2020 UK HOUSING REVIEW

Autumn Briefing Paper

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Chartered Institute of Housing

University of Glasgow

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The Chartered Institute of Housing
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Front cover: Paul Gauguin, Houses at Vaugirard 1894 (Source: Alamy Stock Photo)

Introduction

The *UK Housing Review*, which is published annually each Spring, has now reached its 28th edition since it was first produced in 1993. This Autumn Briefing Paper is now the 11th in a series, complementing the main *Review*.

This year's Briefing Paper inevitably focuses on the effects of the Covid-19 pandemic. Combined with the emergence of new government policies and the looming effect of departure from the EU single market at the end of 2020, we have entered a period of much change and uncertainty even since the full *UK Housing Review 2020* was published only a short time ago in March.

Not only the state of the economy, but prospects for housebuilding and the housing market, approaches to public investment in housing and how to deal with key issues around homelessness and rough sleeping are all in flux. Policy development has been affected across the UK, with a great deal of uncertainty about the role that housing investment might play in government actions to boost the UK economy in the wake of the pandemic.

A more detailed analysis of these policy developments should be possible in the *UK Housing Review 2021* which will be published next Spring.

Both the main *Review* and the Briefing Paper aim to give detailed consideration to the whole of the UK. Drawing on the latest statistics, the Briefing assesses the implications of new policy and market developments in thirteen different topic areas, several of which are UK-wide. Three dedicated pages also cover some of the specific policy developments in the devolved administrations.

Our final page provides a list of updated tables now available on the *Review's* website (www.ukhousingreview.org.uk).

Uncertainty is a key theme

Inevitably the Briefing Paper reflects a good deal of uncertainty about how the housing system, and housing policy, will emerge from the pandemic. Coincidentally, all four UK governments are due to start new rounds of their affordable housing investment programmes in April 2021. We look at how these are shaping up (or failing to shape up) so far, but also acknowledge that the case is being made for larger-scale investment as part of a stimulus towards economic recovery, and that this may yet result in more ambitious programmes. A particular key issue is investment in achieving a zero carbon economy, with pressure from many sides for a 'green recovery' from the pandemic. However, a cautionary note is the state of social landlord finances, and the competing claims of fire safety work in the existing housing stock, two further issues covered here.

Affordability in social housing

Housing affordability has worsened in the age of Covid-19 for many households - more because many households' incomes have fallen rather than through rising rents or purchase costs. Owner-occupiers are better able to afford the costs of repaying a mortgage as interest rates are cut, whilst the main affordability obstacle is still the ability of aspiring owners to buy in the first place, given the size of deposit now required. In the rental market, while prices are rising more slowly, so are incomes, with the main risk to affordability being a cut in income or loss of a job, especially during the pandemic.

Homelessness and rough sleeping

The Briefing Paper this year looks at two issues under this heading. First, it considers what action is being taken across the UK to avoid evictions due to rent arrears. While these have been effective so far, there is fear of a looming crisis which has not yet played out. Similarly, rapid action was taken to get large numbers off the streets during the Covid-19 crisis, but there is considerable uncertainty as to whether longer-term solutions can be found to rough sleeping, especially as the numbers of vulnerable people appear now to be much higher than before the pandemic.

In April next year the *UK Housing Review 2021* will aim to provide a considered appraisal of the Westminster government's latest housing and welfare policy changes, possibly after a further significant change in economic conditions after the UK's exit from the EU single market. It will also, of course, include fresh assessments of policy developments in Scotland, Wales and Northern Ireland.

Meanwhile, this edition of the Briefing Paper has been compiled with the assistance of Beth Watts and Suzanne Fitzpatrick (on rough sleeping), Janice Blenkinsopp (on housing support), Geoff Meen and Christine Whitehead (on affordability) and Tamsin Stirling (on Wales).

Mark Stephens, John Perry, Peter Williams and Gillian Young
October 2020

Economic prospects

After the US government allowed Lehman Brothers to fall, triggering a precipitous collapse in global economic confidence, the UK economy shrank by 2.1 per cent in the fourth quarter of 2008. This year, as a result of the Covid-19 lockdown, the UK economy shrank by 20.4 per cent (in quarter 2). 'Unprecedented' has become the standard way of describing events, and with good reason.

The Covid recession is, however, unlike the global financial crisis (GFC) – or indeed any other downturn recently experienced – in that it came from outside the economic system, and is a result of a policy choice to close down much of the economy.

Lockdown was accompanied by rapid and extensive government intervention to limit the damage. The *Review* has regularly commented that the UK would enter any future recession with less room for manoeuvre than was the case in 2008. Then interest rates were 5.5 per cent and government debt around 40 per cent of GDP. Entering the Covid-19 crisis, interest rates were 0.75 per cent and government debt was more than twice the level of 2008.

Nonetheless, government activism has been the name of the game. Government borrowed £150.5 billion between April and July (some £128.4 billion higher than the same period last year), and debt rose above £2 trillion for the first time. This represents just over 100 per cent of GDP – a level last experienced when Harold Macmillan was prime minister and before that linked with war-time conditions.

The Bank of England's Monetary Policy Committee also responded decisively, cutting interest rates by 0.5 percentage points to 0.25 per cent on March 11, and then to 0.1 per cent on March 19 – another record low. But, as noted, these cuts were from an already low base and, as in the aftermath of the GFC, the Bank resorted to large scale quantitative easing (QE). The level of QE had been held steady at £435 billion of government bonds since August 2016 – no more had been required since then, but neither had the economy been strong enough to reverse this stimulus to liquidity. In June, QE was raised by 71 per cent to £745 billion, this time directed at government – rather than corporate – bonds, so helping to finance the deficit.

Given the circumstances, the government's ('unprecedented') actions appear both justified and so far to have been effective. Lockdown caused claims for universal credit to rise from 3 million to 4.2 million in May, then to 5.5 million in July. Daily claims peaked at 136,000 on 27 March. However, as the government's coronavirus job retention scheme (CJRS) and self-employment income support scheme (SEISS) became operational, new claims fell back to pre-lockdown levels.

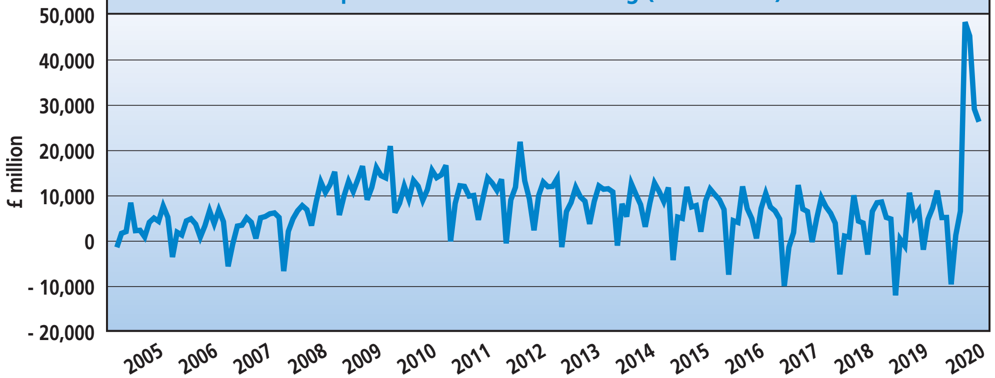
HMRC reports that the CJRS (which initially subsidised wages at 80 per cent of their pre-lockdown levels up to £2,500 a month) has supported 9.6 million jobs with 1.2 million employers between March and August at cost of £35.4 billion. By July, the first tranche of the SEISS had supported 2.7 million self-employed workers at a cost of £7.8 billion. The unemployment claimant count remained unchanged after lockdown. The government also supported businesses with loans and guarantees of £14 billion to support their cashflow.

The economy bounced back as lockdown was eased. ONS reported that monthly GDP fell by 20 per cent in April but rose by 8.7 per cent in June. As we report elsewhere (page 11), the key institutions in the housing market – housebuilders, mortgage lenders and estate agents – experienced strong demand over the summer.

But can it last? The furlough scheme is due to finish at the end of October. Clearly there are fears that this will lead to an upswing in unemployment. The autumn and winter will thus be decisive in determining the future course of the economy. Whether the UK (and indeed the rest of the world) is successful in containing the virus and avoiding a return to wholesale lockdown is clearly critical, as are the willingness and ability of governments (and central banks) to finance further large-scale borrowing. The upswings in infection rates across the world as lockdown has been eased are not encouraging, although death rates appear to have fallen.

A further factor within the control of the government and the European Union is, of course, the outcome of the Brexit negotiations. If there is 'no deal' (commentators suggest there is perhaps a 50:50 chance of this), then the UK in particular could be in for a hard time in the short-to-medium term. If it coincides with a second lockdown, then prospects for 2021 are indeed bleak. Much may change if there is early identification of an effective vaccine.

Recent levels of UK public sector net borrowing ('the deficit')



Source: ONS.

Building back better? Post-Covid housing programmes

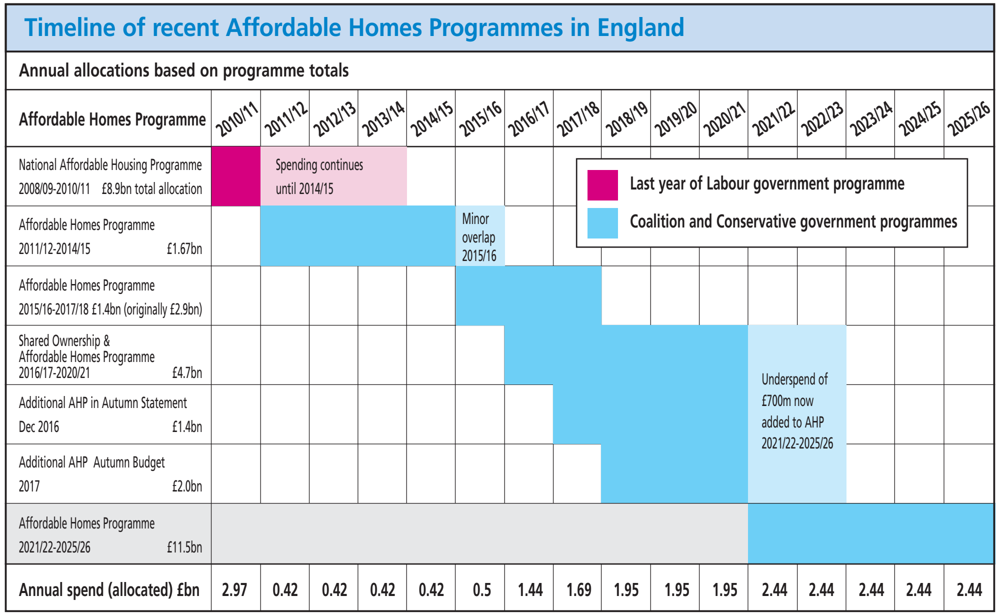
There is an expectation across the UK that one effect of the pandemic has been to expose the need for more affordable housing, whether because rough sleepers need safe accommodation or because incomes have been cut and job losses have increased, affecting people's ability to meet their housing costs or enter homeownership. Additionally, housing investment is rightly considered an excellent way to boost the economy, create jobs and make progress towards meeting UK carbon reduction targets (see page 7). So far, however, moves by the four governments to expand investment have been rather limited.

