

BEYOND NEW BUILD

REPURPOSING PRIVATE RENTED HOUSING TO DELIVER A NEW GENERATION OF SOCIAL HOMES FOR ENGLAND

Written by: Alex Diner

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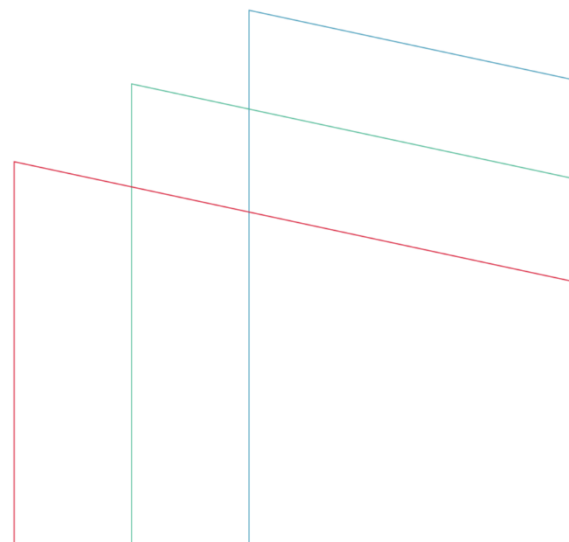
info@neweconomics.org

+44 (0)20 7820 6300

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EXECUTIVE SUMMARY

England's housing crisis, which has been simmering for years, has reached boiling point. Far from providing stable foundations on which to build our lives, our housing system has instead become a source of insecurity, hardship, anxiety and poor health for millions. Private renters face ever rising rents, an increasing risk of homelessness compounded by the threat of "no fault" eviction, and are living in disproportionately poor quality, energy inefficient and dangerous homes, often ridden with damp and mould. Millions experience acute housing need, languishing on social housing waiting lists and in temporary accommodation. Social tenants remain marginalised. Home ownership is slipping further out of reach for millions, while homeowners face devastating rises in their housing costs. And social landlords face squeezes on their budgets, hindering their ability to invest in new homes and maintain existing homes.

Existing policy solutions have failed to resolve the core problems at the heart of our broken system. Demand side reforms – such as Help to Buy and cuts to stamp duty – have cost taxpayers billions, but have only further inflated demand and prices. We are in desperate need of more housing supply, but we are failing to build the number of homes – particularly social homes – to meet demand. Further, the delivery of new homes in and of itself cannot significantly improve the affordability of our homes. In any event, the construction industry faces huge challenges in building new homes in the current economic climate, and meeting the (now non-mandatory) housebuilding targets would make it impossible for the UK to achieve its commitment to its carbon reduction goals by 2050.

Faced with these formidable challenges, NEF has formed the Homes for Us Alliance of tenants and organisations from health, racial justice, housing and other social movements, to build power, develop policy, and campaign for transformative change. NEF has produced this paper as a submission to the Alliance following discussion with and direction set by the Alliance.

Since the introduction of Right to Buy in 1980, there have been a flow of homes from the social sector – characterised by relatively high affordability and security of tenure – to the private rented sector (PRS) – defined by low quality, poor security of tenure and high levels of unaffordability. This has skewed our entire housing system, generating significant unmet, acute housing need and trapping millions in the PRS. It follows that reversing the flow of these transactions – from the PRS to the social sector – offers a clear path to resolving many of the deeply entrenched problems in England's housing system.

Therefore, alongside the building of new social homes, **policy should be geared towards upgrading existing private rented homes to ensure they are energy efficient, and acquiring and repurposing them as homes for social rent.** Doing so equitably, sustainably and on a sufficiently large scale is far from straightforward, but the prize – improving the affordability and quality of PRS accommodation and delivering the social homes we so desperately need – is significant. As we outline in this report (and in further detail to be provided in future publications over the coming months), upgrading and repurposing private rented accommodation into a new generation of social housing offers a clear route to addressing many of the core, interlinked problems at the heart of our broken housing system.

1. THE HOUSING CRISIS IN 2023

1.1 THE SCALE AND DEPTH OF THE CRISIS

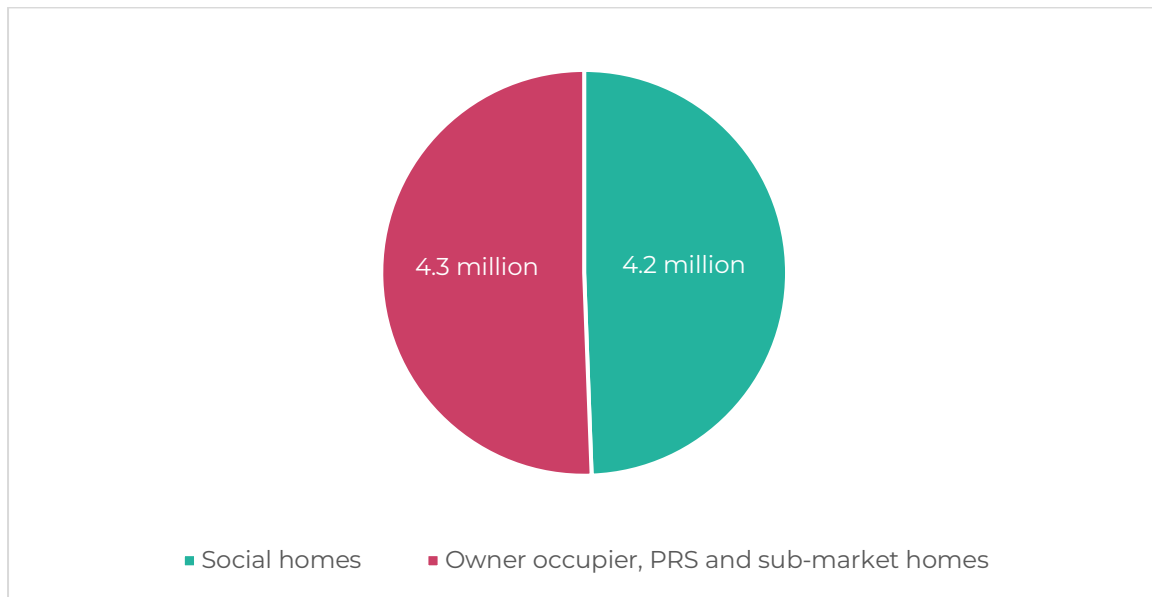
As of 2018/19, around 8.5 million people had some form of unmet housing need, including those on local authority social housing waiting lists, concealed households, and where a home is overcrowded, unaffordable, unsuitable or in poor condition.¹ Of these, 4.2 million people (around 1.6m households) have the most acute needs that are best addressed through the enhanced affordability and security of tenure that comes with a social tenancy. This is an increase of over 400,000 from around 3.8m in 2017/18, and is 500,000 more households than those currently on local authority waiting lists.² The vast majority of these people currently reside in PRS or often poor quality temporary accommodation.³ The needs of the remaining 4.3 million people (around 2m households) are best met through market and sub-market options, including so-called “affordable” and “intermediate” rent and low-cost home ownership.⁴

Almost half of the people and households in housing need across England have needs that are best addressed through a social home, which is around the same amount of those in need of all the other forms of tenure combined – a home for market rent, for market sale, for low-cost home ownership, or for intermediate/“affordable” rent. Within this, almost 2 million children live in unsuitable, overcrowded and unaffordable homes, of which 1.3 million experience acute needs and would be more appropriately homed in social housing.⁵

The premise that we need more social homes is sometimes dismissed by those who argue that the UK has relatively large social housing stocks compared with similar countries.⁶ Such comparisons are, however, flawed, because of the different housing systems that exist in each. Specifically, the significant extent of housing need that is generated in England’s system – which, as outlined above, is often best met through the relative affordability and security of a social tenancy – is driven by the large size and underregulated nature of the PRS and the fact that home ownership is increasingly unaffordable for so many.

