandemic. Instead, governments have been fighting inflation and seeking to protect households from energy-price hikes.

After the recent chaos in the UK's economic management, its prognosis is even worse than for other advanced economies. Although the last Budget restored stability, the UK still faces recession. Factors explaining the UK's relatively poor economic performance include higher reliance on gas for energy, mortgagors exposed to interest-rate rises and the tightness of the labour market following Brexit.

Despite government support for energy prices, household disposable incomes will shrink by seven per cent in two years, wiping out the previous eight years' rises. The cost of servicing government debt is likely to rise to 8.5 per cent in 2027/28; debt interest costs are greater than the budget of any government department other than Health. Expenditure restrictions affect all non-priority public services although the worst cuts are not scheduled until after March 2025.

At the household level, social security benefits have generally been increased in line with inflation, but the tax burden has reached the highest level in recent history. Higher interest rates are squeezing mortgagors' incomes as the era of ultra-low interest rates that had prevailed since the financial crisis has come to an end.

Recent events have changed the terms of economic policy, resulting in an unattractive combination of a high government deficit, higher taxes, constrained public expenditure and higher interest rates.

2. Dwellings, stock condition and households (*John Perry and Annie Owens*)

Census data indicate that the UK population has ceased to grow, and that any further growth will depend largely on migration. While the latter fell during the pandemic, in the past year there has been record net migration, double the level expected in official projections. Various special factors suggest, however, that this is abnormal, not a new trend.

Cumulative migration means that ten million UK residents were born abroad, although the percentage is average in European terms. In some British cities, over half the people are now from black, Asian or minority ethnic (BAME) backgrounds.

Census 2021 data have yet to inform new household formation projections to enable updated assessments of UK housing needs. Housing supply is meeting previously assessed levels of need except in England, where it falls 63,000 homes short of the government target, and this target is now being weakened. In England in the last decade, the number of homes let at social rents has also fallen by 218,000.

Significant progress still needs to be made in decarbonising the UK's housing stock at the scale and pace needed to meet net zero targets. Buildings contribute 20 per cent of the UK's carbon emissions, second only to surface transport. This means it will be impossible to meet the government's wider net zero target by 2050 without more comprehensive action. Current investment levels are far short of both the scale and pace needed to meet the decarbonisation targets. However, the importance of investing in energy efficiency has never been clearer and this imperative appears to be acknowledged by government.

Building safety is a top priority for landlords, but so far only a small portion of the buildings affected by the building safety crisis have had remedial works, and the true scale of the problem is still unknown. Leaseholders are among those most affected by the high potential costs.

Damp and mould have also emerged as significant issues after the recent tragic death of a young child in Rochdale. While national data appear to show a diminishing problem, in the social sector landlords are now obliged to monitor stock more thoroughly, meaning that the true scale of the problem may be found to be much greater.

3. Private housing (*Peter Williams*)

The year 2022 was a year of transition – to higher interest rates and a faltering market. House prices rose strongly in the first nine months, because of pent-up demand and limited supply, then stalled. While more households own outright and more are buying with cash, many potential buyers remain in the PRS: potentially able to afford mortgages but unable to raise the required deposits, a problem worsened by rising rents as supply in the PRS has not kept up with demand.

House prices are now falling in real terms, but the best measure of market health is transaction numbers, which having steadily recovered after the global financial crisis, in 2022 met market expectations. However, the economic shocks delivered by the Truss government meant that, combined with the cost-of-living crisis, the last quarter of the 2022 'was far from a happy one in mortgage terms'. One consumer-confidence index recorded its worst performance ever.

Prospects for first-time buyers (FTBs) are worsening across the UK other than in London. While market entry was easier in 2021, new entrant numbers fell in 2022 and a further fall is expected in 2023. Around one million potential FTBs will defer their plans, putting further pressure on the PRS. The average age of an FTB has edged up to 33, with 62 percent now in the top half of the income spectrum.

How far will the current downturn go? Views differ on prospects for 2023, but it is 'possible that the market will avoid some of the more doom-laden forecasts'. Arrears and possessions are not expected to rise to worrying levels. Transactions may fall from 1.25 million in 2022 to under one million this year. There are starkly differing views on prospects for inflation, interest rates and house prices. While a price fall would ease affordability, it would take a large fall of up to 20 per cent to make such an improvement in affordability sustainable.

The UK government has committed itself 'to helping Generation Rent to become Generation Buy' yet is ending Help to Buy, which provided 40-50,000 equity loans per annum. Far fewer buyers will be helped by shared ownership, First Homes or mortgage guarantees.