In England, the chancellor's Summer Statement essentially confirmed figures for housing investment announced in March. A new Affordable Homes Programme was announced for 2021/22-25/26, worth £11.5 billion together with £0.7 billion carried over from the current programme. Thus in total investment will rise somewhat to £2.44 billion annually, a quarter more than the current level of spending (see chart). The government claims, correctly, that in cash terms spending will be the highest for a decade. However, as the chart shows, by the final year of the last Labour government's programme, cash spending was one-fifth higher than this and of course in real terms higher still.

There are some marked differences in the new AHP compared with the current one, whose emphasis had been switched towards renting, and more recently social rented homes. The new programme reverts to a roughly 50:50 split between ownership and renting, with the rented mix evidently dependent on bids from providers. In addition, the current 50:50 split in funding between London (the GLA) and the rest of England will change markedly to a 35:65 split, with the London Mayor left to negotiate the mix of a much smaller programme (£800 million annually), less than one-fifth of his funding bid.

In Scotland, the government's current programme, with its target of building 50,000 units of affordable housing, ends in March 2021 (see page 17). The focus is now turning to what happens to affordable housing supply after 2021. Providers have been concerned about a back-end loaded building programme coming to an abrupt end in 2021. In response to such concerns, the Scottish Government confirmed in its February budget that an additional £300 million would be added to the 2021/22 budget to enable affordable housing to be delivered after the end of the current target period. So far it has not, however, announced any post-Covid boost in investment.

A report by CIH Scotland, the Scottish Federation of Housing Associations and Shelter Scotland estimates that a slightly higher rate of 10,600 new units of affordable housing will be needed each year throughout the 2021-26 parliament, although depending on the assumptions adopted this could range from 7,300 to 11,900 units.[1] The report suggests the programme could be delivered at a similar cost to the present one, depending on the mix of affordable housing.



Source: Author calculations.

Note: Annual allocations are based on original or amended programme totals (not outturn spending).

In Wales, the current programme is also coming an end. Pre-Covid it was expected that the target of building 20,000 affordable homes (including Help to Buy) to March 2021 would be met, although this would be tight (by February 2020, 13,143 had been built). However, given delays due to lockdown, the target may now be in jeopardy. So far, there has been no announcement of a new programme, although the draft National Development Framework says that on average 47 per cent of new homes should be affordable housing over the period 2018/19 to 2022/23, with the remainder being market housing. This would approximate to building 3,900 affordable and 4,400 market homes annually.

Northern Ireland is almost certain to miss its current affordable homes targets after starts fell sharply early this year, then even more so in the second quarter (see page 19). The Assembly's housing minister has promised that housing will be a key part of a post-Covid recovery plan. She told a recent CIH conference that '... social housing will be at the core of my programme to tackle housing stress and increase housing supply for many including families, the elderly and those with disabilities.'

Reference

1 CIH Scotland, SFHA & Shelter Scotland (2020) *Affordable Housing Need in Scotland Post-2021*. Edinburgh: CIH, SFHA & Shelter.

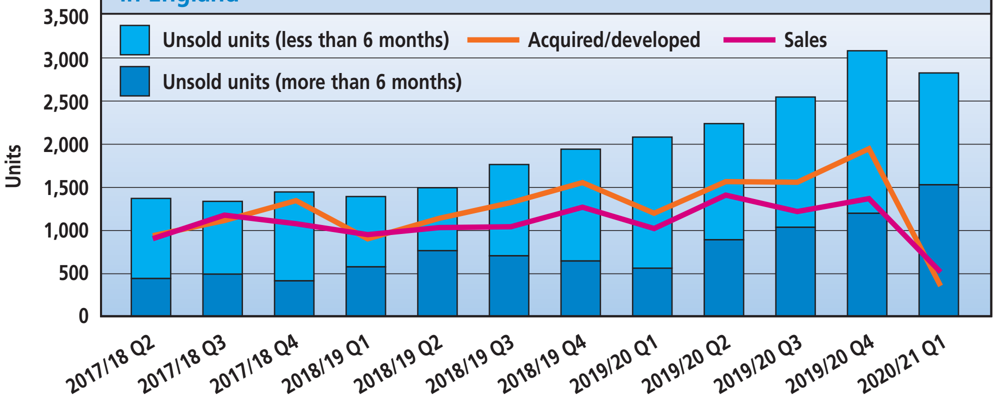
Managing uncertainty: social landlord finances and the pandemic

All social landlords in the UK are managing their way through what is clearly a challenging period. Many tenants are on lower incomes because of furlough arrangements or losing their jobs. Arrears have generally increased and rent income has also been affected by rent holidays or deferred rent increases in some cases. Development, refurbishment and remediation work was stopped or delayed and sales were suspended, but activity has subsequently picked up. On balance most if not all landlords are weathering the storm reasonably well but there have and continue to be pressures. Here we will take a snapshot view first of housing associations then local authorities.

In the 2020 edition of the *Review* we discussed housing association funding models. Our analysis can be updated to take account of the impact of Covid-19 on the sector so far, albeit in interim fashion. In its late April comment, S&P Global Rating suggested that UK social housing providers (effectively the largest 40) would remain largely resilient to the short-term difficulties that Covid might generate. It argued that the sector's position is still largely 'countercyclical' – meaning that demand for its products and financing for them will rise in the downturn. Nevertheless, S&P recognised that lower sales receipts (and possibly lower rent income) would 'weigh' on credit quality, and in a worst-case scenario this might impact on up to one-fifth of these associations. Of course, the difficulties now seem likely to be of longer duration as any 'recovery' gains pace only slowly.

In England, the Regulator for Social Housing's latest data (see chart) show a collapse in numbers of units acquired or developed for market sale, and in sales themselves. While numbers of properties unsold had fallen by the end of June, numbers unsold for more than six months had increased. A similar pattern applies to low-cost homeownership sales.

Market sales and unsold properties owned by housing associations in England



Source: Regulator of Social housing, Quarterly survey.

To reflect this, the regulator has extended its assessment of liquidity to include the effects of cash or facilities being inaccessible, and reductions in trading cashflows and sales receipts.

With associations seeing development activity slowing thus reducing exposure, combined with the stamp duty holiday potentially boosting sales (see page 12), they should be able to ride through this problem, especially as most have spare funding capacity. Planned maintenance also slowed down but both this and development has restarted.

Looking forward, the market expectation is that the end of the furlough scheme will bring further contraction, with suggestions that house prices might fall by between five and ten per cent. Associations will have to manage this through. They may also need to rework their shared ownership model both to deal with its current identified weaknesses and also potentially to reflect the latest leasehold reform proposals.[1]

The council housing sector so far appears to have faced the pandemic fairly robustly. Even though rent arrears increased, in most cases they have now settled somewhat, with these councils expecting their rent accounts to recover once benefit payments catch up. A small number of councils are reported to have more serious difficulties, and MHCLG in England has been sufficiently concerned to monitor the situation.

Worries about the impacts on local authorities' General Funds have been far greater. Loss of income (e.g. parking fees, commercial rents, etc.) has combined with significant increases in costs (e.g. for housing rough sleepers) that have not been fully covered by extra government funding. Certain authorities (e.g. those with ownership stakes in airports, such as Cornwall, Luton and Manchester) have lost more income than others. The Institute for Fiscal Studies puts the funding gap in England at £2 billion, with housing and homelessness the worst affected area in percentage terms.[2] The Scottish Parliament has launched an inquiry into the effects of the pandemic on councils' financial sustainability.

The crisis in councils' General Funds has inevitably produced concerns that they might be tempted to move costs on to their housing revenue accounts, which have remained more robust, since this has happened in the past. Councils might also decide to limit their borrowing for new investment, even though HRA borrowing can be fully financed. Councils' non-landlord housing services, such as dealing with homelessness, providing advice and enforcing private tenants' rights, are suffering even greater cost pressures now than they were before the pandemic and these may well worsen still further once embargos on eviction proceedings in the PRS come to an end.

References

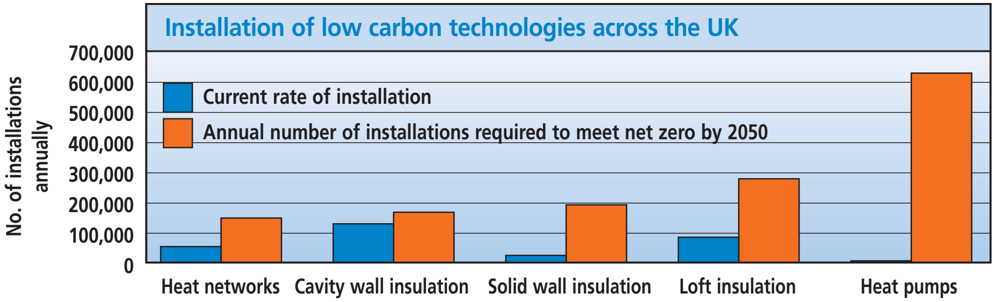
1 Law Commission (2020) *Leasehold home ownership: buying your freehold or extending your lease* (https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jsxou24uy7q/uploads/2020/07/ENF-Report-final-N8-1.pdf).

2 Ogden, K. & Phillips, D. (2020) *COVID-19 and English council funding: how are budgets being hit in 2020-21?* London: IFS.

Achieving zero carbon in existing homes

Theresa May's government set a statutory commitment for the UK to achieve 'net zero' carbon emissions by 2050. The 2017 *Clean Growth Strategy* set an ambition for all homes to be rated 'EPC band C' by 2035, a steppingstone to the full 2050 target. Currently 19 million UK homes fall below band C, so 1.2 million must be retrofitted each year to achieve it. The Energy Efficiency Infrastructure Group (EEIG) says this requires annual investment of £5.2 billion, with government funding of £1.7 billion leveraging £3.5 billion from owner-occupiers and landlords.[1]

Uptake of energy efficiency measures is highly variable across the UK: annual investment averages £35 per head in Scotland, £23 in Northern Ireland, £17 in Wales and just £8 in England.[2] The chart shows installations of key retrofits measures, revealing the gaps that must be filled to meet the 2050 target. A particularly crucial issue is that fewer than two per cent of homes have low carbon heating.[3] The government plans to help 12,500 homes a year to switch to low carbon in 2022/23 and 2023/24, but 1.7 million gas boilers are still being installed annually.



Source: IPPR (2020) All Hands to the Pump.

Responsibility for achieving the UK target is split: the Westminster government sets the overall target but devolved administrations are responsible for detailed measures. The government pledged £9.2 billion in its manifesto to improve energy efficiency, beginning in 2020/21, but so far has announced plans only for part of this. A £2 billion Green Homes Grant in England offers up to £5,000 per house, rising to £10,000 for low-income households. The chancellor forecasts that it will upgrade 650,000 homes, implying an average spend of about £3,000 per house. While welcome, this still falls well short of the progress needed to meet the target.

