

The Future of Housing

Rethinking the UK housing system
for the twenty-first century

Consultation at St George's House, Windsor Castle
23rd – 25th June 2009



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Foreword

Diane Diacon, Director, BSHF

The dramatic upheaval in our housing and financial systems in the last 18 months has created a timely opportunity to review how we can change our ailing, and failing, housing system. Such opportunities for far-reaching change arise only rarely. Set against a backdrop of the unprecedented complexity of our society, the ageing of our people and a rapidly changing climate, the weaknesses of the current system highlight the need for a significant change in how housing is provided, financed and managed in the United Kingdom.

In June 2009, a wide range of experienced practitioners and academics from different housing-related disciplines met for three days of discussion and debate at St George's House in Windsor Castle. Participants included those with experience from Continental Europe and North America as well as the four nations of the United Kingdom, enabling a wider perspective to be shared. Prior to the meeting several of the participants had prepared papers setting out possible responses to the current housing problems faced.

I was very pleased that Lord Best, OBE was able to chair this Consultation at St George's

House, which was coordinated by the Building and Social Housing Foundation. Twenty-five years earlier, Lord Best was invited by the Duke of Edinburgh to coordinate the Inquiry into British Housing, which provided an overview of the state of British housing in the mid-1980s and made a range of suggestions for future action. The Consultation addressed the same three vital questions in relation to housing in the UK as the Inquiry into British Housing had done many years ago: 'where are we now?', 'where do we want to be?' and 'how can we get there?'.

This report is the outcome of our deliberations so far. We hope that it will stimulate further debate and, more importantly, urgent action to address some of the challenges faced by the housing system.

We have not merely created a wish list of actions that we expect others to deliver. Those present at the Consultation will be seeking to develop and implement a number of the proposals that have been outlined. We welcome others to join us in this process of responding to the challenges that we face in providing decent housing for everyone in the UK.

Executive summary

The UK housing system is large and complex, being intrinsically linked to almost every major area of government policy. It has become increasingly flawed and now has significant dysfunctional components. Addressing the housing system as a whole is no small task, but can be approached by asking three fundamental questions – ‘where are we now?’, ‘where do we want to be?’ and ‘how can we get there?’.

Where are we now?

The breadth and depth of the flaws in the housing system in the UK are illustrated by a number of failings, including the:

- Negative impact of the housing system on the wider UK economy;
- Increasing unaffordability of housing for many people;
- Failure of housing supply to respond to changes in demand;
- Unsuitability of the housing stock for current and future needs;
- Failure to meet acute housing need.

We now have a rare opportunity to respond to the challenges posed by the dysfunction in the current system, to evaluate the role that housing should play in society and to act to deliver changes that will improve the system. There is now a widespread recognition of the need to address the failure of the current system as a whole, rather than tinker with various component parts. This historic opportunity to

improve the UK housing system has arisen with the convergence of a number of significant changes. These include changes that have occurred within the housing system, such as the re-emergence of the private rented sector, and changes in the wider economy including the nationalisation of major UK mortgage lenders. Viewed together, this combination of changes will cause major shifts in the housing system. Without intervention these changes are likely to increase the dysfunction in the system, but with the right programme of actions they also provide an opportunity to make changes that would lead to significant improvements.

Where do we want to be?

Participants at the Consultation accepted, as a broad direction of travel, the view of Europe’s not-for-profit housing providers that “a housing system should provide access to decent and affordable housing for all, in communities which are socially, economically and environmentally sustainable and where all are enabled to reach their full potential”. Although we recognise that radical change will take a decade or more to deliver, the first steps on the path lie in defining what it is we expect the housing system to achieve. These should include:

- A decent roof over everyone’s head;
- A home fit for the future;
- Affordability and stability;
- A decent neighbourhood to live in;
- Recognition of housing as a system.

How can we get there?

The Consultation identified a need for further examination of the housing system as a whole. Outlined below are eight key areas for attention. Examination of these eight areas, and how they work together, would form the basis of just such a systemic review.