Figure 1: Almost half of individual housing needs are best addressed through a social tenancy

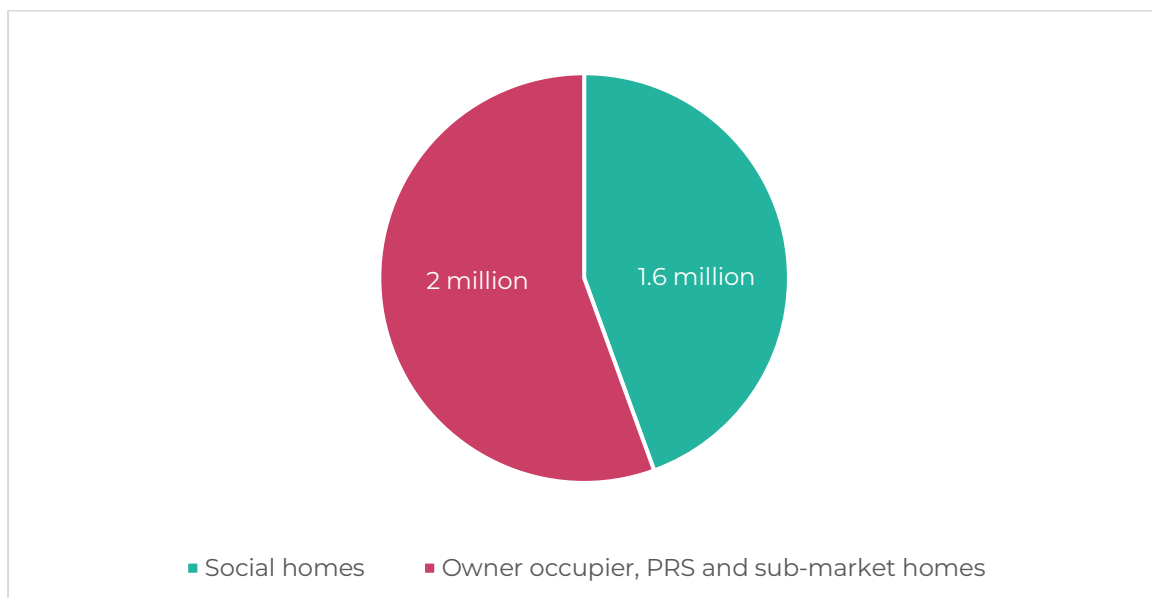
Allocation of housing need in England, by person, 2018/19



Source: NEF analysis of National Housing Federation. (2021). *People in housing need*, p. 4.

Figure 2: Almost half of households' housing needs are best addressed through a social tenancy

Allocation of housing need in England, by household, 2018/19



Source: NEF analysis of National Housing Federation. (2021). *People in housing need*, p. 4.

At the sharpest end of the housing crisis is street homelessness. Overall levels of rough sleeping across England increased almost threefold from 1,768 to 4,751 between 2010 and 2017.⁷ The numbers of those experiencing street homelessness in London alone increased by 24% from around 2,900 in July-September 2022 to 3,600 in the same period the previous year.⁸

For those who endure it, this acute unmet housing need has a clear impact on health, wellbeing and education, and is a significant multiplier of wealth inequalities, including regional wealth inequalities, as well as a barrier to opportunity. Beyond those experiencing acute need, millions more are held back by their housing circumstances, preventing families from putting down roots in their communities, fulfilling their potential and meeting their aspirations.

This unmet housing need is underpinned by four key problems within our housing system.

1.2 FOUR KEY PROBLEMS WITHIN OUR HOUSING SYSTEM

1.2.1 Lack of supply of housing, principally of social and affordable housing

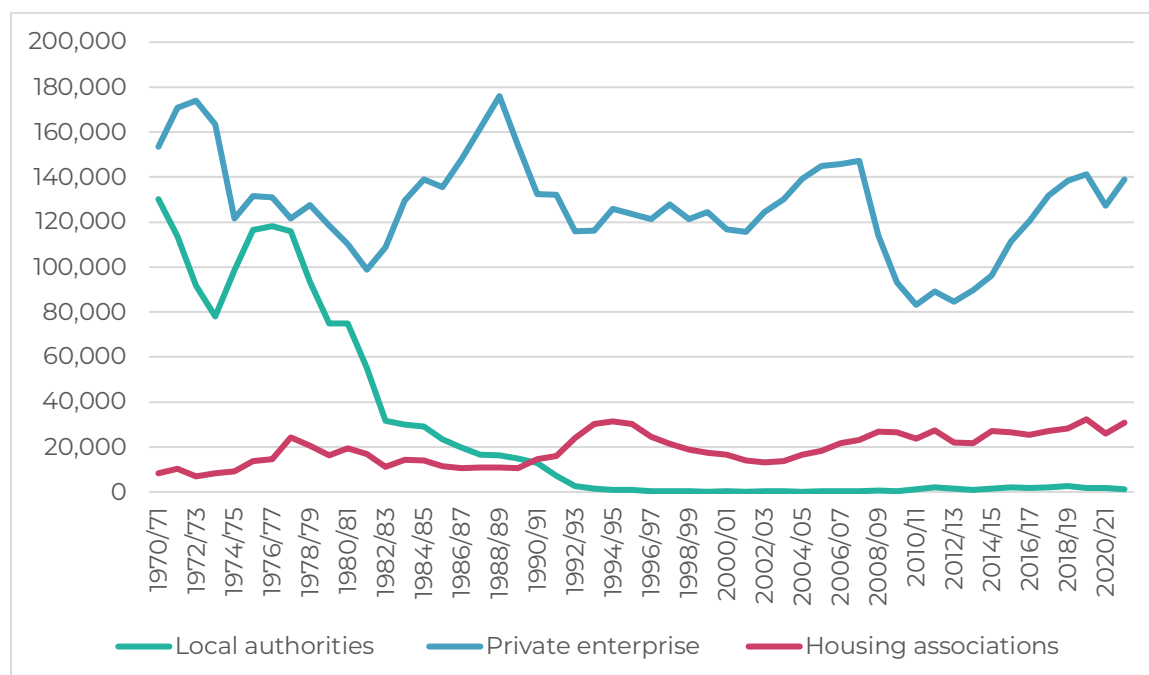
Right to Buy has provided some working-class people and lower-income groups with the means to access greater wealth, but the policy has dealt a sizeable blow to the nation's social housing assets, preventing local authorities from providing sufficient replacement homes and hampering their confidence and willingness to develop new social housing. Over 2m homes were sold under the scheme between 1980 and March 2022,⁹ driving the net reduction of 1.4m social homes over the same period.¹⁰ Right to Buy's heydays of the 1980s may be over, but even between 2012/13 (when the coalition government increased the maximum available discounts for tenants) and 2021/22, around 65,000 more social homes have been lost than replaced under the scheme.¹¹

Local authorities, once powerhouses of new build housing development, no longer contribute significantly to building new homes. Between 1970/71 and 1979/80, the decade prior to the introduction of Right to Buy, local authorities built more than 1m new homes, around 40% of the more than 2.5m total homes built over the period.¹² By contrast, in the 42 years following the introduction of Right to Buy, between 1980/81 and 2021/22, local authorities built around 360,000 new homes, just 6% of the near 6.5m built in total.¹³