In 2018, Scotland published a 'route map' to meeting the EPC band C target by 2040, now to be upgraded to a 2030 target. It has various funding programmes such as Warmer Homes Scotland, which in 2018/19 treated 3,818 private homes,[4] and area-based schemes run by councils. It has also pioneered the setting of energy-efficiency standards, not just in the social and private rented sectors but – under consultation – a possible standard for owner-occupied stock from 2024. If this goes ahead, it will require houses to be certified as EPC band C where feasible, when sold or under major renovation. Unlike England, Scotland has a strategy which shows whether the combination of carrots (funding) and sticks (required standards) is delivering the required pace of change. Nevertheless, it is being urged to double public investment in retrofit.[5]

Wales faces a relatively bigger challenge, with an older stock and higher levels of fuel poverty. The *Review's* 2019 *Briefing Paper* reported on an independent advisory group on decarbonisation, which called for ambitious steps towards a 2050 'net zero' target.[6] While two modest programmes are in place ('Nest' and 'Arbed') the commitment has yet to be turned into a full delivery programme, although pilot schemes are in hand. A Senedd committee recently called for more concerted action on fuel poverty.[7]

Progress in Northern Ireland was inevitably delayed by the suspension of devolved government and it now faces a major catch-up task. The agreement to restore the Northern Ireland Assembly promised targets for reducing carbon emissions but these are not expected until 2021, making the targets harder to meet.

Post-pandemic, there are now widespread calls for a 'green' recovery plan and for retrofit to play a key part. The Committee on Climate Change urged the prime minister[8] to 'use climate investments to support economic recovery and jobs.' Conservative think tank, Bright Blue, also called for a 'resilient recovery.'[9] EEIG says a stimulus package based on retrofit would create 40,000 jobs within two years and 150,000 by 2030.[10] CIH and Orbit have joined the call with their new report *Warm homes and a safe environment*.[11]

There is therefore a strong consensus that a retrofit programme both contributes to meeting the government's carbon targets and creates jobs. The problem is that, so far, the various initiatives fall well short of the scale of effort required.

References

1 EEIG (2019) *Making energy efficiency a public and private infrastructure investment priority*.

2 BEIS Select Committee (2019) *Energy efficiency: building towards net zero*.

3 See https://greenallianceblog.org.uk/2020/05/13/net-zero-is-nowhere-in-sight-for-uk-clean-heat-policy/

4 See https://energysavingtrust.org.uk/blog/warmworks-supporting-households-across-scotland

5 For example, by the Just Transition Commission (www.gov.scot/groups/just-transition-commission/).

6 Decarbonisation of Homes in Wales Advisory Group (2019) *Better Homes, Better Wales, Better World: Decarbonising existing homes in Wales*. Cardiff: Welsh Government.

7 Climate Change, Environment and Rural Affairs Committee (2020) *Fuel Poverty in Wales*. Cardiff: Welsh Government.

8 See www.theccc.org.uk/2020/05/06/take-urgent-action-on-six-key-principles-for-a-resilient-recovery/

9 See www.wsp.com/en-GB/news/2020/bright-blue-and-wsp-net-zero

10 See https://www.theeeig.co.uk/news/starstarnew-reportstarstar-rebuilding-for-resilience-energy-efficiency-s-offer-for-a-net-zero-compatible-stimulus-and-recovery/

11 See http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Warm_homes_and_a_safe_environment

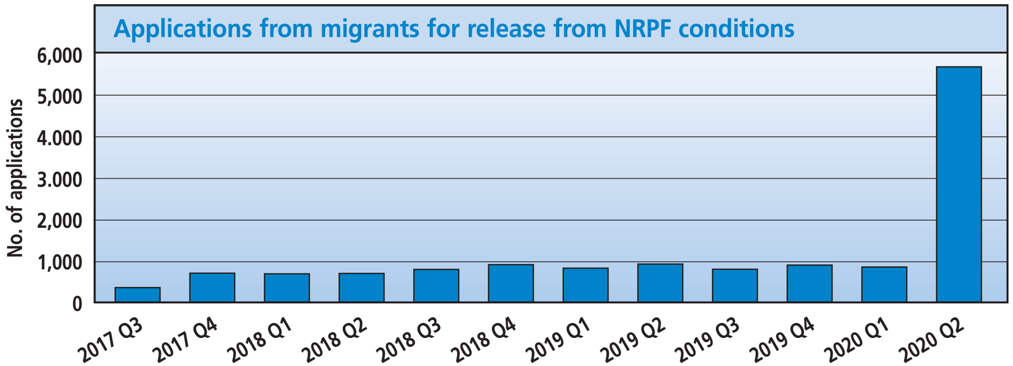
Impact of the pandemic on responses to homelessness

COVID-19 prompted swift and radical responses to the most extreme forms of homelessness across the UK. In each of the four jurisdictions, some kind of 'Everyone In' response was pursued to assist people sleeping rough or at risk of doing so into self-contained accommodation in commercial hotels, B&Bs, hostels and social housing. This has been supported by significant government funding and guidance. In England, an estimated 15,000 people were accommodated (although not all of these were literally sleeping rough), with a further 800 in Wales.[1]

Initial efforts to minimise rough sleeping were notable for their universality, inclusive of people subject to immigration control who ordinarily have 'No Recourse to Public Funds' (NRPF) and those normally excluded from statutory entitlements under the homelessness legislation. In Wales, ministers advised local authorities to consider all rough sleepers to be in priority need during the pandemic, with calls for similar action to be taken in Northern Ireland.[2] In England, though initial government guidance advised local authorities to suspend the usual legal tests under homelessness legislation, the sector has voiced concerns about a 'rowing back' from this position as the situation evolved and the costs became clearer.

Similarly, while initial efforts to accommodate those sleeping rough or in communal provision extended to those with NRPF or limited benefit entitlements, there has been subsequent concern that this group may be at risk of returning to the streets without a renewed commitment to providing support. This is especially the case in England, where it is estimated that NRPF cases form at least one-fifth, and in London up to a half, of former rough sleepers, with local authorities and Crisis urging government to lift restrictions on access to public funds for at least a year. CIH and the NHF joined these calls in a specific letter to the minister responsible for rough sleeping issues.[3] The chart shows the leap in numbers of applications for exemption from NRPF conditions when the epidemic began.

There have been separate concerns regarding the wellbeing and safety of asylum seekers losing access to conventional housing during the crisis and being moved to hotels, especially after a serious incident in Scotland.[4]



Source: Home Office transparency data.

As the situation has developed, attention has turned to the resettlement of those accommodated. The Next Steps Accommodation Programme in England, supported by £266 million funding, aims to enable local authorities to ensure those accommodated continue to have a safe place to say. There have however been concerns about a leadership vacuum after Louise Casey – who spearheaded the Everyone In initiative – stepped down from her role as chair of the Rough Sleeping Taskforce charged with overseeing the resettlement effort.

In Wales and Scotland, approaches to move-on accommodation post-pandemic have been heavily influenced by recent policy shifts towards a rapid-rehousing response to homelessness. Scotland has continued with previously planned legal reforms restricting the use of unsuitable temporary accommodation for homeless households, and the national Housing First pathfinder has continued to scale-up across five areas. In Wales, 'phase 2' of the homelessness response to Covid-19 has seen the Welsh Government commit £50 million of funding to rehousing those accommodated during the pandemic. While it has been emphasised that proposals should reflect the principles of rapid rehousing laid out by the Homelessness Action Group, there are concerns the capital funding available may incentivise large, concentrated provision rather than dispersed mainstream housing.[5]

Efforts focused on the rough sleeping population have gone alongside ones to support the wider population of vulnerable and potentially homeless households. In England, in addition to £3.2 billion to support the Everyone In initiative, councils received a further £3.2 billion to assist people classed as vulnerable. The Scottish Government announced an additional £350 million to support those affected by the pandemic, including more than doubling the Scottish Welfare Fund, and a £50 million Wellbeing Fund for charities to help at-risk groups. Similar funding streams have been announced in Northern Ireland.

The pandemic has also prompted efforts to prevent homelessness, with protections to social and private tenants at risk of eviction, extending the notice periods that landlords are required to give and suspending court proceedings for eviction (see page 9). Even so, there are inevitable fears of a large spike in homelessness once these protections expire.

References

1 Approximately 500 individuals were reportedly accommodated in Edinburgh and Glasgow, but these figures are not comparable to the Welsh and English numbers given the more extensive rehousing entitlements in Scotland. Equivalent figures are not available for Northern Ireland.

2 Housing Rights (2020) COVID-19: rough sleepers and priority need, *News Release,* 3rd June: https://www.housingrights.org.uk/news/COVID-19-rough-sleeping

3 See www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/more_support_for_rough_sleepers

4 Positive Action in Housing (2020) *Call for public inquiry into failures of duty of care by Home Office and Mears Group concerning Glasgow's hotel asylum seekers,* 30th July (see www.paih.org/demand-a-public-inquiry-into-the-home-office-and-mears-groups-failure-of-duty-of-care-and-human-rights-abuses-towards-glasgows-hotel-asylum-seekers/).

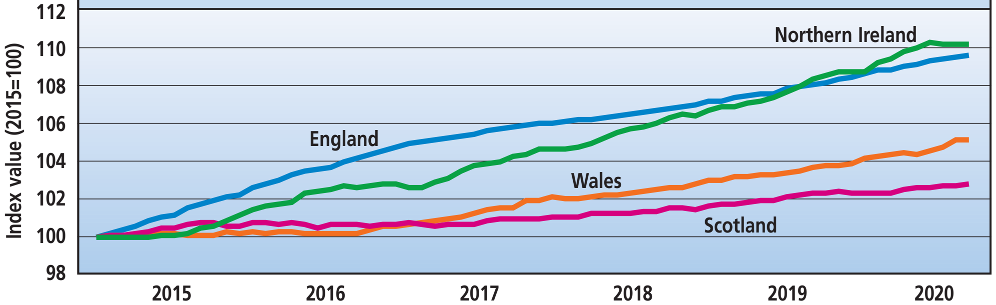
5 Stirling, T. (2020) *Homelessness response to Covid-19 Phase 2: an opportunity to be taken* (see https://tamsinstirlingblog.wordpress.com/2020/07/20/homelessness-response-to-covid-19-phase-2-an-opportunity-to-be-taken/).

The evictions threat in the private rented sector

The likelihood of increased evictions in the private rented sector (PRS) and subsequent surge in homelessness has been one of the biggest housing risks during the pandemic, especially as the sector has a significant proportion of vulnerable tenants. In the early stages, there were several warnings about its potential seriousness. In April, a New Economics Foundation survey indicated that more than 1.2 million UK private tenants were at high risk of losing their jobs,[1] while Shelter put the number of tenants under threat in England at 1.7 million.[2] By late April, Citizens Advice were reporting that 2.6 million UK tenants had missed a rent payment or expected to do so soon.[3] By early July, Shelter reported that 227,000 English tenants were in arrears and by August the estimate had reached 322,000.[4]

Experimental ONS data appear to show little effect on private sector rents, however. Except in Scotland, rents are still rising in cash terms, although the rate of increase in London is now behind (rather than ahead of) the rest of England. The chart shows little change in the long-term pattern of rent increases so far, with England and Northern Ireland ahead of Scotland and Wales. The Association of Residential Letting Agents reported that numbers of new prospective tenants reached a record high in July 2020 and in the same month the number of rental properties available continued to rise.[5]

Rents increase more quickly in England and Northern Ireland



Source: Office for National Statistics – Index of Private Housing Rental Prices (August, 2020).