- 1. Reforming the role of taxation in the housing system.** Taxation could be used more effectively to help deliver decent housing for everyone. In-depth assessment of the merits of different forms of property or land taxation deserves particular attention.
- 2. Addressing house price volatility.** Reducing house price volatility would benefit many individuals, as well as the wider economy.
- 3. Retrofitting of the existing stock to reduce carbon emissions.** The government and many other stakeholders recognise the need to improve existing housing stock to reduce household carbon emissions. A number of barriers will need to be overcome if the intention for large-scale retrofitting is to be quickly turned into a reality.
- 4. Reviewing the effectiveness of housing support systems.** The current provision of housing support should be reassessed, particularly in regard to whether income-based rather than tenure-based support would be more effective.

- 5. Increasing the range of housing providers.** A broader range of housing providers would increase the overall level of supply, as well as helping to reduce volatility in its delivery and delivering greater choice.
- 6. Improving the flexibility of tenure structures.** It is time to assess how a more flexible, yet reasonably secure, tenure system could work in practice.
- 7. Undertaking a regulatory audit.** It is necessary to understand whether current regulations throughout the housing system support the provision of decent housing or create unnecessary barriers and have other unintended negative consequences.
- 8. Encouraging innovation.** Providing decent housing and responding to changing housing needs within society will require innovation in all aspects of the housing system including design, construction and finance.

Many important proposals for change are relatively well developed and could be implemented quickly. Other proposals require further discussion and would take a significant amount of time and research to develop fully. A detailed examination of the potential of a range of policy and practice options is provided in the final section: ‘improving the UK housing system: some key questions’.

1. Where are we now?

The UK housing system is large and complex¹. The system includes 26 million existing dwellings² and new supply from different types of providers. It includes a range of relationships between owners and occupiers of homes; these different tenures include owner occupation and a variety of rental tenures in the private, not-for-profit and local authority sectors. The system also contains a wide range of financial components, including mortgage provision, different forms of government subsidies and taxation of both housing transactions and occupation.

Owner occupation dominates the UK housing system with 70 per cent of households occupying their homes under this form of tenure. Rental accommodation is provided either by private landlords (12 per cent) or by subsidised social rental providers, such as local authorities and housing associations (18 per cent)³. The dominance of owner occupation is a relatively recent phenomenon that may be shifting with the private rented sector in England increasing to 14 per cent⁴. Some attempts have been made to bridge the divide between these tenures with the introduction of intermediate or low cost home ownership options, but with comparatively little impact. New housing supply is dominated by private house builders who provide 87 per cent of new dwellings with almost all of the remaining supply provided by housing associations⁵.

The housing system is intrinsically linked to almost every major area of government policy, from the economy and taxation to the

environment and education. It is driven by a huge range of factors from the behaviour of individuals to global economic forces. It is commonly the greatest asset and debt held by a household. There is wide variation in the amount of money people spend on their housing ranging from those who own their property outright to an estimated one million households who spend more than two-thirds of their income on housing costs⁶. The scale and complexity of the system means that housing policy has often focused on one particular component part, without reference to the wider context. At its worst, this has led to housing policy becoming fractured and disjointed. Addressing the housing system as a whole is not a simple task, but the first step in this process is to ask the question ‘where are we now?’

The current UK housing system is dysfunctional

Viewing housing in the UK as a complete system leads to questions about how effectively it fulfils the role that it plays in society. It appears that **the housing system in the UK has significant dysfunctional components**; the breadth and depth of this are illustrated by a number of failings, including the:

- Negative impact of the housing system on the wider UK economy;
- Increasing unaffordability of housing for many people;
- Failure of housing supply to respond to changes in demand;

- Unsuitability of the housing stock for current and future needs;
- Failure to meet acute housing need.