Throughout this period, local authorities have shed skills, expertise, resources and the confidence to develop new homes. They have been therefore unable to take advantage of the new borrowing powers they were granted in October 2018 to build new homes. Between Q4 2018 and Q3 2022, only 8,100 out of 642,450 new housing starts – just over 1% – have been by local authorities.¹⁴

Figure 3: Local authorities' share of new build completions has fallen drastically since the introduction of Right to Buy

New build completions by origin in England, 1970/71 to 2021/22

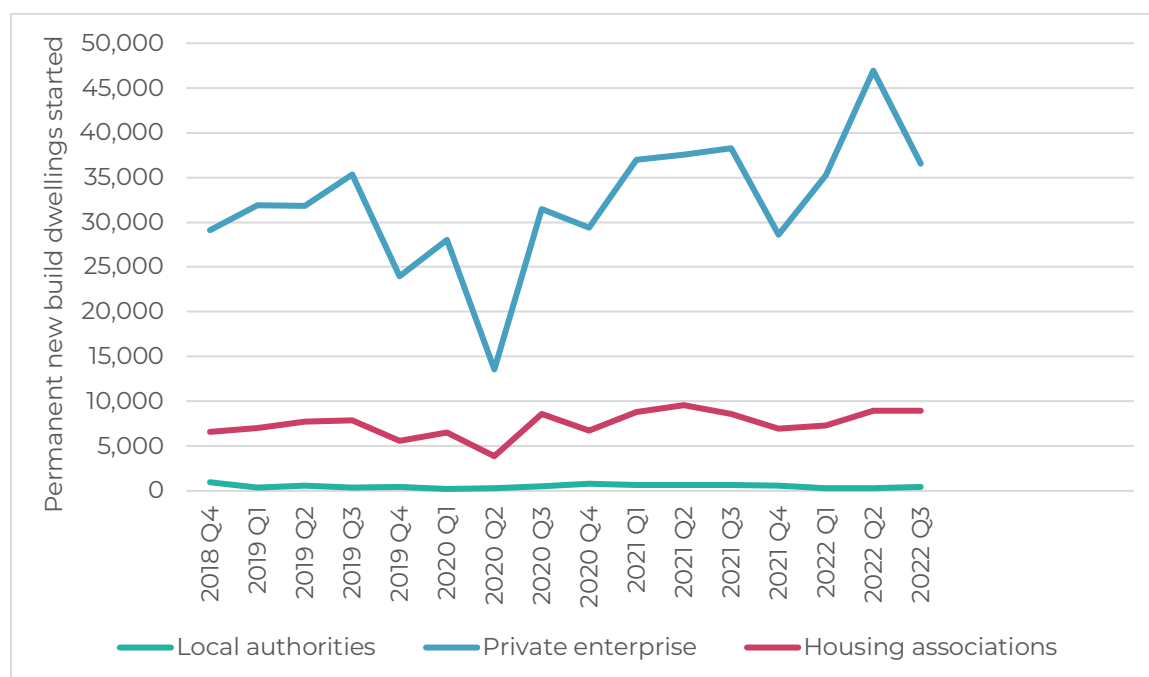


Source: NEF analysis of Department for Levelling Up, Housing and Communities. (2022). *Live tables on housing supply: indicators of new supply*, Table 213: permanent dwellings started and completed, by tenure, England (financial year).

The lack of supply is also underpinned by land and planning rules, which hinder housing development. The price of land rose by 400% between 1995 and 2016,¹⁵ and 'hope value' rules, which force councils to pay the potential value of land when making compulsory purchase orders (CPOs), hinder the viability of building social homes. Reform of this could reduce the total development costs of a programme of social housebuilding in England by around 38%.¹⁶ Furthermore, our system of developer contributions – through section 106 grants – does not deliver the homes we need, with financial viability assessments being used by developers to jettison their obligations to develop affordable housing.¹⁷

Figure 4: Local authorities have barely increased the volume of new housing starts since they were granted new borrowing powers in 2018, and undertake far fewer housing starts than private developers and housing associations

New build starts by origin in England, Q4 2018-Q3 2022



Source: NEF analysis of Department for Levelling Up, Housing and Communities. (2022). *Live tables on housing supply: indicators of new supply*, Table 213: permanent dwellings started and completed, by tenure, England (quarterly).

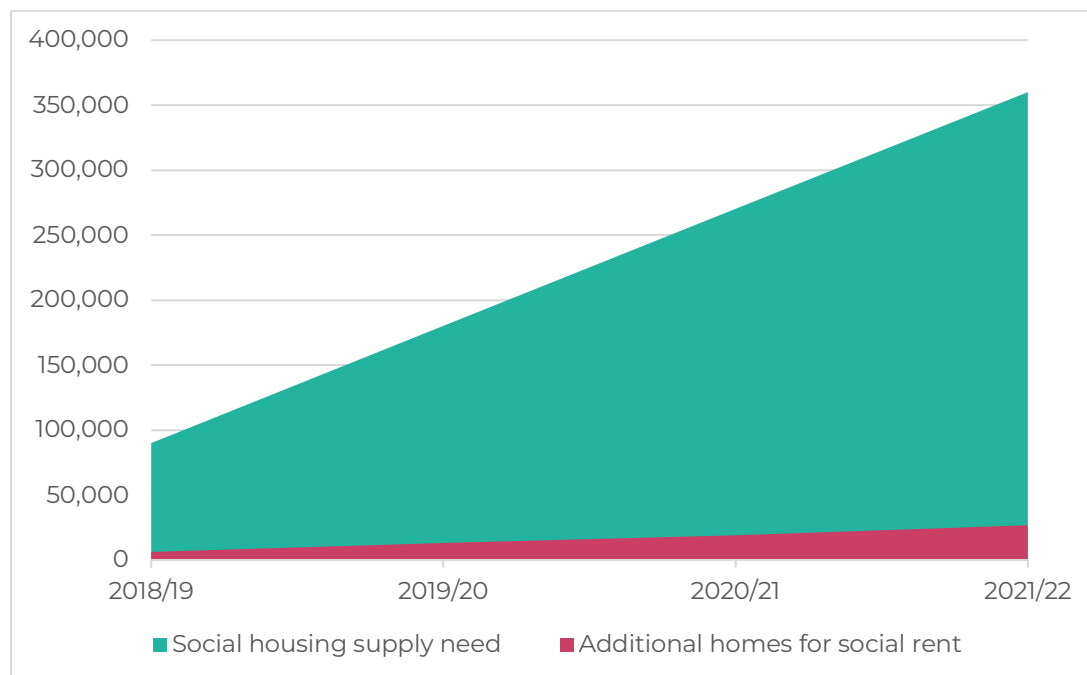
Capital grants for building new social and genuinely affordable housing through the Affordable Homes Programme (AHP) are insufficient and have fallen. In 2020/21, 18,900 homes were delivered through grant funding, compared to 56,115 in 2010/11.¹⁸ Grant funding is needed for 50-75% of the costs of delivering social homes. However, grants for building homes let at so called “affordable” rent – in which rents are linked to market rates, rather than local incomes, rendering them increasingly unaffordable in practice – only need to cover 25-30% of total costs, making delivery of new homes for social rent less viable.¹⁹ As a result, the delivery of social housing is disproportionately reliant on developer contributions, cross-subsidy and market forces, which have failed to deliver the homes we need. In 2021/22, homes for social rent constituted just 13% of new housing across all forms of affordable housing (78% were for either “affordable” rent and shared ownership).²⁰ This is despite social housing offering by far the most overall economic benefit compared to other forms of so-called affordable housing.²¹