Governments took various steps to mitigate the threat of evictions. Some improvements, notably the restoration of the local housing allowance to 30 per cent of local median rents, were made to welfare benefits (see page 10). Except in Northern Ireland, there were temporary halts to eviction proceedings in the courts. In England, there was an initial halt until June, extended to August and then to September, with further protection offered in lockdown areas and an amnesty promised over Christmas. Notice periods have been extended to six months in most cases, until March 31, 2021. New rules about pursuing evictions are operating as cases resume.

The same measures apply in Wales, with the Welsh Government additionally providing small loans to tenants to cover rent arrears, now also being introduced in Scotland. Tribunal cases have been resumed in Scotland, although six-month notice periods also apply. In Northern Ireland, notice periods were extended only to three months, but this concession also now applies until March 31.

Landlord bodies had initially been optimistic about the effects of the crisis, with a survey in May showing 90 per cent of tenants paying rent as usual.[6] By September, however, more than one-in-five landlords had lost rental income, which the National Residential Landlords Association (NRLA) assessed as meaning rent losses due to the pandemic of between £328 million and £437 million in England. Some 16 per cent of landlords were planning to leave the market or sell properties as a result.[7] The NRLA joined with other bodies to call on the government to set up a tenant loans scheme in England like the ones in Wales and Scotland. At the moment, apart from benefits, the only extra financial support available in England is via discretionary housing payments, whose availability depends on local criteria. CIH, Crisis and other bodies have called for wider measures, including more ambitious benefits changes and ending the denial of benefits due to immigration rules.[8]

There is a sense of a crisis looming which has not yet played out, given that some protections are in place and evictions have not yet begun on any scale, delayed both by the extended notice periods and a backlog of cases in the courts. Given the prospect of furlough arrangements ending and job losses increasing, the numbers in arrears could escalate rapidly. At the moment, government appears to be playing catch-up, especially in England. It seems reluctant to embrace more radical short-term options, or to bring forward longer-term reforms promised in England and Wales but not yet set out in detail, or make more generous changes in benefits which could offer more protection UK-wide.

References

1 See https://neweconomics.org/2020/04/millions-slipping-through-the-cracks

2 Shelter (2020) *1.7 million renters expect to lose their job in the next three months* (16th April).

3 Citizens Advice (2020) *Millions facing financial cliff edge when coronavirus protections end* (1st May).

4 See https://england.shelter.org.uk/media/press_releases/articles/230,000_renters_at_risk_of_covid-eviction_when_the_government_ban_lifts; www.insidehousing.co.uk/news/renters-with-six-months-arrears-to-get-just-four-weeks-notice-before-eviction-67708

5 See www.arla.co.uk/lobbying/private-rented-sector-reports/

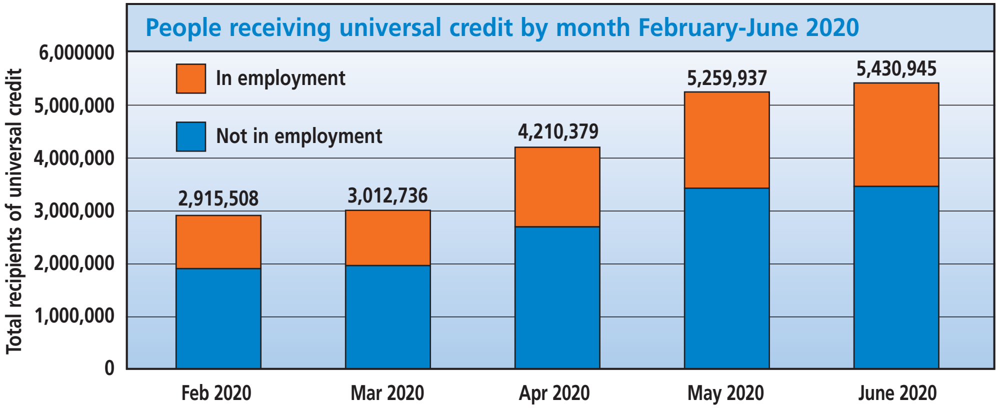
6 NRLA (2020) *Impact of Coronavirus on Private Sector Tenants and Landlords.*

7 See www.propertyreporter.co.uk/landlords/government-urged-to-step-in-as-almost-a-quarter-of-landlords-lose-rent-due-to-covid-19.html

8 See CIH (2020) *Protect tenants from arrears, evictions and homelessness - An urgent call to government for action during and after the coronavirus epidemic.*

Housing support in the wake of coronavirus

During the first wave of the pandemic, record numbers of universal credit claims (which can include housing costs) were made. There were 1.5 million new claims in the four weeks from March 13 and of these 1.2 million started on UC. As of May 2020, 5.2 million people were supported through UC. Although numbers rose exponentially after the start of lockdown in March, they remained fairly stable from May until June (see chart). Numbers are expected to rise again once new redundancies translate into claims.



Source: DWP StatXplore

Unprecedented was the temporary increase in payment rates by £20 per week until March 2021 – a measure to level up sums with statutory sick pay.[1]

As a further part of the coronavirus response, local housing allowance (LHA) rates were restored to the 30th percentile of market rents (on top of the previously announced unfreezing of LHA). Although this increase was widely welcomed, CIH and Shelter analysis shows the new LHA rates do not cover three in every 10 homes in an area, leaving many without adequate support to cover their actual rent.[2] Higher benefit payments through LHA may also mean claimants are more likely to see their benefits capped.

Whereas the original benefit cap mostly affected those in high rental areas and with large families, the revised cap started to bite across all areas of the UK and to affect those with fewer children. As can be seen from the analysis in the 2019 edition of the *Review*, those with children, particularly lone parents, were most affected. In the past few weeks DWP have released updated figures showing the impact. The number whose benefits were limited by the cap increased by 75,000 between February and May 2020 to 154,000 households, with an average (mean) weekly loss in benefit of £58 for UC claimants. This was the biggest increase in the number of capped households since April 2013.[3]

Because the cap was not increased to take account of temporary rises in UC and LHA rates, many already in receipt of UC and previously under the cap are now caught by it. Other groups affected are those on reduced hours because of the pandemic and no longer exempt from the cap, and new claimants who were low-paid workers in non-standard forms of employment (temporary, fixed-term, zero hours, etc.). This group will be unlikely to avoid the cap when claiming benefits for two reasons. First, the grace period, allowing avoidance of the cap, cannot be activated for many low-paid workers as they will not be able to show that they have had a 'regular' income during the preceding 12 months. Second, they are unlikely to be able to continue to earn at least £604 per month during the pandemic, the level required to be exempt from the cap.

The fact that the benefit cap has not been raised, even temporarily, was said by CPAG to show (at best) the government's lack of understanding of the current labour market or (at worst) an intention to maintain a 'punitive' policy.[4] Indeed, it is perverse that those who were working pre-lockdown are penalised if their work pattern did not fit with a tight definition that is unrelated to the reality of many non-traditional forms of employment.

Announcements of substantial job losses continue daily, so numbers affected by the cap can be expected to continue to rise unless it is raised to take account of benefit increases or further exemptions are put in place (e.g. covering those formerly in non-standard forms of employment). CIH, in a range of proposals to help people to sustain their housing during the pandemic, called for the cap to be suspended.[5]

References

1 Further coronavirus measures relating to UC included the relaxation of claimant conditionality and in (most cases) of sanctions, and a temporary stop to most deductions except for advance payments.

2 CIH (2018) *Missing the Target: Is targeted affordability funding doing its job?* Coventry: CIH; Pennington, J. (2020) *New LHA rates: what do they mean?* (see https://blog.shelter.org.uk/2020/03/new-lha-rates-what-do-they-mean/).

3 See https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-may-2020

4 CPAG (2020) *Mind the gaps: Reporting on families' incomes during the pandemic* (https://cpag.org.uk/sites/default/files/files/policypost/CPAG-mind-the-gaps-briefing-6%20August.pdf).

5 Chartered Institute of Housing (2020) *Protect tenants from arrears, evictions and homelessness – An urgent call to government for action during and after the coronavirus epidemic* (www.cih.org/resources/CIH%20-%20Protect%20tenants%20from%20arrears%20evictions%20and%20homelessness.pdf).

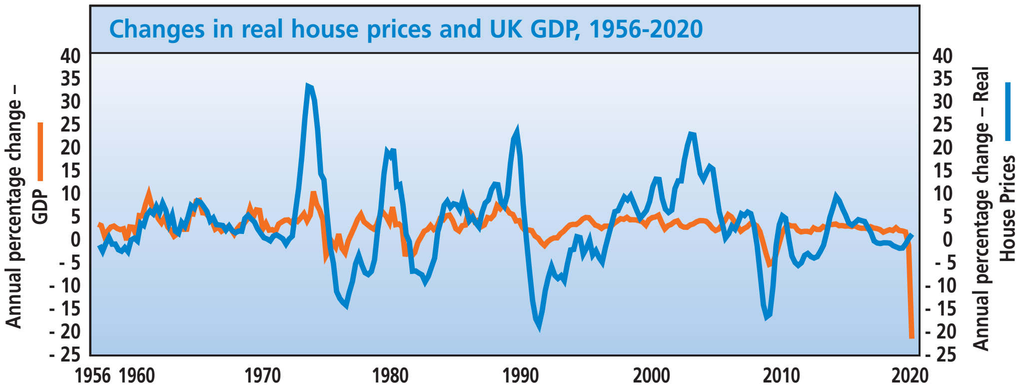
Post-pandemic outlook for the private housing market

Among the early measures taken by the government during the pandemic was the 'mortgage payment holiday' announced on March 17. In reality this was a three-month payment deferral, subsequently extended for another three months until October 31. Around two million borrowers – 17 per cent of owners and investors with mortgages – took this up.

With England in lockdown from March 23 and devolved governments following suit, housing markets across the UK effectively came to a juddering halt as both movement restrictions and a hold on buying and selling were imposed. The cessation of activity meant property valuations became questionable and viewings were impossible. Higher loan-to-value products were withdrawn because of concerns about house prices and valuations. Transactions across the UK fell from 86,880 in March to 37,170 in April. Restrictions were lifted in England on May 13, and by June transactions had partially recovered to 68,670 (compared to 100,330 in May 2019).[1]

Although credit ratings were not downgraded, lenders have been taking borrowers' actions into account when considering new mortgage requests. Many took the holiday even though they did not need it, with most being willing to meet the higher subsequent payments. Some borrowers requested the three-month extension, which lenders are policing more tightly as the burden of unpaid debt potentially becomes onerous.

Of course, the big unknown is how many borrowers will fall into serious long-term arrears? Even if only ten per cent, that would still mean a surge of over 200,000 cases. In the first quarter of 2020 there were around 3,000 mortgages (both owner-occupiers and landlords) with arrears of ten per cent or more of the outstanding balance. Lenders will be working to keep possessions to a minimum, but the government has yet to announce any measures to underpin borrowers as we move towards a post-furlough and recessionary economic situation. The chart highlights the correlation between downturns and house price falls.



Source: BuiltPlace using ONS, Nationwide (prices adjusted using ONS RPI: Long run series) August 12, 2020.

