The Credit Crunch and the Housing Shortage – Time for a Radical new Approach to Building Affordable Homes

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The UK Government now relies on ‘piggy-back deals’ with private developers to provide most new affordable housing in England. As the global credit crisis starts to bite on the real economy, this source of affordable housing is starting to dry up. A more strategic approach led by the new Housing and Communities Agency is needed.

Affordable homes are a crucial part of any sustainable community and a well-functioning local housing and labour market. Social housing for rent caters for people who cannot afford, or in some cases do not want, to buy their own. Various forms of equity sharing schemes bring homeownership within the reach of households who can’t afford market prices, such as key public sector workers.

In many parts of the country, and in London and the South East in particular, there is a severe shortage of affordable housing. This results in serious community tensions and economic under-performance.

The long boom and housing shortages

The long boom in house price growth over the past 10 years has taken homeownership out of the reach of increasing numbers of people.
Recent research for London Councils found that the average house price in Greater London in 2007 was nine times the average London salary (London Councils, 2007). Before the credit crunch, one alternative for many of these households was to take out loans on terms which they could only afford if interest rates remained low. In part, the willingness of mortgage providers to offer ‘sub-prime’ loans triggered the current shortage of mortgage finance.1

Post-Northern Rock, the only alternative open to moderate-income households priced out of the housing markets is to join the waiting list for social housing. However, local authorities already have 1.6 million people on their lists, and Shelter has predicted that the figure could rise to 2 million by 2010 (Shelter, 2007).

Popular frustration at the dearth of affordable homes has resulted in chronic community tensions. The success of the BNP in places like Barking and Dagenham, where it won 11 of the 13 seats it contested in council elections in 2006, is built on local grievances over housing and the belief that new arrivals are ‘jumping the queue’.

In the run-up to the recent local elections, Sir Simon Milton, the Chair of the Local Government Association, and Trevor Phillips, Chairman of the government’s new human rights watchdog, were sufficiently worried that they publicly wrote to all local authority Chief Executives pointing out that:

that there is no evidence to support the proposition that it is easier for recent migrants to acquire social housing, or that they are displacing UK-born residents (LGA, 2008).

Gordon Brown and his housing ministers recognise the scale of housing need in Britain today. More generally, they also see that the smooth operations of housing markets underpin more efficient labour markets.

Brown made housing one of his priorities in his campaign for the leadership of the Labour Party, and shortly after coming to power produced a White Paper which set ambitious targets for building 70,000 more affordable homes per year including 45,000 new social homes for rent per year by 2010–11. In all, the government is trying to build 2,000,000 new homes across England by 2016.

**Piggy-backing affordable housing**

There is, however, a fundamental problem with the government’s approach to building new affordable housing. This threatens to shred any serious hope of tackling the housing shortage. The government expects too many of the new affordable homes to come from ‘piggy-back’ deals with private developers.

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1 According to government statistics released in response to a Parliamentary Question in March 2008, 200,000 households had taken out a mortgage at a house price-to-income ratio of $6:1$ – 38,000 had taken out a mortgage on a ratio of $10:1$. 
Most local plans specify that circa 20–50% of new homes built on medium-sized and large sites should be affordable, including social housing for rent. The remainder of the homes are market housing for owner occupation. On the basis of these established policies, local authorities enter into ‘Section 106’ agreements to secure developer commitments to build these affordable homes.

Developers are expected to contribute to the cost of the affordable housing from the increase in the value of the land which results when planning permission is granted. In most cases, some or all of the affordable homes are developed, and then managed by a Registered Social Landlord (RSL). Often, but not always, the RSL will meet a proportion of the capital costs of the new affordable housing with Social Housing Grant from the Housing Corporation. In some cases, the developer provides funds for the local authority or RSL to provide the affordable housing on another site.

In effect, the construction of new affordable homes for poor and moderate-income households is piggy-backed on private deals for (potentially) lucrative new developments. Section 106 agreements were never designed to be the primary means of delivering affordable housing but in recent years, around 50% of all affordable housing in England (and up to 70% in the South East) has been delivered through them.

Win-win-win now means lose-lose-lose

On paper, piggy-backing is a win-win-win scenario. Developers are tapped for a contribution to the common good. Central government mitigates the pressure on the exchequer by reducing the demand for increases in the Social Housing Grant. Local authorities can nod through land deals on the promise that new homes for the less well off are in the pipeline.

In reality, piggy-backing is an inadequate response to an urgent economic and social problem. That the delivery of half of all affordable housing is reliant on a single mechanism, which is in turn dependent on a buoyant housing market, should be a cause for urgent review and reform. As a group of academics put in their evidence to the select committee on communities and local government, Ministers have got themselves into a position of 'significant dependence on Section 106 for our ability to meet need' (Communities and Local Government Committee, 2006).