As a result of these factors, we have a desperate shortage of supply of social homes. Just 3.2% of new homes built in 2021/22 were for social rent.²² In 2018 it was estimated that 340,000 new homes per year were needed to address housing need in England for a

period of 15 years, of which 145,000 should be across the range of affordable housing, and of which 90,000 should be for social rent.²³ Figure 5 measures performance against these unofficial targets and illustrates the scale of the gap between required social housing need and actual supply since then. Between 2018/19 and 2021/22, just 7.4% (26,708) of the required number of social homes (360,000) have been supplied.²⁴

Figure 5: Social housing supply in England has barely improved nor come close to meeting need since local authority reforms in 2018

Social housing supply in England 2018/19 to 2021/22



Source: NEF analysis of Department for Levelling Up, Housing and Communities. (2022). *Live tables on affordable housing supply*, Table 1000; and Bramley, G. (2018). *Housing supply requirements across Great Britain: For low-income households and homeless people*. Crisis and National Housing Federation.

In 2021/22, across all forms of affordable housing for rent and factoring in sales, demolitions and transfers, there was a net increase of just 11,730 homes; the number of affordable homes let out by local authorities actually decreased by 7,174 from 2020/21.²⁵

1.2.2 Too much housing is poor quality, particularly in the PRS

In 2021, around 900,000 homes in England had damp and mould, including a disproportionate 456,000 homes in the PRS. Further, around 1m PRS homes (23% of PRS homes) failed to meet the Decent Homes Standard (DHS); around 10% of social homes fell short of the DHS, as did 13% of those which are owner occupied; and 615,000 PRS homes (14%) contained “Category 1” hazards, posing an immediate threat to the health of millions.²⁶

As well as being dangerous, millions of England's homes are cold and are insufficiently energy efficient. In 2021, 55% of PRS homes had inadequate Energy Performance Certificate (EPC) ratings of "D" or below, meaning that tenants in 2.4m PRS properties are living in cold, draughty homes this winter.²⁷ One in four pounds spent on heating is wasted because of our energy inefficient homes;²⁸ a household living in a typical EPC "E"-rated property consumes on average 48% more gas for heating per year than an equivalent "C"-rated home.²⁹ This piles further pressure on household budgets in a period of soaring energy costs. Retrofitting homes would save the average household £500 on energy bills from April 2023.³⁰

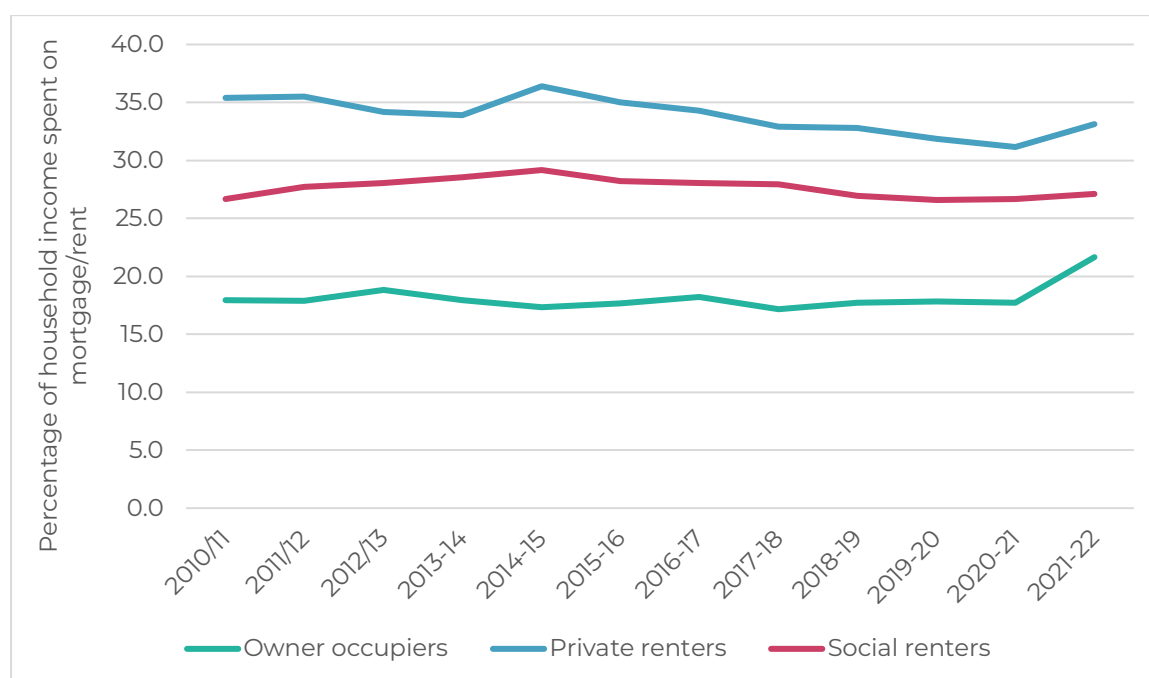
The government has promised to legislate to extend the DHS to the private rented sector, and impose more ambitious minimum energy efficiency standards on the sector to meet EPC "C" rating.³¹ However, at a time in which landlords' confidence in the profitability of the sector is falling,³² ministers have yet to detail how these goals will be achieved. Over two years have passed since the government closed its consultation on the proposals for stricter energy efficiency standards, and landlords, tenants and the retrofit industry remain in the dark about what improvements will have to be made, the timeline for doing so, and whether and at what rate spending caps will be applied. The Resolution Foundation has recently argued that the government must "get tough" and impose regulation on homeowners and PRS landlords to upgrade homes – which they expect to cost £60bn across all tenures – at the required pace.³³ This approach is supported by parliament's environmental audit committee, which has called on ministers to adopt a "war effort" to treat the upgrading of homes to make them more energy efficient as a "national priority".³⁴

1.2.3. Housing is unaffordable, and is upheld by a system that is inefficient and costly to the taxpayer

As at 2021/22, private renters spent an average of 33% of their total household income on rent, the highest of any tenure by far.³⁵ They also face an uneven playing field in which their security and bargaining position are undermined by living under the threat of "no fault" eviction.

Figure 6: Private renters have consistently faced the highest housing costs as a proportion of household income over recent years

Mortgage/rent as a proportion of household income by tenure, 2010/11 to 2021/22



Source: Department for Levelling Up, Housing and Communities. (2022). *English Housing Survey 2021-22*, Annex Table 1.12.