Homeownership fell in the two decades to 2021 and is likely to continue to fall in percentage terms. Lower house prices, which might help entry to the market, will be counteracted by higher interest rates and lower real incomes.

4. Housing expenditure plans (*John Perry*)

While the pandemic initially delayed progress on new investment programmes that began across the UK in April 2021, achievement of their targets for delivering new affordable homes is now threatened by a new combination of factors. Many social landlords are shifting their focus towards improving the quality and safety of their existing stock, while also facing record increases in costs and new constraints on rental income.

This chapter assesses progress in investment in affordable housing in each of the four nations and considers the prospects for 2023/24 and beyond, against the backdrop of current economic uncertainty. England under-invests in affordable housing compared with the three other countries: it produces fewer affordable homes per 10,000 population, housing has a consistently lower share of government spending in England, and it continues to be out-of-step with the rest of the UK in directing a high proportion of government support towards the private market.

In England, the updated target for the previous Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 was to deliver 250,000 completed homes; it had achieved almost 121,000 completions by March 2022, approximately 42 per cent for homeownership and the remainder for rent. DLUHC forecasts that 219,000 homes will be completed by March 2025, with the remainder not being finished until 2032.

England's Affordable Homes Programme (AHP) 2021-26 started in April 2021 with £11.4 billion of new funding. Investment peaked in 2022/23 due to the combination of the new AHP and previous SOAHP. The government's public target for the AHP is to achieve 180,000 starts by 2026 but its 'stretch target' is now to deliver 165,000 homes. By May 2022, Homes England and the GLA had collectively allocated £9.2 billion, covering 131,000 new homes. The DLUHC 'central' forecast is now lower – some 157,000 new homes are expected to be completed, rather fewer than its 'stretch target', and well below what was originally planned. Output is split almost evenly between rented homes and affordable homeownership.

The chapter examines constraints on achieving the targets and other sources of funding apart from grant.

Achievement of Scotland's target of delivering 50,000 affordable dwellings over the five years to 2020/21 was delayed until 2021/22 by pandemic-related disruption. Scotland has a new commitment to deliver 110,000 affordable homes by 2032, with at least 70 per cent being for social rent. December's Scottish Budget did however see a fall in funding for 2023/24 compared with the current year, although it repeats a commitment to invest £3.5 billion over the life of the parliament. Completions in 2021/22 were the highest since 2000 but they still fall short of the annual completion rate of 11,000 homes required to meet the new target.

Wales's Programme for Government 2021 to 2026 repeats a target to build 20,000 affordable homes over five years. The previous target was exceeded, with over 23,000 homes being built, once Help to Buy and similar schemes were included. However, in the first year, output fell by 26 per cent, suggesting that delivering the programme's emphasis on homes for rent in the social sector is challenging. Delivery of about 3,500 affordable homes annually is required to meet currently forecast levels of housing need.

Northern Ireland's Social Housing Development Programme is a rolling, three-year programme to secure a minimum number of new social housing starts, set at 1,950 for 2022/23 but due to increase to 2,100 starts by 2025/26 – subject to the availability of funding. For 2022/23 a total of 429 starts had been confirmed by December 2022, although it is still possible to achieve the overall starts target of 1,950 units.

The Northern Ireland Housing Executive continues to have a serious shortfall in stock investment, although in 2021/22 it invested over £190 million – the highest amount since 2008 – and was on track to increase this beyond £200 million in 2022/23.

5. Homelessness (*Lynne McMordie*)

Since devolution in 1999, key differences have emerged in homelessness policy and the legal landscape across Great Britain. While England has increasingly focused on rough sleeping (with a pledge to end it), Scotland and Wales have placed continued emphasis on all dimensions of homelessness. This chapter looks at the origins and evolution of these key divergences.

In England, recent reforms widened access to support for many more people facing homelessness, particularly single people, but the effectiveness of what is otherwise progressive legislation is limited by the 'priority need' test that continues to restrict rehousing rights. In Wales, moves are taking place to phase out the priority need and intentionality tests and to 'end homelessness'. Scotland was ahead of Wales in abolishing priority need in 2012, meaning that virtually all eligible homeless households in Scotland are entitled to settled accommodation. The Scottish Government has also consulted on widening public-sector homelessness prevention duties.

Scotland records a much higher rate of homelessness acceptances than either England or Wales, reflecting the stronger rights people have under the Scottish system. In England and Wales, fewer applications progress through the system to the full-duty acceptance stage. In England in 2021/22, numbers owed a 'prevention duty' increased by 11 per cent.