There are four problems with the government’s over-reliance on piggy-backing. The first is that the number of affordable houses completed is mainly dependent on the rate and scale of private house building. When the level of housing completions decreases, as is happening in 2008 and will probably happen in 2009, affordable housing completions will decrease as well. The Royal Institute of Chartered Surveyors and the British Property Federation have both recently warned that the tightening housing market will undermine the government’s house-building programme as prices fall and developers get cold feet about new deals, particularly for large,
high-cost and high-risk developments. Major developments like those in the Thames Gateway are most at risk.

The second problem is that even when the private housing market is strong, piggy-backing simply doesn’t produce the numbers required. In 2004/05, a full fifteen years after they were introduced, Section 106 agreements produced a total of 18,000 new homes in England – which is about the same number of households on the waiting list in the London Borough of Lewisham, and less than the number in several more deprived boroughs.

The numbers could be higher if local authorities knew how to work the mechanism at their disposal, but many of their officials lack the financial and legal expertise to get the best possible deal. A recent survey for the Royal Institute of Chartered Surveyors found that many local authority negotiators ‘were not even clear whose responsibility it was to deal with S106 and affordable housing’ and were often unable to counter the common argument that too stringent Section 106 commitments would derail the development (RICS, 2007). The government’s own Barker Review of Housing Supply criticised the amount of time and resources that are required to complete Section 106 agreements, and there are longer time-lags between agreement and completion (HM Treasury, 2005). In all, about 80% of planned Section 106 units are actually delivered (JRF, 2006).

The third problem is that piggy-back deals don’t produce the kind of houses that are needed by some of the most vulnerable and difficult-to-house households, like pensioners with serious care needs and large families.

The fourth problem is that the lack of new affordable housing in many communities, particularly in the South of England, hampers labour mobility. It is still exceptionally difficult to recruit key workers for many public services in London, the South East and the East of England due to the lack of housing for rent or for sale at reasonable prices.

This has left Ministers in the terrible situation of relying, for the delivery of a high-profile and politically-charged priority, on a system they themselves recognised was unfit for purpose and vulnerable to the market instability we are currently experiencing.

Looking forward: the new Housing and Communities Agency

The government now has an opportunity to cut through this knot by giving the new Housing and Communities Agency (HCA) the powers and resources it needs to deliver significant numbers of new affordable homes without relying on the proceeds from Section 106 agreements. The HCA is being formed by merging English Partnerships and the Housing Corporation.

The Chief Executive of the new HCA is in a post supported by a transition team. It is expected that the Agency will commence joint operations in late 2008 and formally no later than April 2009. It is also expected that they will
initially ‘roll forward’ their legacy of projects and commitments from the Housing Corporation and English Partnerships. From 2009 onwards, they will have an increasing amount of room in their budgets each year to make new commitments.

If the government and the HCA wish to move away from an over-dependence on piggy-back deals to increase the supply of affordable housing, they need to adopt a number of new approaches.

First, they would identify sites currently owned by English Partnerships, local authorities, the NHS and the Ministry of Defence and invite RSLs, not private developers, to bring proposals forward for these sites. The RSL, not a private company, would be the ‘master developer’. The HCA could invite RSLs to compete with one another and/or ask two or more to work on a consortium basis as a preferred partner. The RSL(s) and the HCA would procure a master plan for each site.

Second, the HCA should require the RSLs to bring in the relevant local planning authority as a partner from the outset. In addition, the RSLs should be required to work on a completely ‘open book’ basis with the public sector landowner, the HCA and the local authority, to prepare the master plan for each project and the financial appraisal of the project. These appraisals would be prepared, however, on a commercial in confidence basis.

Third, the government would agree – probably at Cabinet level – that the public sector landowner would receive the capital receipts at the end of the development process, not at the outset. The development of these sites would be driven by the need to build more homes, for rent and for sale, not to maximise capital receipts.

Fourth, the master plan would specify the rate of development, the balance between market housing, social rented housing and other types of affordable housing, and the schools, health facilities and other community facilities which are essential to create truly sustainable communities. The HCA would work in partnership with the RSL(s), local authorities and public sector landowner to determine the scale of HCA grant and loan support which would be required. The RSL could build market housing, if appropriate, but most market housing would be built on sites and sold to a wide range of private developers.

In summary, this approach would break the nation’s dependence on piggy-back deals to build new housing to tackle the severe shortage of affordable housing. Without this, or an equally radical alternative, it is likely that the housing crisis facing many communities will continue to get worse – and the government’s vision for sustainable communities will remain just that.

References