However, owning your own home is now more expensive relative to earnings than at any point since the 1800s. In the mid-1990s, average UK house prices were around four times the average full-time employee's earnings.³⁶ In England in 2021, however, average homes were valued at 9.1 times average earnings, an increase from 7.9 on the previous year.³⁷ Average house prices in England rose by a further 10.9% in the year following November 2021.³⁸ For those owner occupiers with a mortgage, the proportion of their total household income being spent on their mortgage has increased from 17.9% in 2010-11 to 21.7% in 2021-22, despite prolonged historically low interest rates throughout the period.³⁹

The state also spends vast amounts of money propping up our dysfunctional housing system. Taxpayers spend much more attempting to address one of the symptoms of the housing crisis – rising rents, through increased housing support costs – than they do on addressing its principal root cause: the lack of social and genuinely affordable housing. In 2020 the UK spent 1.4% of GDP on housing support, by far the largest of all OECD countries and compared to an average of 0.3% across them.⁴⁰ Housing support paid to social tenants – either through housing benefit or the housing element of universal credit – indirectly generates social value by sustaining revenues to social landlords, which they can reinvest in existing and new affordable homes. The amount of housing

support paid to subsidise PRS landlords, however, is entirely indefensible; between 2021/22 and 2025/26 it is forecast to cost taxpayers £58.2bn.⁴¹ This is five times greater than the amount of funding of the entire £11.5bn Affordable Homes Programme over the same period.⁴²

1.2.4. Housing is inefficiently, inadequately and unjustly distributed

The misallocation of homes relative to need is eye watering. As at 2021-22, 732,000 English households were overcrowded, of which a grossly disproportionate 44% (325,000) were social homes; yet 9.3m homes (38.6%) were underoccupied, 88% (8.25m) of which are owner occupied.⁴³ Meanwhile, 278,110 households were statutorily homeless as of 2021-22,⁴⁴ but in 2018-19 around 772,000 households had a second home.⁴⁵ As of September 2021, there were 148,000 properties being let out on Airbnb-style short-term lettings (a 1,000% increase between 2015 and 2021).⁴⁶ There were around 250,000 long-term empty homes in England in October 2022;⁴⁷ in addition, 250,000 properties were owned by overseas investors in July 2022,⁴⁸ a disproportionate amount of which lie empty.⁴⁹ The number of UK properties owned by overseas investors has almost tripled from 87,810 in January 2010 to 247,016 by August 2021, a rise of 180%.⁵⁰

Instead of housing those who want and can afford flexibility, the PRS is increasingly being relied on by those who need and prioritise affordability, stability and security, which the sector, in its current unregulated form, is poorly equipped to deliver. In 2021-22, 1.5m PRS households (32%) included dependent children, which has almost tripled since the 566,000 households who did so in 2003-04; while 880,000 PRS households (17%) included people aged 55 and over, a figure which has almost increased by 2.5 times since the 366,000 who did so in 2003-04.⁵¹

Decades of marginalisation and underfunding have resulted in the stigmatisation of social tenants.⁵² Social renters experience far higher rates of loneliness,⁵³ and the lowest wellbeing scores of all tenures.⁵⁴

The inequitable distribution of our housing is also a significant driver of wealth inequalities. Between April 2018 and March 2020, and excluding pensions, property constituted 62% of all wealth in Great Britain;⁵⁵ in that period the top 10% of wealthiest households owned almost two-thirds (£2.1 trillion) as much property wealth as the remaining 90% of households combined (£3.4 trillion).⁵⁶ In July 2022, overseas investors owned £90bn of property in England and Wales.⁵⁷ The distribution of property wealth is the single largest source of regional inequality: the total value of housing stock in

London in 2017 was greater than the value of the combined housing stock of Wales, Scotland, Northern Ireland and the north of England.⁵⁸

Property wealth inequalities have also been a significant driver of intergenerational inequalities: in 2021-22, 74.5% of homeowners were aged 45 and over; the proportion of homeowners under 45 has fallen from 32.3% to 25.5% since 2008-09.⁵⁹ Those born between 1946 and 1950 had housing costs of approximately 11% of their income at the age of 30, while someone born between 1981 and 1985 faces housing costs of 24% of income at the same age, lowering living standards across the generations.⁶⁰

1.3 THE URGENCY OF THE CRISIS

These deeply entrenched problems that have caused our housing crisis have reached boiling point and are set to worsen significantly over coming months.

Advertised PRS rents rose by 9.4% in the year to December 2022 across the UK (in London they rose by 14.6% across the same period),⁶¹ and are forecast to rise by a further 4% next year,⁶² compounding the cost of living crisis facing tenants. The Local Housing Allowance (LHA) – housing support provided to low-income private renters – has been frozen since March 2020, following which up to September 2022 rents rose by 5%; 54% of PRS tenants claiming LHA as at September 2022 had to make up a shortfall of an average £151 per month.⁶³

Despite ministers having promised to scrap them almost four years ago, the use of “no fault” evictions from private landlords is increasing and is the biggest cause of homelessness.⁶⁴ In November 2022, around one million PRS tenants had either received, been threatened with, or were at risk of eviction and homelessness.⁶⁵ As a result, the number of homeless households looks set to rise significantly, with some estimating an increase from the near 280,000 households in 2021-22 to more than 300,000 in 2023, which would be an increase of around a third over the past three years.⁶⁶

Social tenants face rising rents of 7% from April 2023, and social landlords face a funding gap of £4.9bn between 2023-28, which will hinder efforts to invest in existing stock and build new social and affordable housing.⁶⁷ The shocking death of Awaab Ishak has highlighted again the disgraceful treatment and discrimination that many social tenants – particularly minority ethnic tenants – continue to face.

Following the sharp rise in interest rates, particularly after the government’s September 2022 fiscal statement, the Financial Conduct Authority has warned that 750,000 UK households are currently at risk of defaulting on their mortgage.⁶⁸ First-time buyers are now finding access to home ownership increasingly beyond reach, putting added strain

on the PRS.⁶⁹ Further, falling house prices – the Office for Budget Responsibility estimates a decline of 9% between 2022 and 2024⁷⁰ – means many home owners now risk falling into negative equity. Those with mortgages face sharply rising monthly housing bills, disproportionately impacting equity-poor households, with 3m households facing an average annual increase of £3,000 by the end of 2023/24.⁷¹

With rising interest rates, cash buyers exercise even more power in the property market,⁷² particularly overseas cash buyers who are able to take advantage of the weak pound: UK property was 25% cheaper for overseas cash buyers in September 2022 than it was in June 2021.⁷³ These trends risk doubling down on the problems with our broken housing model, which encourages more properties to be purchased by investors: 12.2% of homes purchased in 2022 were bought by an investor, an increase on the previous year's share of 11.7%. This figure is set to rise still further in 2023 with cash buyers and corporate investors best placed to take advantage.⁷⁴

2. EXISTING POLICY SOLUTIONS

Since 2010, government policy has focused on stimulating demand for home ownership for first-time buyers, which has primarily had the net effect of stoking prices further: average house values in England rose by 77% from £177,754 in May 2010 to £315,073 in November 2022.⁷⁵ Between 2016 and 2021, the government spent almost twice as much on Help to Buy equity loans as it did on affordable homes capital grants.⁷⁶ Stamp duty rates and thresholds have been cut repeatedly, costing taxpayers almost £8bn since June 2020.⁷⁷ As a result, the Centre for Social Justice has criticised the “excessive fiscal focus on the demand-side of the crisis ... [which] has not represented good value for money”, and which instead “could have been ascertained through addressing the pressing supply-side issues in housing”.⁷⁸

While the focus of recent administrations has been stimulating demand among would-be homeowners, there has been only limited progress in supply-side reforms, and even some backward steps. Local authorities have been freed from borrowing restrictions, but, as outlined above, councils have been unable to take advantage of their increased powers. Following a 46% cut in capital grants for affordable housing from £8.4bn in the 2008-11 programme to £4.5bn for the 2011-15 programme,⁷⁹ the scale of capital available through the Affordable Homes Programme has since been moderately increased. Its mandate to develop social housing has also been reintroduced,⁸⁰ but its continued inadequacy means social landlords are still overly reliant on developer contributions through section 106 and cross-subsidy.⁸¹ With rising construction costs and falling house prices resulting in more cancellations and fewer new homes being built,⁸² the outlook is not promising: new build starts in the social housing sector are down by 29% on 2021 levels.⁸³ The watering down of housebuilding targets from being mandatory to merely advisory is expected to add between 50,000 to 100,000 units to the housebuilding shortfall over the next five years.⁸⁴