Some 112,000 households across Great Britain are in temporary accommodation (TA). Scotland's use of TA is relatively high, largely reflecting its more inclusive safety net, and mainly using social housing. But placements in England are set to almost double (as a percentage of all households) over the next 20 years on current trends. England's high costs of TA are leading to cuts in other homelessness services.

Core homelessness levels are consistently higher in England than Wales or Scotland. Core homelessness is forecast to rise without any policy or legislative change: in 2023/24 it would be one-third higher than in 2019.

Social lettings to homeless households are much higher, relatively, in Scotland than in Wales or England.

Homelessness in Northern Ireland continues on a higher path relative to the rest of the UK.

There is nothing inevitable about the deteriorating picture of homelessness across the UK. The tools for reducing homelessness and achieving official targets are well-proven but need to be put into practice.

6. Help with housing costs (*Sam Lister and Mark Stephens*)

Over the past 12 months the cost-of-living crisis has brought into sharp focus the adequacy or otherwise of the benefits system. This chapter examines in turn the adequacy and uprating of universal credit and other benefits, primarily for renters, and help with mortgage costs for homeowners.

It shows how benefits are increasingly out of line with living costs, measured against the 'minimum income standard'. The failure to fully uprate working-age benefits for six years from April 2014 contributed to growing numbers needing emergency support. By April 2023, working-age benefits will have lost around 8.8 per cent of the value they would have had if the CPI uprating policy had been adhered to since 2012. Alternative uprating methods are modelled to show how they could better protect recipients. There is a growing consensus that key parts of a benefits system are now unfit-for-purpose, leaving large numbers struggling during the current crisis.

Failure to raise local housing allowances is having severe effects on private tenants, varying across the country. The effect is worst on the availability of eligible homes at the shared accommodation rate. Limitations on levels of eligible rent have become a structural problem, undermining the logic that rent payments should not result in household incomes falling below an agreed minimum. This both affects existing tenants and makes the private rented sector less accessible to benefit recipients.

Mortgagors who lose their jobs now receive little help from the benefits system, and take-up of support (now in the form of loans) is low. Most now depend on flexibility or forbearance on the part of lenders. Whilst lenders have learned much about the management of arrears, the limits of forbearance are likely to be tested over the coming months.

The ***UK Housing Review*** has provided a key resource for busy managers and policymakers across both public and private housing sectors for 31 years. This 2023 edition brings together the most important and up-to-date housing statistics available for the UK, Wales, Scotland and Northern Ireland, including English regional data. International tables compare the UK with selected countries in the EU and elsewhere.

The *Review* features over 200 charts and tables including data about:

- *Homelessness and lettings*
- *Housing stock and conditions*
- *Housing characteristics and incomes*
- *House prices and market trends*
- *Rents and revenue spending*
- *Housing investment by councils, housing associations and private investors*
- *Subsidies, tax relief and benefits*
- *Public expenditure plans*
- *UK and international economic trends*

Commentary chapters in this year's *Review* include analysis of trends in UK housing markets and in meeting housing needs, housing provision and public expenditure on housing, the government's current investment plans, homelessness and social security benefits.

Contemporary Issues covered this year include an overview of housing's role in the UK economy, a UK-wide review of developments in the private rented sector, an analysis of the changing role of private finance in affordable housing provision, and a review of quality issues in social housing and changes in the regulatory regimes.

The ***UK Housing Review*** continues to be the prime source for all concerned with housing policy and finance.

> *'Huge congratulations to the CIH on three decades of the ever-fresh UK Housing Review. From its origins with Steve Wilcox in charge, it has been both the essential encyclopaedia of housing data and the stimulus for informed discussion on the key housing issues. Here's to the next 30 years!'*
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> *'The UKHR is a hugely valuable resource, bringing together expert commentary and extensive data tables. It's great news that CIH are making it available for more housing professionals to access as a benefit of CIH membership.'* Brian Robson, Executive Director (Policy and public affairs), Northern Housing Consortium

Financial support for the *Review* is provided by: Campbell Tickell, Clarion, Crisis, Grand Union, Guinness Partnership, the Housing Studies Charitable Trust, London & Quadrant, the Northern Ireland Housing Executive, Paradigm, Places for People, the Scottish Government, Settle Group, The Housing Finance Corporation and the Welsh Government.

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Published by the Chartered Institute of Housing. The authors and CIH are grateful to the Scottish Government, the Welsh Government, the Northern Ireland Housing Executive and to the organisations below for sponsoring the research and publication of the *Review*.

ISBN 978-1-9163854-6-7