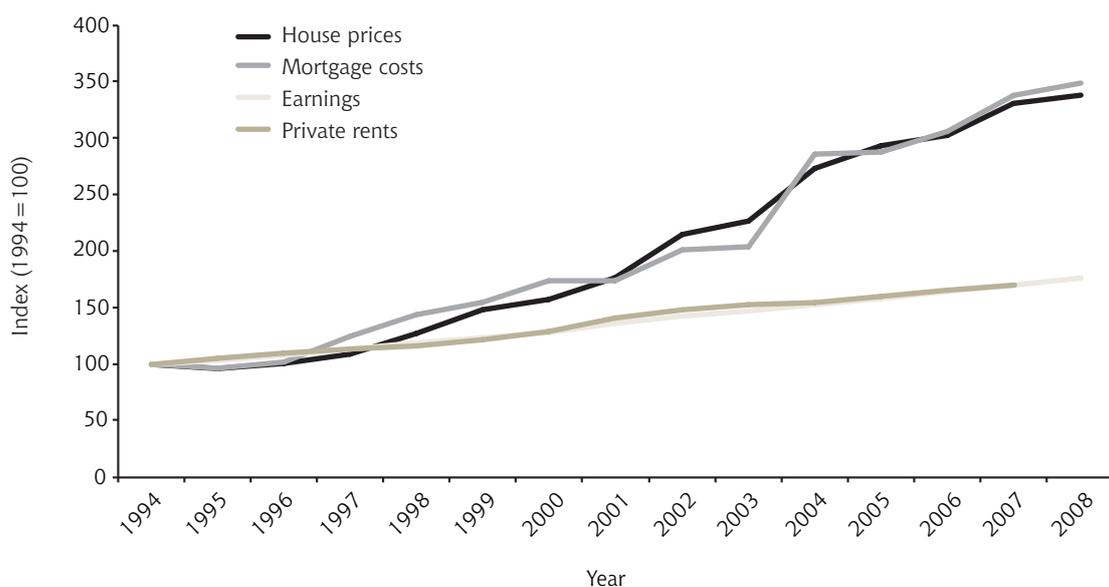
The first issue that illustrates the dysfunction in the housing system is the **negative impact that it has on the wider UK economy**. The volatility of the housing market, which can be seen in house price fluctuations, is responsible for a number of these negative impacts. There have been four cycles of rising and falling UK house prices over the last 35 years⁷.

International organisations such as the International Monetary Fund and the Organisation for Economic Cooperation and Development have highlighted the negative impact of these house price cycles on the UK economy⁸. Analysis from the Financial Services Authority cites the rapid increase in house prices during this decade as one of a set of interrelated effects that led to the current crisis in the UK economy⁹. Whilst a rapid increase in house

prices followed by a subsequent correction has been seen in a number of countries, others appear to have escaped from this cycle almost entirely. Germany, for example, has seen house price to income ratios remain relatively stable for the past 35 years¹⁰. In the UK, the cost of renting accommodation in the private sector has not increased as quickly as the cost of owner occupation during the last 15 years, with rent levels remaining broadly in line with increases in incomes (see *Figure 1*).

A system that tended to create lower levels of house price volatility would provide a number of benefits to the wider economy. It would improve macroeconomic stability, support economic growth and improve labour market mobility, which would further improve the flexibility and performance of the economy¹¹. Significant social benefits would also be gained by reducing the volatility of house prices. Avoiding rapid

Figure 1: House prices, mortgage costs, rents and earnings compared¹²



house price increases would improve affordability and help avoid subsequent crashes which lead to associated problems of repossessions and negative equity. Negative equity highlights the intrinsic link between the social and economic effects of house price volatility. From a social policy perspective it can exacerbate financial difficulties that households might experience due to job loss, illness or relationship breakdown. From a macroeconomic perspective it can have a variety of effects including dampening supply (for example by reducing labour mobility). Reductions in the value of mortgage assets or housing related securities can also have an adverse effect on financial stability due to their effect on banks' balance sheets¹³. The wider impact of this process of write-downs of banks' assets has been clearly demonstrated in the recent problems faced by the UK and global economies. This highlights the complex

interactions that exist both within the housing system and between the housing system and the wider economy.

The housing system has other negative effects on the wider economy. Rising house prices appear to be an important factor in the take up and size of pensions. Despite significant recent improvements in pension provision, the increasing value of housing assets is viewed by many people as an alternative to pension provision. However, housing assets are unlikely to provide a sufficient solution to the provision of income in retirement¹⁴. The ratio of total mortgage debt to GDP increased from 50 per cent to over 80 per cent in the decade before 2007. This brought increased risk to the economy as a whole¹⁵ because customers and some providers "relied imprudently" on the assumption that ever-rising house prices would reduce the risks otherwise inherent in high loan to value mortgages¹⁶.