There is an emerging consensus, however, that solely focusing on building new homes will not tackle the significant and growing volume of unmet housing need generated by our broken system. New supply in and of itself is only able to improve affordability to a limited extent: even if the government’s (now non-mandatory) annual target of 300,000 homes was met for each of the next 20 years, it is estimated that house prices would only fall by 10%.⁸⁵ If 300,000 homes had been built annually since 1996, the average house would only be 7% cheaper than it is currently.⁸⁶

Notwithstanding that, meeting the UK’s advisory housebuilding goals would render it impossible to achieve its commitment to satisfy its carbon reduction target by 2050.⁸⁷ A

new build-only solution, without a credible plan to reduce the energy inefficiency of our housing stock, is therefore incapable of resolving significant aspects of our housing crisis, and may even worsen the climate crisis.

2.1 THE PRINCIPAL ROOT CAUSE

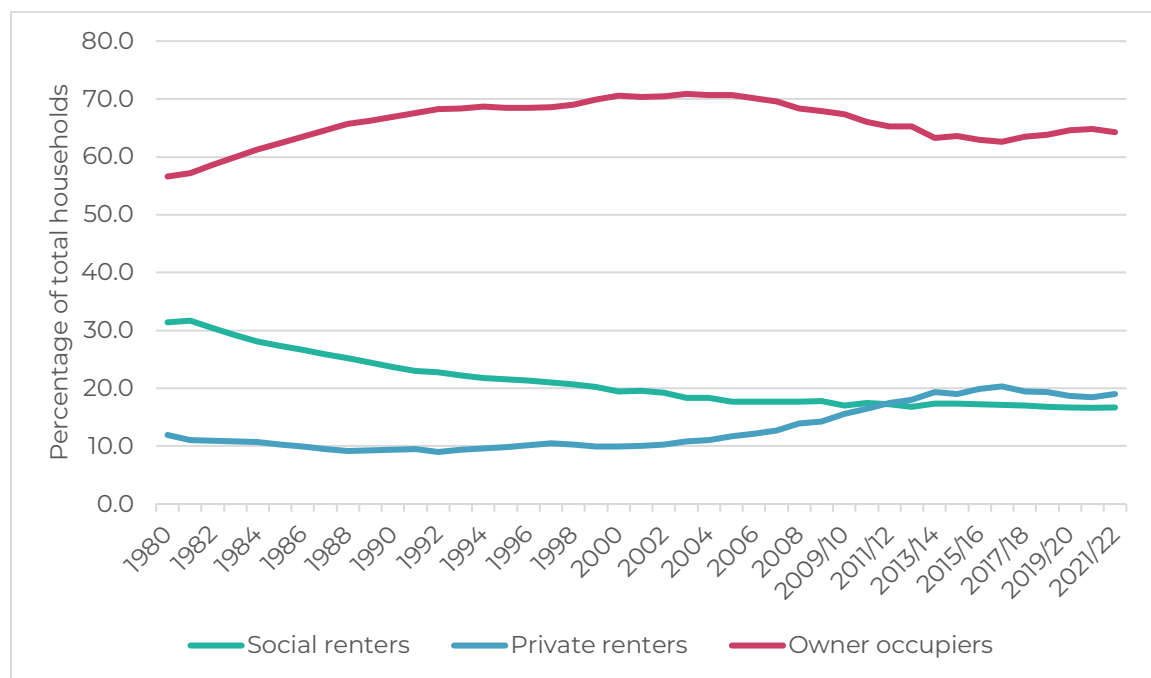
The existing policy solutions are failing, therefore, because they are not tackling the principal root cause nor addressing the interconnected problems with our broken housing system. Millions are now trapped in the bloated private rented sector – characterised by poor quality, insecure and expensive housing – with access to social housing denied and home ownership unaffordable. At the heart of these entrenched problems, lies an increasing fundamental imbalance in the composition of tenures within our housing stock since the introduction of Right to Buy, the rise of private landlordism and the astronomical increase in house prices over recent decades:

- Socially rented homes in 2021-22 made up just 17% (4m) of England's housing stock, compared to 31% in 1980 (5.4m). This is a net loss of 1.4m socially rented homes in a period in which there has been a net increase of 7.1m households overall.
- Since 1988, there has been a dramatic rise in the number of households who are privately renting, which has more than doubled from 9% (1.7m) to 19% (4.6m) in 2021-22, now constituting the second largest tenure group.
- Rates of home ownership have slipped in recent years also, falling from 71% of all households in 2005 (14.8m) to 64% in 2021-22 (15.6m).⁸⁸

The tenure balance in England has undergone a profound shift from the social housing sector to the PRS. As figures 7 and 8 demonstrate, the tenure of millions of social homes – with the relatively high levels of affordability and security which defines them – have been replaced with the unregulated, low quality, low affordability that characterises the PRS (partly stimulated by rising demand within it as a result of the decline of the number of social homes and rising house prices). It is this which has generated the acute need outlined in the previous section, which is experienced by the 4.2 million people, or 1.6m households, whose housing needs are best met through a social home – a strikingly similar figure to the net loss of 1.4m social homes since the introduction of Right to Buy in 1980. In short, this tenure shift over recent decades has fundamentally skewed our entire housing system.

Figure 7: Since the introduction of Right to Buy, the proportion of socially rented homes in England has almost halved, and since the early-2000s the proportion of PRS properties has almost doubled

Proportion of English households by tenure, 1980 to 2021-22

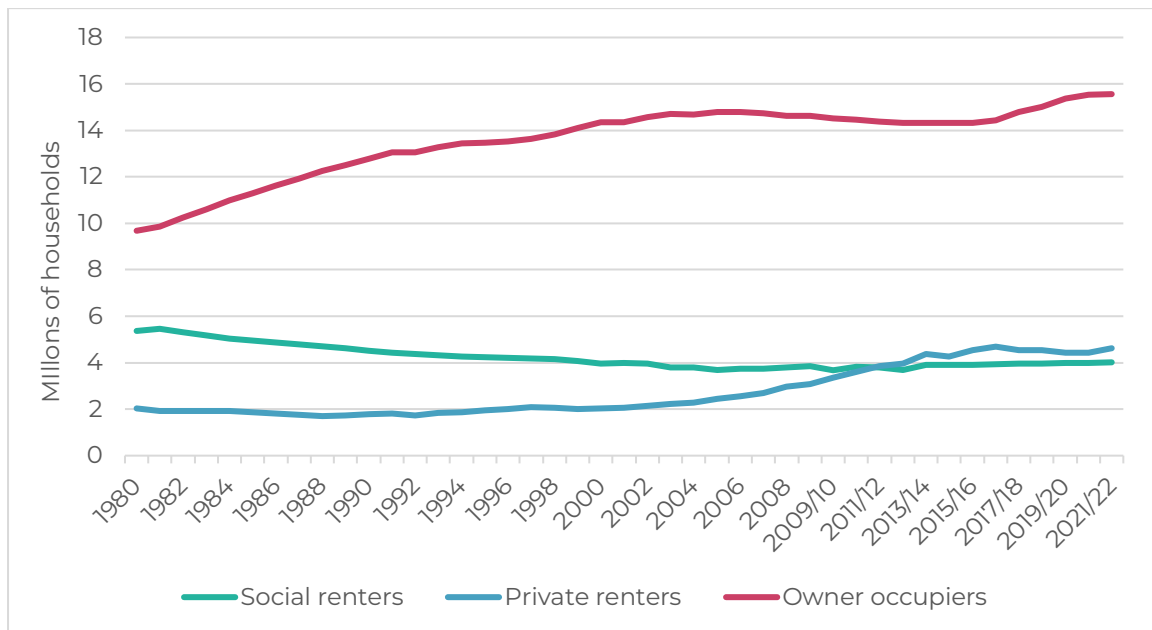


Source: Department for Levelling Up, Housing and Communities. (2022). *English Housing Survey 2021-22*, Annex Table 1.1