Buy to let landlords were covered by the measures and some (but not all) passed on the benefits to their tenants. Tenants were given no direct assistance (e.g. a rent holiday) although evictions were suspended for five months with possession proceedings restarting on September 20, while landlords themselves are free of the risk of possession until the end of October (see page 9).

Patchy evidence on rent arrears suggests that these have increased in some areas (parts of London) and not in others. Some young adults have left their rental accommodation for a variety of reasons including social distancing and lack of space, and returned to family homes. This has pushed property on to a market already boosted by reduced short-term lets. As a consequence, rents have been falling, though this is by no means universal. The June ONS index suggests rents were up 1.5 per cent in England though with regional variations (1.1 per cent in the South East and 2.5 per cent in the South West). Scotland's rental growth remains weak at 0.6 per cent (12 months to June 2020) while Northern Ireland's is strong at two per cent and Wales is close to England's average, at 1.4 per cent.

Looking ahead it is clear the stamp duty holiday, with a new zero tax threshold varying by country (see page 12), has acted to stimulate activity. London is the biggest beneficiary in terms of the tax-reduction impact. Landlords continue to pay the three per cent additional tax (four per cent in Scotland). As with previous holidays it will bring forward purchases, leading to a contracting market after March 2021 and adding to the pressures that might sustain a prolonged downturn.

With lenders preparing for an increase in arrears and a contraction in house prices, an element of caution overlays the current market optimism. Some suggest we are in the midst of a 'dead cat bounce' built on finite demand, others that the buoyant market will be sustained. In July the Halifax index showed prices up 1.7 per cent over the previous month – highlighting the 'mini-boom' brought about by low supply and increased demand. Another unknown is how the new geography of the housing market will play out in terms of prices and demand. Will prices fall closer to city centres, while they rise in outer or rural areas?

Without doubt younger households are bearing the brunt of the reworking of the housing market (and of the economy), despite measures to support first-time buyers. With problematic leases and challenges in financing post-Grenfell remediation work, added to tightened access to mortgages, there are some real changes taking place in who benefits from the housing market.

Reference

1 This is non-seasonally adjusted transactions data from HMRC for residential properties worth £40,000 or more.

Stamp duty – back to the future?

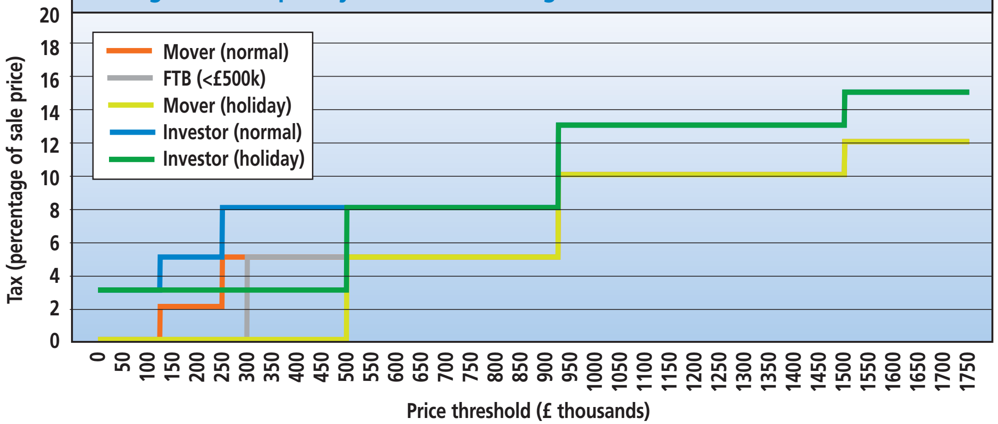
Unlike economic downturns in the recent past, the dislocation arising from the lockdown measures in response to coronavirus was immediate, severe and deliberate. There is much uncertainty about the medium to long-term impacts of the pandemic on the economy, ranging from the optimistic view that it will bounce back as lockdown is eased (and assuming no second wave) to the sober assessments suggesting a more gradual recovery.

Although the Treasury entered unknown territory when devising its stimulus package, the chancellor looked to some familiar tools. The stamp duty threshold was raised in the early 1990s from £30,000 to £250,000. This effectively suspended the tax altogether, as average house prices were then around £50,000. Although the evidence suggested that this mostly brought forward transactions as the withdrawal of the concession became imminent, the same policy was adopted during the global financial crisis. Then the entry threshold was raised less generously, from £125,000 to £175,000, which was broadly in line with average prices. Transactions also appear to have been brought forward rather than it leading to a permanent market recovery.

Since then stamp duty has become more complex, with different rates according to property value and purchaser status. It has also been devolved (to Scotland and Wales, but not Northern Ireland) so systems are different in Wales and Scotland. In each case it has also been restructured from its 'slab' structure to the new 'slice' structure whereby rates generally apply only to the price paid over the threshold.

The chancellor decided to raise the stamp duty entry threshold for England and Northern Ireland from £125,001 to £500,000 from July 2020 until the end of March 2021 (see chart). The Treasury estimates the cost as £3.8 billion (although the Office for Budgetary Responsibility suggests a figure of £2.6 billion).

Changes in stamp duty thresholds in England



Source: Author calculation from HM Treasury sources.

Although Scotland and Wales followed suit, there are some important differences. Many more properties in Scotland and Wales had already been taken out of tax. The usual (non-first-time buyer) threshold in England is set at roughly half of the average house price, but it is almost as high as the average price in Scotland and is above it in Wales. The 'holiday' thresholds place the entry level threshold some 20 per cent over the average English house price, 55 per cent over it in Wales and 65 per cent over it in Scotland. This implies that a much higher proportion of Scottish and Welsh transactions will be exempted.

One effect of the 'holiday' is to remove the relative advantage that first-time buyers have enjoyed in England, Northern Ireland and Scotland. This is because the temporary threshold has been set above the first-time buyer threshold – by £200,000 in England and Northern Ireland and by £75,000 in Scotland (Wales has no such concession).

Another effect is to benefit transactions that are liable to surcharges in England, Northern Ireland and Scotland. Although the surcharge (three per cent in England and four per cent in Scotland) stays unchanged, investors and second-home buyers benefit from the 'holiday'.

The impact of the measure will also depend on mortgage availability and the interactions with Help to Buy, which has been extended until the end of March (in England).

The Treasury justified these measures as being 'crucial to ensure medium-term confidence in the property market and maintain the growing momentum since the easing of lockdown,' and pointed to the beneficial effects on housebuilding and of the stimulus arising from people moving house.[1]

Curiously, by the time of the announcement the Treasury had already noted some bounce back in the housing market following the easing of restrictions that had effectively stalled all market activity. Nonetheless, estate agents recorded big rises in interest from potential buyers following the announcement. Hampton's data[2] from more than 700 branches claimed that interest was 38 per cent higher in the month to 8 August 2020 compared to the same time last year, with growth strongest in Scotland followed by East and South East England. Hampton's also suggested that prices were firming up as a result of more offers per sale.

Of course, a criticism of stamp duty relief is that a significant proportion will be passed on to the seller through higher prices. Another is that some beneficiaries would have bought anyway – so there will be an unknown amount of dead weight. Clearly the government believes that these are a price worth paying. Ultimately, however, the UK's broader economic performance – not least in the labour market – is likely to be the more significant driver of the housing market.

References

1 HM Treasury (2020) *Plan for Jobs*, CP 261. London: HM Treasury, p.11.

2 Guardian (2020) *Sunak's stamp duty holiday behind surge in homebuyer interest*, 8 August.

The fluctuating fortunes of housebuilding

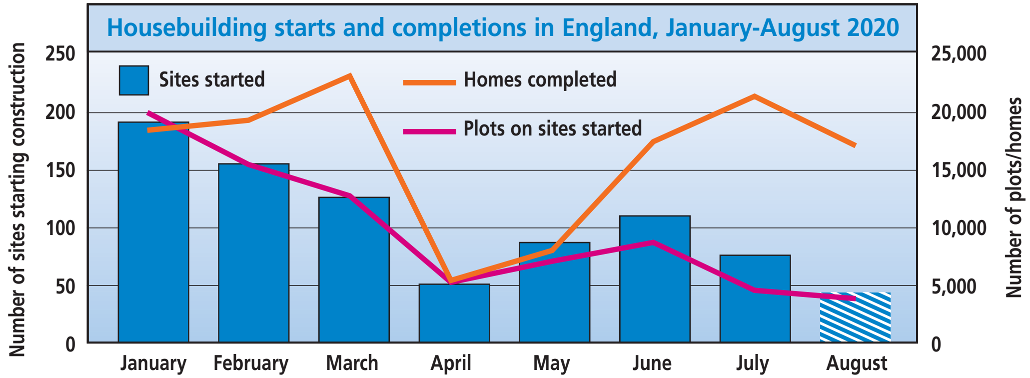
Housebuilding had been struggling before the coronavirus crisis struck. The most recent figures for England recorded 34,260 starts in the last quarter of 2019, 11 per cent down on the previous quarter and 17 per cent lower than the same period in 2018. Uncertainty over Brexit and, more recently, of a general election are favoured explanations for this sluggish performance. The recovery seen in the early part of 2020 suggests that there is some truth in the view that a clear election result released pent-up demand.

The industry went into the pandemic not having fully recovered from the global financial crisis (GFC). There were still almost 15,000 fewer starts in England in the last quarter of 2019 compared to the pre-GFC peak. Twelve years after the GFC began, almost all of the largest housebuilders were still heavily dependent on sales under Help to Buy. Between 36 and 48 per cent of the sales of five of the largest six housebuilders are derived from Help to Buy. Whilst the scheme compensates in part for more constrained mortgage credit availability arising from prudential regulation, it is limited to new houses, so clearly boosts housebuilding.

As with much of the rest of the economy, housebuilders pretty much ceased activity on the advent of lockdown in March. While the UK government sought to find ways to keep the construction sector operating in England, the Scottish Government limited activity to 'essential' projects at difficult stages of the crisis. There was some confusion about government guidance on social distancing in England: sites could initially continue to operate provided two-metre social distancing was observed, but this was rapidly withdrawn under industry protest. Even then, re-opening sites depended on setting up and adapting to new protocols, and training staff.

Most, but not all, of the largest builders furloughed the majority of employees, although most construction site workers are either employed by subcontractors or are self-employed. ONS reported that the value of housing construction fell by more than half in the three months to June 2020[1] and some measure of the impact can be seen in the chart.

Further evidence can be gleaned from housebuilders' financial reports. Taylor Wimpey recorded a £29.8 million loss for the first half of 2020 compared to a profit of almost £300 million in the same period in 2019.[2] Completions were more than 55 per cent lower in the first half of 2020 compared to the same period in 2019. The company also reported a strong bounce-back in demand. It raised equity of more than £500 million 'to pursue attractive land opportunities over [the] next 6-12 months due to market dislocation' and completed 26 land deals at a value of £346 million in the second quarter. Bellway's Trading Update[3] for the year ending 31 July 2020 suggested that completions had fallen by 31 per cent in 2020, but also reported strong demand.



Source: Savills, English Housing Supply Update. Note: The August figures are incomplete.

The government has again been willing to support the sector. In addition to generic benefits such as the Job Protection Scheme (used by many but not all large builders; some have indicated they will refund the government) and the facilitation of an early return from lockdown in England, the government announced other specific measures.