Figure 2: Inflation-adjusted house prices, UK, 1975 to quarter 2 of 2009¹⁷

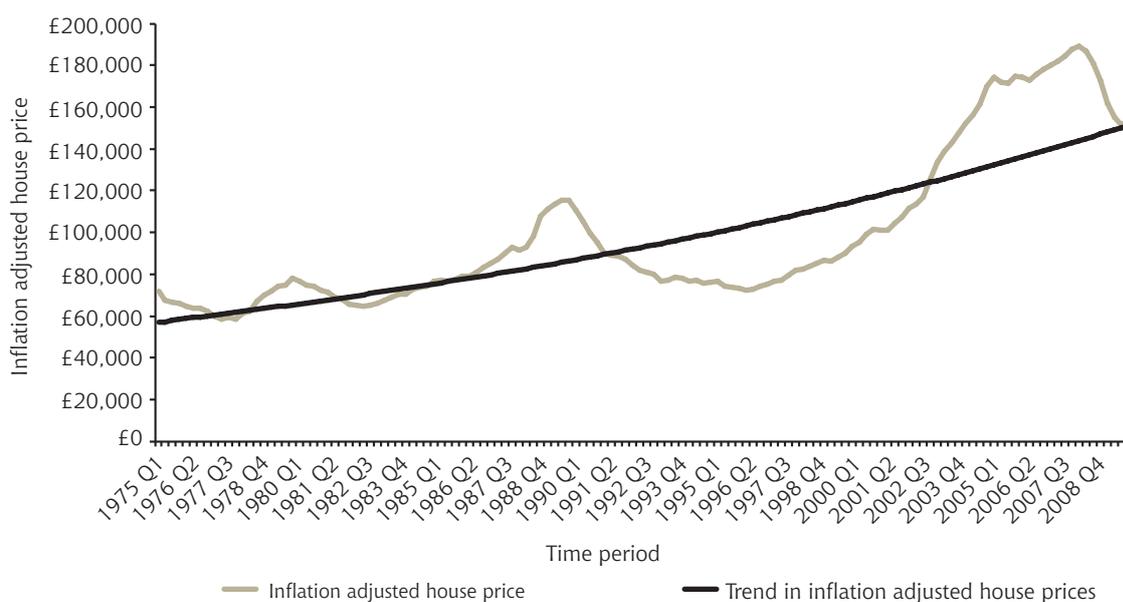
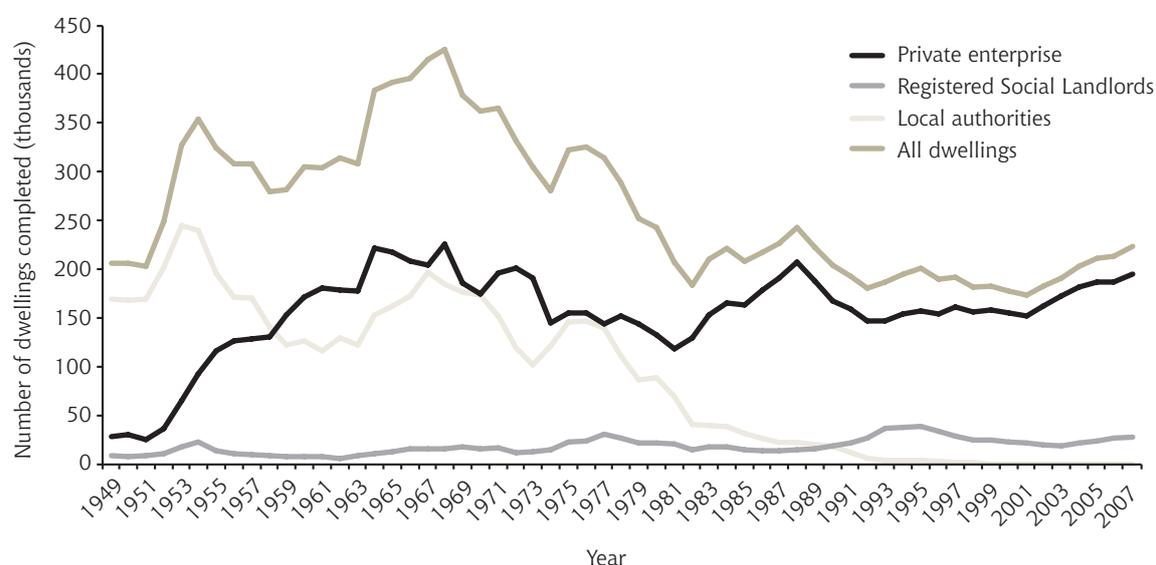