There does, however, appear to be an emerging consensus highlighting this shift – caused by the transactions which have given rise to it – and emphasising the need to address the imbalance of tenures between the rented sectors.⁸⁹ It follows that focusing on reversing these transactions – ie creating a flow from the private rented sector to the social sector – offers a clear path to resolving many key aspects of the housing crisis, such as supply, affordability, quality and distribution.

Figure 8: England’s total social housing stock has reduced by 1.4m since 1980, and the volume of private rented properties has more than doubled in the same period

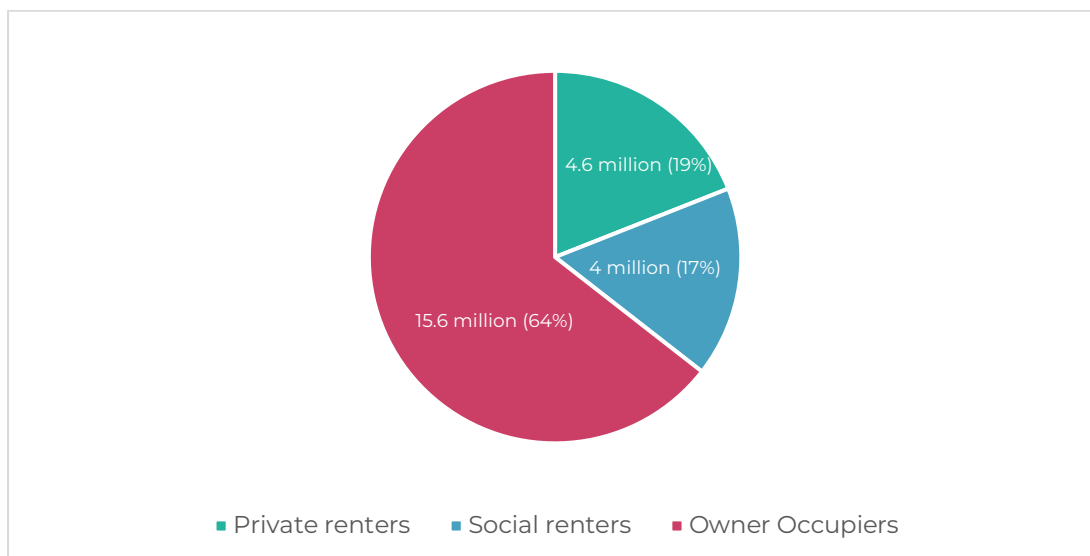
Total number of English households by tenure, 1980 to 2021-22



Source: Department for Levelling Up, Housing and Communities. (2022). *English Housing Survey 2021-22*, Annex Table 1.1

Figure 9: Private rented households now constitute the second largest tenure in England, ahead of social homes

Proportion of English households by tenure, 2021-22



Source: Department for Levelling Up, Housing and Communities. (2022). *English Housing Survey 2021-22*, Annex Table 1.1

Despite years of policy failure, there are now signs of an emerging political consensus on a number of these issues. The government has recognised that the PRS is failing tenants, signalling its intent to introduce wide-ranging reform which would increase tenants' security of tenure and impose legal duties on landlords to maintain properties to the Decent Homes Standard.⁹⁰ Meanwhile, the Labour party has said its mantra in government will be "council housing, council housing, council housing", and that it aims for social housing to become the second largest tenure, suggesting its focus is not simply limited to building new homes but also on the overall composition and balance within our housing stock.⁹¹

3. REPURPOSING PRIVATE RENTED HOUSING TO CREATE A NEW GENERATION OF SOCIAL HOMES FOR ENGLAND

NEF has formed the Homes for Us Alliance of tenants and organisations from health, racial justice, housing and other social movements, to build power, develop policy, and campaign for transformative change that rises to meet these significant problems. Following discussion with and direction set by the Alliance, NEF and the Alliance are developing policy solutions to tackle this range of interconnected problems with our housing system in order to sustainably:

- increase the supply of social housing
- improve affordability and energy efficiency standards within the PRS.

A clear route to achieve this is for **policy to be geared to encourage the upgrading and repurposing of private rented accommodation as social housing**. In and of itself, converting properties in this way is not new. In the 1960s and 70s, many local authorities purchased dilapidated (and often vacant) PRS homes to let them out at social rent, acquiring 14,000 properties per year by the end of the 1970s.⁹² Later, the Conservative government's Housing Market Package in 1992 and the Labour government's Kickstart Housing Programme in 2009 were both counter-cyclical interventions, using macroeconomic policy to address a downturn in the housing market, boosting social housing supply through acquisitions.⁹³ Most recently, the mayor of London's Right to Buy Back scheme has to date resulted in 1,577 previously private market homes (that were former council homes) being purchased and repurposed by local authorities since July 2021.⁹⁴

The Affordable Housing Commission has also recently called for a National Housing Conversion Fund, the aim of which would be to "make grant available for social landlords and alternative housing providers ... to acquire existing private rented properties and convert them into new social and affordable homes".⁹⁵ The principle of repurposing PRS housing as social housing may not be new. In 2021/22, however, social landlords acquired only 4,046 properties.⁹⁶ This is partly because current Affordable Homes Programme rules place a 10% cap on the number of homes that can be purchased as part of any grant funding application, but also because housing policy is not geared towards this as a central aim.⁹⁷ What is needed now, therefore, is for this

objective to be pursued on a transformative scale. Doing so will enable a coordinated approach to tackle the four principal problems in our broken housing system.

First, such a policy approach would tackle **the lack of supply of housing, specifically of social housing**. While not prioritising increasing the overall volume of homes, it would enable clear focus on increasing the supply of social housing, the tenure most in demand to address unmet housing need. If carefully calibrated, and with sufficient financial incentives built-in throughout the system, it could do so much more efficiently than through building new homes, enabling a far more ambitious volume of new social homes to be provided.

Significantly, these policies would also stabilise the private rented sector by ensuring that any decrease in its size would be offset by a commensurate increase in the volume of social homes, reducing demand in the PRS and mitigating against any adverse affects (such as rising rents) of decreasing supply within it. It would also provide those landlords who wish to leave the market with a viable exit strategy, ensuring the properties become upgraded and repurposed in the way most beneficial to resolving the housing crisis: increasing the volume of social housing.

A repurposing agenda would allow supply of the most needed type of housing – social homes – to increase while not becoming embroiled in issues with planning, or hindered by rising construction costs or deteriorating market conditions. It would require a plan, however, to upskill and retain labour within the retrofit industry.⁹⁸ Nevertheless, faced with a market downturn, it can target counter-cyclical intervention at those most in housing need by efficiently delivering new social homes, as well as stimulating the retrofit industry. As with interventions in the 1990s and 2000s, it could also serve to mitigate forecasted falls in house prices over the coming months.