The most significant is the stamp duty holidays (see page 12). They also include some extension in the deadline for Help to Buy completions in England (from 31 December 2020 to 28 February 2021) although the completion date remains 31 March 2021. Scotland's scheme has been extended by a year. The chancellor announced an extra £450 million for the Short-Term Building Fund to assist smaller builders to access finance and £400 million to bring brownfield land into use.

In the 2020 edition of the *Review* we analysed the UK housebuilding industry, observing a long-term decline in construction output which was accompanied by its growing concentration in fewer firms, as small and medium-size builders went out of business during recessions and other companies merged. Current optimism is based around the release of pent-up demand caused by lockdown and its subsequent easing. The UK government has also pointed to reform of the planning system as a way of boosting housing supply (see page 14). Clearly the immediate future depends on how the economy performs: with furlough schemes due to end and with labour market statistics looking alarming, the housebuilding industry faces a new test of its resilience.

References

1 Inside Housing (2020) 'Housing output remains at half 2019 levels despite June surge,' in *Inside Housing*, 12 August.

2 Taylor Wimpey (2020) *Half Year Results Presentation for the six months to 28 June 2020*. High Wycombe: Taylor Wimpey.

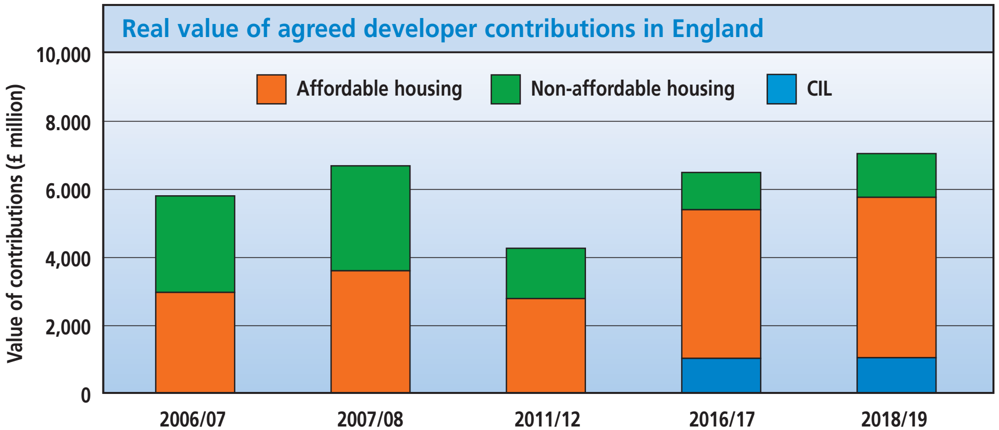
Planning faces major reform in England

The planning reforms in England published in August[1] are based on a particular critique of the current system. Established in 1947, it is based on two key principles: that development rights are nationalised and that decisions are discretionary. Most changes of use require planning permission and, although decisions are based on policies, local planning authorities can override them if appropriate. Applicants, but not the public or other third parties, may appeal decisions. Central government can 'call in' applications for decision either by planning inspectors or by the minister.

The white paper articulates the widely held belief that the system is responsible for the housing shortage. It argues that the discretionary system creates uncertainty and risk for developers, that preparing plans takes too long, and that developer contributions for infrastructure and affordable housing are complex and applied unevenly.

This analysis is often questioned. Critics point to the very high proportion of housing applications that are approved and that the numbers granted detailed permission well exceed the numbers actually built. Whilst this may be blamed on speculative hoarding of land, the Letwin Review pointed instead to the 'absorption rate', the rate at which new houses can be released to the market without depressing prices.[2] Letwin argued that the concentration in the building industry and uniformity of housing types cause this tendency.

The white paper proposes that the discretionary system be replaced by a zonal system, more centralised and more front-end loaded than is currently the case. Local planning authorities would have to prepare plans within a statutory period in line with a new National Planning Policy Framework (NPPF). Plans would be shorter and made up of 'rules' rather than 'policies'. Housing targets would be calculated centrally and quotas allocated locally to meet the aim of building 300,000 units a year, including a 'buffer' for permissions that are not built out.



Source: Lord, *et al* (2020), Table 3.1.

Of course, planning permission does not guarantee the speed at which houses are built. The white paper is rather weak on this point, acknowledging it but relying on master plans and design codes to ensure a variety of houses are built by a wider range of builders to encourage faster build out. Other ways to encourage more rapid build out will be considered soon.

Simplified local plans would identify three types of area: 'growth' where outline approval would be automatic for the kinds of development identified in the plan; 'renewal' where some development would be allowed, such as 'gentle densification,' and 'protected' areas kept largely free of development. However, the zoning exercise would clearly be driven by the increased amount of development land that it would be obliged to identify.

Public participation would move to the front end of the planning system and be facilitated by its digitalisation. This places much store on people's willingness to become involved when there is no pressing reason for doing so. By the time a proposal is made it is likely to be too late to object. Public involvement at the application stage would be 'streamlined' because at present it causes delays and 'allows a small minority of voices... to shape outcomes'.

Developer contributions (via section 106 and CIL, the community infrastructure levy), would become redundant. Currently they are worth almost £7 billion, with affordable housing contributions worth almost £4.7 billion (see chart).[3] This is clearly important as around half of affordable housing is currently provided through this mechanism. They would evolve into a new infrastructure levy to be set at either a standard or geographically based rate, and apply to all developments over a threshold.

The white paper optimistically suggests that this could be a more effective mechanism for land value capture. However, the evidence is that CIL has raised less than anticipated and that authorities are cautious in setting rates so as not to risk the viability of lower-value developments. The 2019 edition of the *Review* concluded that CIL 'has an inbuilt and entirely predictable tendency to under-tax land value uplift arising from planning permission'.

The white paper also suggests giving local authorities discretion on spending proceeds from the levy, which might lead to a shift away from affordable housing. A short-term concern arises from the government's intention to amend the NPPF to require a quarter of affordable units supported by s106 agreements to take the form of First Homes, i.e. houses or flats for sale at discounted prices. Longer-term, for affordable housing delivery much will depend on the design of the instruments that are developed once the white paper is implemented.

References

1 MHCLG (2020) *White Paper: Planning the Future*, London: MHCLG.

2 Letwin, O. (2018) *Independent Review of Build-Out Rates*. London: MHCLG.

3 Lord, A., *et al* (2020) *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2018-19*. London: MHCLG.

Housing affordability has worsened for many as incomes stagnate

Housing affordability has worsened in the age of Covid-19 for many households - but more for income than for price and rent reasons. Even before the pandemic, house prices nationally, according to the ONS, had increased only modestly – by 2.1% in the year to March 2020 – mainly because of slow real earnings growth. Moreover, past recessions suggest that it would be unusual if there were not a significant decline in house prices into the future, given the projected fall in GDP and rise in unemployment (see page 11). In the private rental market, also using ONS data, rent increases for the year to March 2020 at 1.4 per cent were lower than for prices, with a degree of variation across the UK (see chart).

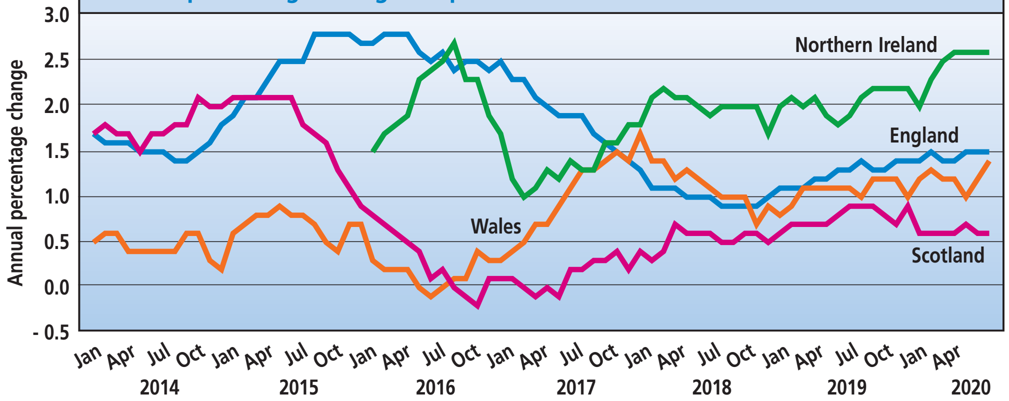
In the owner-occupied market, the most commonly used indicator of affordability is the median-price-to-earnings ratio.[1] This rose from 5.1 to 7.7 in England and Wales between 2002 and 2019 – so most commentators argue affordability has worsened.

But owner-occupation affordability has at least two dimensions: *repayment affordability* (the proportion of income spent on repaying the mortgage) and *purchase affordability* (whether the household can afford the deposit). As Compendium Table 44 in the *UK Housing Review* shows,[2] at approximately 18 per cent of income for those who have actually bought, repayment affordability has changed little for first-time buyers in the UK since 2000. Moreover, it compares favourably with households paying market rents. Yet for many potential buyers, it is only purchase affordability that is relevant because of the deposit required. With average deposits ranging from around £25,000 in Northern Ireland to nearly £110,000 in London, they are beyond the means of many without access to the 'bank of mum and dad'.

More than one in five households are now private tenants (over one in four in London). Since its introduction as a component of the Consumer Prices Index in 2005, private rents have generally grown more slowly than house prices.[3] This looks like good news but says little about the experience of many of those looking to find a rental property, especially in high pressure areas. Moreover, even if the *increase* in rents is modest, the *level* of rents may still be high relative to household incomes (and compared to mortgage repayments). Across England as a whole, for those households not in receipt of housing benefit, the median rent was £700 per month in the year to March 2020, equating to approximately 27 per cent of gross median earnings. In London median rents were more than double and took 47 per cent of median earnings, well above any accepted measure of affordability.

At the lower end of the market these figures are mitigated by income-related housing support. Evidence from the English Housing Survey suggests that these benefits do much to reduce financial stress among those in the bottom two income quintiles. However, the limits placed on what people can claim over the last few years mean that the vast majority of private tenants, even those fully dependent on benefits, have to pay some of their rent themselves.

Annual percentage changes in private market rents across the UK



Source: ONS Experimental Index of Private Housing Rental Prices.

In response to the Covid-19 crisis, the government has enabled rents up to the third decile of the local market rent to be covered – helping large numbers of lower-income tenants, even though many are still caught by the welfare cap. But the biggest future concern is the large numbers expected to lose their jobs or face reduced earnings and who will find it impossible to pay rents they could cope with before the crisis. Among this group many will either be ineligible for support or receive far less than their total rent in welfare benefits.

The affordability message is therefore straightforward, but unpleasant. Over the last few years, prices and rents have been rising relatively slowly – but then so have incomes. Even so, many households could be paying less in the owner-occupied sector if they were able to obtain a deposit. Looking forward, house prices may well fall in many areas and maybe more among properties within the grasp of first-time buyers. But that in itself, compounded by less availability of high loan-to-value mortgages, reduces the incentive to buy now. More fundamentally, in both the owner-occupied and rental markets, for the foreseeable future, the core problems are going to be about incomes and the risks associated with those incomes – and it is these pressures which will in turn impact on prices and rents.