Such acquisitions would also, to some extent, circumvent existing limitations in local authority capacity and expertise, as such transactions are far less complex and subject to much less risk than construction, compulsory purchase orders, and subsequent negotiations with developers. It would therefore also enable the creation of a new generation of social homes through a decreasing reliance on market forces and section106 developer contributions.⁹⁹

Second, policies serving this objective could make sufficient improvements to the **poor quality of much of England's housing stock**, particularly that in the private rented sector. If accompanied by means to incentivise improvement works to energy inefficient PRS homes, this approach could support the fulfilment of the government's ambition to

expand the Decent Homes Standard to cover the PRS and to enhance energy efficiency standards.

Therefore, by enabling improved energy efficiency and other necessary upgrades in many of the worst-quality homes, such an approach would help alleviate fuel poverty and contribute to the reduction of the UK's carbon emissions. Given that housing currently contributes 14% of our carbon emissions,¹⁰⁰ it can therefore help resolve both the housing and energy efficiency crises in tandem.

Third, it would help address problems related to the **unaffordability of housing, to tenants and taxpayers alike**. If carefully calibrated and sequenced, such measures could stabilise and reduce rents in the PRS by reducing demand within it. Over time this would reduce the unjustifiable housing support costs for taxpayers currently subsidising PRS landlords' incomes.

As a result, more households would of course be able to let a property at social rent, the most affordable form of tenure. Furthermore, reducing demand in the PRS would lead to stabilised and reduced rents in that sector, enabling private tenants who wish to one day become homeowners to be able to save more for a deposit.¹⁰¹

Fourth, these policies would help address the **inefficient, inadequate and unjust distribution of England's housing stock**. By increasing the supply of social housing, it would reduce overcrowding and statutory homelessness. Those PRS tenants better served by the relative affordability and security of a social tenancy would have greater access to one. Second-home ownership would become discouraged, enabling a more equitable distribution of homes.

Placing the creation of social housing at the heart of government housing policy would also send a clear signal against the stigmatisation of social tenants. Expanding the pool of social tenants would strengthen their voice and power. Acquiring former PRS properties – many of which are spread throughout England's towns, cities and rural communities – would also allow social tenants to become less spatially marginalised and more properly integrated within communities.

3.1 POLICY OPTIONS

Policy ought therefore to be geared towards upgrading PRS stock and repurposing it as social housing as a key objective, underpinned by new policy levers that will enable this to occur on a transformative scale. These policy levers would establish a set of “push–pull” or “carrot and stick” mechanisms in order to sustainably incentivise upgrades and encourage transactions between PRS and social landlords. Transitioning housing stock

from the PRS to the social sector must be calibrated and sequenced carefully to guard against unintended consequences; driving down the PRS without a commensurate increase in the availability of social housing will only worsen conditions for private tenants further.

Through the Homes for Us Alliance, we are developing a series of policies that would allow government to pursue this aim in five core areas.

3.1.1 Tax

We will explore whether specific tax loopholes affecting landlords can be closed. This includes exploring whether taxes to which PRS landlords are currently subject – such as capital gains tax – can be reformed to encourage PRS stock transfer to social landlords. This could also close the gap between the higher rates of tax currently imposed on income than on capital. Furthermore, encouraging the professionalisation of landlords to provide higher-quality services means they ought to be treated as other self-employed persons are, and we will therefore also explore whether national insurance should be imposed on all PRS landlords, including short-term lettings. We will also examine reforms to short-term and holiday lettings regulations, as well as those regarding overseas property investment.

Such proposals could therefore have the simultaneous effect of raising additional revenue from which to fund investment in upgrading and acquisition, enhancing fairness across the taxation system, improving the equitable distribution of housing, while also encouraging the overarching goal of transferring stock from the private rented sector to the social sector.

3.1.2 CPOs and equity/discount models

The government's current proposals to expand the Decent Homes Standard to the private rented sector, to introduce a national landlord register, and to enhance the energy efficiency requirements for PRS homes are welcome and long overdue. They also raise questions regarding how these measures will be implemented and enforced, with proposals to introduce these reforms submerged within the political long grass. But these proposals also provide an opportunity to develop ways to encourage landlords to upgrade their properties to new, enhanced legal standards and for social landlords to use these to increase the number of social homes. We will therefore explore how councils can use revised CPO laws to force PRS landlords to adhere to enhanced lettings standards (deducting the costs of required remedial works from market valuations, for example), while also repurposing PRS accommodation as social housing.

Furthermore, we will examine whether local authorities could obtain an equity stake in properties on which they can charge social rent and in order to fund any required remedial work, first buyer rights for these properties when the landlord wishes to sell, and/or whether they ought to receive a discount for purchasing it. In the event that landlords are to be provided with state finance – either grants or low-cost loans – to fund improvement works to comply with new legal property standards, our view is that the state ought to receive something of social value in return.

3.1.3 Rent controls

Building on research already undertaken by NEF,¹⁰² we will explore whether, as well as improving the affordability of the PRS, rent controls can be used to facilitate social landlords' acquisition of PRS properties and advance other policy objectives around upgrading homes and energy efficiency. By placing rent controls in a housing system geared towards increasing the supply of social housing, we will explore the extent to which this can nullify the risk of unintended consequences that can be encountered when introducing rent controls associated with a decrease in supply.

3.1.4 Right to buy reform

The strings attached to Right to Buy receipts have hampered local authorities' ability to use them to develop replacement social homes. We will explore how, instead, they can be reformed to actively encourage the upgrading and acquisition of PRS stock. We will also look at how Right to Buy exemptions can be imposed on acquired stock to give local authorities confidence to invest in purchasing PRS homes and converting them into homes for social rent.

3.1.5 Targets, grantmaking, enforcement, and local authority skills and capacity

We will explore how the machinery of government and policymaking – both central, regional and local – can be geared to incentivise social landlords' acquisition and repurposing of PRS accommodation, including specific targets and grantmaking, to further this objective. In order to improve standards throughout the PRS and free up capacity within cash-strapped local authorities, we will also examine the current local authority-led enforcement systems – building on the new regulations being introduced by the government – placing the onus on landlords to meet legal standards and provide safe, high-quality homes. To address the lack of skills and knowledge that now exists in some parts of local government regarding housing development, we will also explore

how these proposals can work to enhance the capacity of these councils to once again become active players in developing more social housing.

4. CONCLUSION

These proposals, at this stage, are intended to stimulate debate, and will be further developed over coming months, following which we intend to publish more detail regarding each of the above policy options.

Furthermore, insofar as this paper identifies the bloated nature of the private rented sector as being at the heart of the dysfunctionality of our current housing system, this work should also be seen as complementary to policy development undertaken by others regarding low-cost home ownership models. That is because they would have the effect of transferring tenure from the PRS to the owner occupier sector and reducing demand in the PRS. This and our approach are therefore best understood as tackling the central problems that underpin the housing crisis, albeit from different perspectives, and are therefore mutually reinforcing.

It also should be noted that – notwithstanding the vital importance of upgrading and repurposing PRS stock as social homes – this set of policies is not intended to replace but instead to supplement the need for net additional increases in the supply of new homes. Accordingly, in due course, we intend to undertake separate policy development with the goal of increasing the supply of green social homes.

Please do not hesitate to contact us if you would like to discuss any of the proposals contained within this paper.

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