References

1 Measures of affordability are discussed extensively in Meen, G. & Whitehead, C. (2020), *Understanding Affordability: The Economics of Housing Markets*. Bristol: Bristol University Press.

2 See updated version at www.ukhousingreview.org.uk

3 But it is important to remember that we are not comparing like with like – the rent index is a figure relating to the private rented stock as a whole; house prices relate only to those properties that have been purchased.

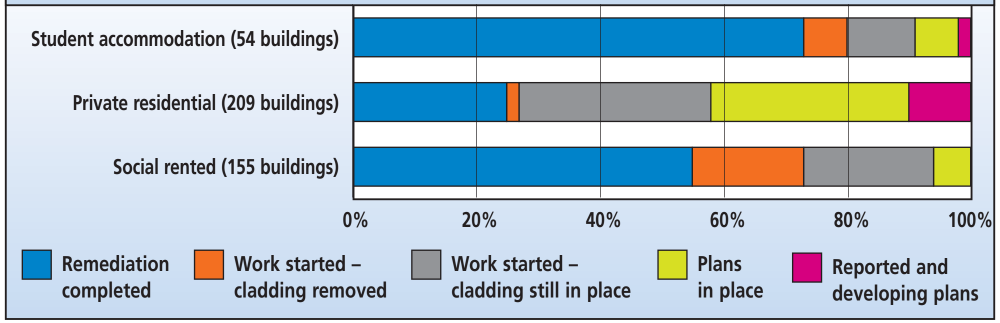
Progress in tackling fire safety – three years on

The Grenfell Tower fire in June 2017, which claimed 72 lives, spread rapidly because aluminium composite material (ACM) was used to clad the building and is known to be flammable. At first it was thought that some 224 buildings had ACM cladding in England, but the number grew as more cases were identified and currently 418 such buildings are known to be in residential use (with 50 or more being hotels, public buildings, etc.).

Progress with removal of these dangerous materials is summarised in the chart. It shows that, overall, 213 buildings have been made safe, even if work is still incomplete, slightly more than half the total. The remaining properties are concentrated in London, with four London boroughs accounting for a quarter of them. The biggest backlog is in the private residential category, where almost three-quarters of buildings are still unsafe. Availability of funding for the social rented sector has helped in making progress: 26 per cent of identified buildings are still unsafe, but the majority have work in progress or agreed plans for remedial works.

As with all construction sites, delays occurred because of the pandemic. Skill shortages and supply-chain issues are also hindering progress, but the biggest obstacles are the legal and financial responsibilities.

Progress in replacing unsafe ACM cladding in high-rise buildings



Source: MHCLG Building Safety Programme: Monthly Data Release, August 2020.

In May 2018, funding of £400 million was made available to the social housing sector. It was followed in May 2019 by £200 million for similar buildings in the private leasehold sector, expected to cover less than half the buildings affected. In July 2019, MHCLG forecast that in all but exceptional cases, cladding would be replaced by June 2020. Clearly this did not happen. Progress in the social and student sectors, if behind target, should soon solve their ACM problem. The private sector, however, is seriously behind and by April 2020 MHCLG had spent less the one per cent of the funding allocated for it. A new target date has been set of the end of 2021.

Unfortunately, other unsafe cladding systems have also been found.. The principal culprit is high-pressure laminate (HPL), judged to affect another 11,300 buildings in England of which 1,700 are at high risk. In March 2020, a further £1 billion was announced for the removal of such cladding, against an estimated total cost of up to £3.5 billion. Social sector landlords are generally excluded, with the new fund focussed on helping private sector leaseholders. Unlike with ACM, there appears to be no systematic attempt to identify and remedy all these remaining problems. It is clear, however, that even though the new funding is substantial it will only cover a small part of private sector costs while leaving most social landlords to fund the works themselves.

Even this new funding ignores fire-safety issues in buildings under 18 metres in height. The Public Accounts Committee says that the government does not know the extent of the problem in low-rise buildings, highlighted by some recent fires. While there are some 40,000 low-rise care homes, for example, the number affected is unknown even though the risk may be considerable.

As noted in the 2019 Briefing Paper, a significant obstacle is the freeholder/ leaseholder divide, with responsibilities about funding any works in such cases dubbed a 'legal quagmire'. Just over half of the companies that own the freehold of buildings with ACM cladding are doing remedial work themselves, with MHCLG expecting to have to fund most of the remainder. However, it is far from clear that all leaseholders will be covered by public funding, especially in non-ACM cases, given that the amount is very likely to be insufficient. In the meantime, leaseholders face the often-high cost of 'waking watch' fire-prevention arrangements and the near-impossibility of selling their properties.

In the rest of the UK the problem originally appeared to be much smaller. Wales only has ACM cladding on social sector high-rise buildings in Newport, with remedial work paid for from public funds. The Welsh Government says that work needed in the private sector is all being funded by building owners. In Scotland, it was initially thought that only one high-rise ACM-cladded building existed – a private block in Glasgow. However, a 'High Rise Inventory', published in March 2020, identified 51 buildings with different types of ACM cladding and there are not yet firm plans to deal with them. In Northern Ireland, the Housing Executive reviewed the state of its high-rise blocks and found none with ACM materials.

Sources

Data on this page are drawn from the MHCLG monthly releases and the following official sources:

House of Commons Housing, Communities and Local Government Committee (2020) *Cladding: progress of remediation* (June).

House of Commons Library (2020) *Leasehold high-rise blocks: who pays for fire safety work?* (June).

National Audit Office (2020) *Investigation into remediating dangerous cladding on high-rise buildings* (June).

House of Commons Public Accounts Committee (2020) *Progress in remediating dangerous cladding* (September).

Scotland responds to the pandemic

Although the pandemic dominates everything in Scotland as elsewhere, it is also the last year of the Scottish Parliament, with elections due in May 2021. Inevitably this means the record of the current parliament is under closer scrutiny.

The Scottish Government has a target to build 50,000 units of affordable housing, 35,000 of which should be for social rent, during the five-year period ending in March 2021. The most recent affordable housing supply statistics take us to the year ending March 2020 (see chart), by which time the coronavirus closure of the construction industry was already having some effect. Affordable completions fell slightly compared to the previous year, although social rented completions rose to 6,952. However, starts rose to more than 10,000 in 2019/20, of which almost three-quarters (8,782) were social rented.

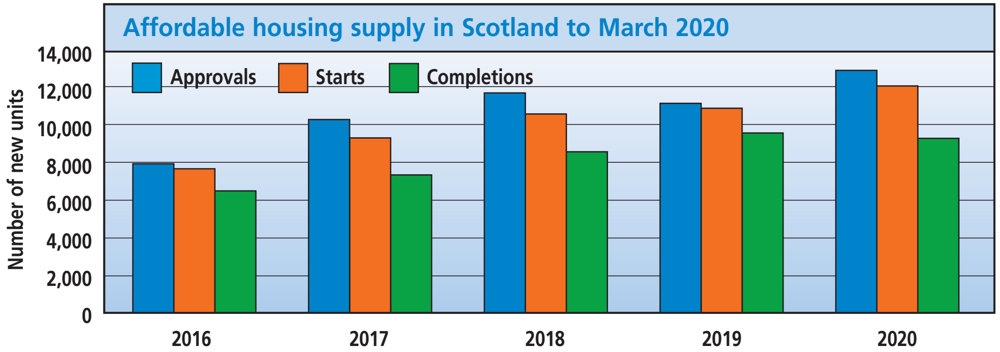
Audit Scotland noted that "good progress" had been made towards meeting the affordable homes target and the investment of £3.5 billion public funds to meet it.[1] It identified a number of risks to reaching the target. These included capacity of the construction sector and council planning and building control services, which are intensified by the rise in funding towards the end of the programme and uncertainty about funding after 2021.

The Scottish Government had been confident that the target would be met before the pandemic struck. However, the housing minister confirmed that the suspension of non-essential construction made meeting the 50,000 affordable housing target 'unlikely'.

Measures have been adopted to assist the housing market during the pandemic. The Help to Buy equity scheme has been extended for a year, and the threshold for Land and Buildings Transaction Tax (stamp duty) has been raised from £145,000 to £250,000 for the period to 31 March 2021. These thresholds also apply to transactions liable for the Additional Dwelling Supplement (ADS), although will still be payable at four per cent.

The Scottish Parliament passed legislation with the intention of preventing evictions of private and social tenants arising from financial hardship during the pandemic. The principal mechanism for achieving this objective was the extension of notice periods to six months in most cases, including rent arrears, and a shorter period of three months in cases of anti-social or criminal behaviour, or where the landlord or members of their family needed to move into the property. Further, all cases going to the Housing and Property Chamber of the First Tier Tribunal, which had been suspended but which resumed operations on 9 July, are to be considered on a case-by-case basis to balance landlord and tenant interests and to take into account the full circumstances of each case.

A fund was established to make loans to small-scale landlords (with up to five properties) where tenants were struggling to pay rent. The Scottish Government also increased funding by £5 million for Discretionary Housing Payments to enable local authorities to assist more tenants facing financial hardship.



Source: Housing Statistics for Scotland Quarterly Update (to 31 March 2020)

A freedom of information request revealed that 133 people were given notices between the beginning of the pandemic and 7 April, and a further 218 since then.[2] The emergency legislation was due to expire automatically after six months, giving rise to concerns of a surge in eviction proceedings from October. However, it is now planned to extend it to March 2021, and a pre-action protocol for rent arrears in the private rented sector is being developed.

The crisis prompted the Scottish Government to make funds available for third sector organisations to provide hotel accommodation for rough sleepers and people sleeping in night shelters. It also reconvened its Housing and Rough Sleepers' Action Group to make recommendations on moving forward from the pandemic and prevent a return to rough sleeping. The Scottish Government has in principle accepted the recommendations and is committed to publishing an updated Ending Homelessness Together action plan with the Convention of Scottish Local Authorities in the autumn.

The Scottish Government has also established a number of working groups with local authorities to develop a sustainable housing response after the crisis. The housing minister brought forward by six months the Scottish Government's commitment to extend the Unsuitable Accommodation Order which will prevent all homeless people from being housed in B&Bs and hotels for more than a week from October (rather than only pregnant women and families with children). Meanwhile, Scotland has joined the calls on the UK government to suspend restrictions affecting people with 'no recourse to public funds' in order to help prevent and end homelessness (see page 8).

References

1 Audit Scotland (2020) *Affordable Housing: The Scottish Government's affordable housing supply target.* Edinburgh: Audit Scotland.

2 Scottish Housing News (2020) *350 eviction notices served by landlords since lockdown*, 10 August.

Wales: Covid changes everything… or does it?

Last year's Wales article focused on the wide range of official reviews that had been undertaken and their recommendations on affordable housing supply and other issues. This year, things are rather different. The focus of the past six months has been on responding to the pandemic. In some policy areas, this has meant faster action and in others, a slowing down or postponement.

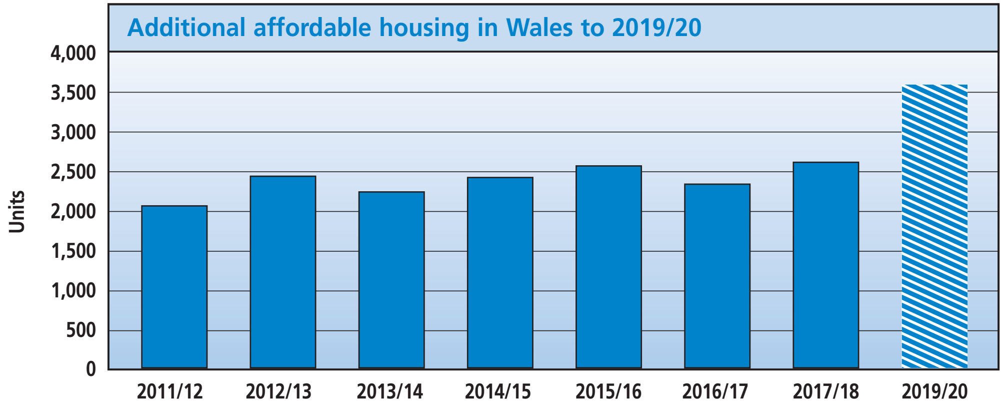
An example of the former is homelessness. The main report from the Homelessness Action Group, setting out how homelessness can be ended, was published shortly before lockdown.[1] The housing minister accepted all the recommendations in principle and they have underpinned the response to Covid-19, with £10 million initially allocated to ensure that people had appropriate accommodation, including those with no recourse to public funds. Phase 2 of the response is now underway, supported by a further £50 million funding (see page 8).

Progress on decarbonisation of the housing stock is slower although a fourth year of the Innovative Housing Programme is underway, this round focusing on modern methods of construction and involving a combination of grant and loan support. On addressing the major issue of energy efficiency in the existing stock, £9.5 million of this year's programme, now called the Optimised Retrofit Programme, will fund energy-efficiency measures in up to 1,000 existing homes owned by housing associations and councils (see page 7 for more on this topic).

In 2020/21 the first year of a five-year settlement for social rents began, with the maximum increase allowable being CPI + 1%. As well as an expectation about delivery of affordable homes to meet the government's 20,000 target, this settlement is linked to commitments on zero evictions into homelessness from social housing, participation in a standardised tenant satisfaction survey and better quality homes in terms of space standards and energy efficiency. Despite government warnings, most social landlords increased their rents by the maximum this year just as they have in the past (see last year's Briefing Paper). Rent affordability will continue to be a major issue, particularly in the context of increasing unemployment.

Affordable housing delivery remains a priority for Welsh Government; updated estimates indicate annual affordable housing need of between 3,000 and 3,900 homes, higher than current delivery levels, albeit that 2018/19 saw the highest number of affordable homes built to date at 2,592. Planned output for 2019/20 should have raised the total further, but data are still not available (see chart).

August 2020 saw a consultation on mandatory quality standards for new housing.[2] They mark a move away from the detail of the current Design Quality Requirements. Although they include minimum floor areas and consideration of space for home working, they say nothing about access to outside space or ensuring digital connectivity. What constitutes a good home in the context of Covid-19 has been considered more widely in a paper produced by Homes for All Cymru, an umbrella lobbying group which includes CIH Cymru.[3]



Source: Affordable housing provision data collection, Welsh Government.

Note: Figures for 2019/20 are planned provision; actual data are not yet available.

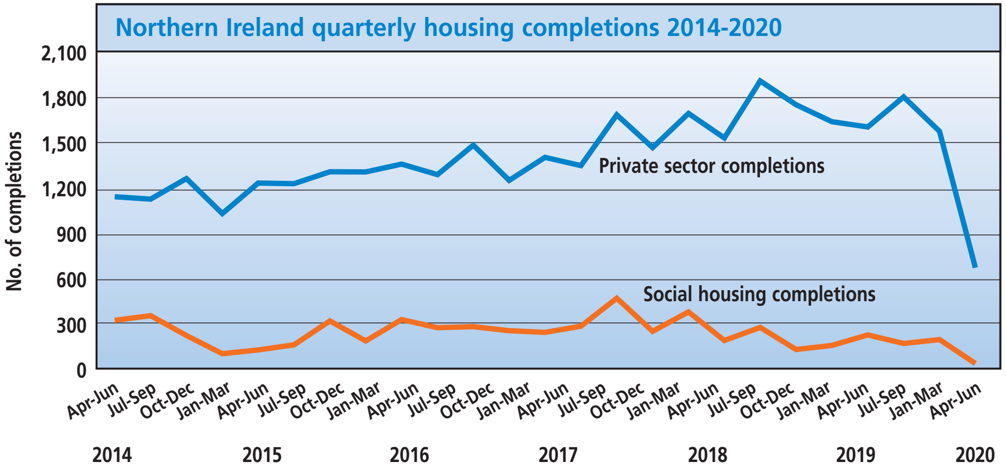
A building safety position statement was published in June flagging the need for comprehensive changes to the law in relation to housing, building regulation and fire safety;[4] a white paper is now promised. The statement noted that no leaseholders will have to pay for remediation works in relation to Aluminium Composite Material (ACM) cladding. Building regulations have been amended to ban the use of all combustible cladding on residential buildings over 18 metres high.

The mantra 'we are all in this together' has been often repeated, but it is very clear that the impact of Covid-19 has been very unequal and that housing has played a role in this. Responding to this and the Black Lives Matter movement, Tai Pawb, which promotes equality and social justice in housing, have developed a 'Deeds not Words' pledge to action on tackling racial inequity.[5] In the context of its Nation of Sanctuary Plan, the Welsh Government has also published research on accommodation options for refused asylum seekers, a group accommodated only temporarily during the pandemic and again vulnerable to destitution.[6]

References

1 See https://gov.wales/homelessness-action-group
2 See https://gov.wales/mandatory-quality-standards-new-homes
3 *Homes for All Cymru (2020) Putting good homes at the core of the post-Covid recovery plan*. Cardiff: Shelter.
4 See https://gov.wales/sites/default/files/publications/2020-09/building-safety-position-statement_0.pdf
5 See www.taipawb.org/resources/deeds-not-words-pledge-to-action/
6 See https://gov.wales/accommodation-refused-asylum-seekers-feasibility-study

Policymaking resumes in Northern Ireland



Source: Northern Ireland Housing Bulletin Table 1.2.

The good news from Northern Ireland is that after a three-year political stalemate the Assembly will soon complete its first year of renewed operation, now with a housing minister who has expressed her strong commitment to social housing. Indeed, planned investment of £146 million this year for the Social Housing Development Programme is the highest ever in cash terms.

Prospects for the economy look uncertain, however, with Northern Ireland having entered a recession before the rest of the UK and now facing the impact of a possibly very confused trading situation when EU withdrawal takes full effect in January. While economic conditions did not seem to affect housebuilding before the pandemic, housing supply has now fallen sharply. The chart shows the recent drop in new build completions and, within those, of social housing completions. The fall seems only partly attributable to the pandemic.

Northern Ireland's current social housing target is based on starts, aimed at 1,850 annually: this level had almost been reached in 2018/19, but in 2019/20 supply was less than half the target level and this year starts may well be lower still. The Housing Executive judges that about 2,000 new social homes are needed annually but the evidence suggests there may be other constraints on supply, apart from investment levels, such as access to land in areas of need, infrastructure capacity limitations and skills shortages, which the government has pledged to examine as part of a forthcoming housing supply strategy.

As the 2020 *Review* pointed out, Northern Ireland is the last part of the UK affected by the ONS decision to reclassify housing association finances as part of the public sector, creating a potential barrier to investment. Legislative steps were taken to rectify this, and royal assent to them has now been received. One measure will be the ending of the compulsory house sales scheme (or 'right to buy') for housing associations which has operated since 2003/04. However, the Bill does not end the right to buy for Housing Executive homes. This is problematic due to the common waiting list for all Housing Executive and housing association lettings. It risks the scheme becoming a 'game of chance', where an applicant's ability to buy will depend on whether their allocated property is owned by the Executive or an association. CIH described the Bill as a 'missed opportunity,' as earlier the government had consulted on ending the sales scheme across the board, which many commentators would have welcomed, and which would have mirrored changes in Wales and Scotland. It produced the oddity of Sinn Féin voting against its own policy, with the minister claiming the Bill 'was the wrong vehicle and the wrong avenue' for scrapping the right to buy.

Another issue affected by the earlier political stalemate was the 'cliff edge' facing benefit recipients who were originally protected from the bedroom tax and benefit cap applying elsewhere in the UK by a mitigation scheme arranged by the Department for Communities. This was due to end in March 2020, but was extended to September 30 with a promise of a further extension thereafter. However, the lobbying group, the Cliff Edge Coalition, continues to be concerned about omissions from the scheme. One is that the benefits cap protection only covers those already receiving benefits in 2016, the other is that the bedroom tax protection does not cover tenants who move voluntarily (only those moved at the landlord's initiative). While during the pandemic temporary changes have been made to the benefits scheme that are UK-wide (see page 10), these do not directly affect the application of either the bedroom tax or the benefit cap and the need for mitigation remains.

Planning policy in Northern Ireland is taking a different direction from that signalled for England (see page 14). Creating mixed-tenure developments remains a key objective even if developer contributions have not yet been introduced. The Strategic Planning Policy Statement mandates councils' local development plans to consider evidence of housing need when allocating land for development, to facilitate the right mix of housing tenures. This will be achieved 'by zoning land or by indicating, through key site requirements, where a proportion of a site may be required for social/affordable housing.' It is intended to encourage partnership working between councils and providers to deliver the right housing mix for each area's needs. It will be interesting to see how this works out in practice.

Updates to the 2020 Compendium of Tables

Alongside the preparation of the Briefing Paper, a significant proportion of the Compendium of Tables in the main *Review* has been updated. The revised tables are listed below.

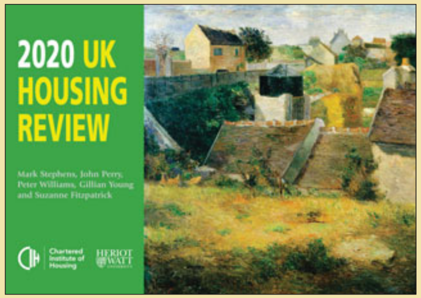
The new versions can be seen and downloaded at the *Review's* website, www.ukhousingreview.org.uk

The ***UK Housing Review*** published each year provides a key resource for managers and policy-makers across the public and private housing sectors. It is now in its 28th year. The ***UK Housing Review 2020 Briefing Paper*** updates key issues and data from this year's full ***Review***, focusing on these themes:

- *The economy and the effects of the pandemic*
- *Housebuilding, the housing market and tax incentives*
- *Post-Covid housing programmes and the state of social landlord finances*
- *Housing affordability as incomes stagnate*
- *Handling evictions and rough sleeping during the pandemic*
- *Post-Grenfell remedial work to high-rise housing blocks*
- *Planning reforms*
- *Achieving zero carbon*
- *Welfare benefit changes during the pandemic*

The ***Briefing Paper*** also takes a closer look at housing in Scotland, Wales and Northern Ireland.

The ***UK Housing Review 2020 Briefing Paper*** is available to download at www.cih.org



Tables from the full ***Review*** and recent updates to them are available on the UKHR website: www.ukhousingreview.org.uk

Purchase a copy of the full ***UK Housing Review 2020*** at http://www.cih.org/ukhousingreview

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