Figure 3: House building in the UK, permanent dwellings completed, by tenure, 1949 to 2007¹⁸



A second indication of dysfunctionality in the housing system is that **affordability has deteriorated for many people** in recent years. On average, there has been a 2.4 per cent per annum increase in house prices for the last thirty years (see *Figure 2*)¹⁹. House prices have risen almost twice as fast as earnings since 1990 (see *Figure 1*), and by 2007 mortgage costs for first time buyers represented, on average, 34.5 per cent of individual full time earnings; slightly higher than in 1990 at the peak of the last housing market cycle²⁰. Certain areas of the UK have been particularly badly affected, including parts of central London along with many coastal and rural areas that have attracted second home owners²¹.

Despite the recent fall in house prices, the overall affordability of owner occupation may still be deteriorating because lenders

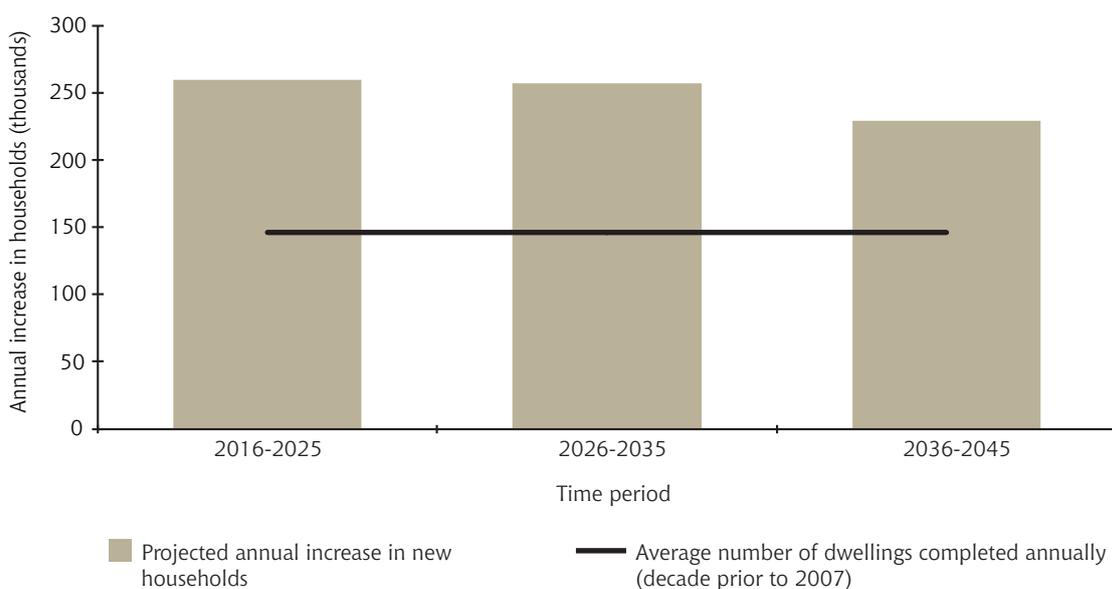
are requiring much larger cash deposits, particularly for mortgages with lower interest rates. Potential buyers now require significant wealth (as well as income) to obtain a mortgage. Improvements in affordability due to reduced house prices are currently being offset by constraints on the availability of mortgage finance. In many areas there are also significant differences between rents being charged in the private rental and social sectors. In 2007, 49 per cent of younger working households in Great Britain could not afford to buy a two or three bed dwelling in their local housing market²². High levels of demand can make accessing social housing very difficult with one in ten of the population predicted to be on social housing waiting lists by 2020²³. It appears that growing numbers of the UK population now have their housing choices severely limited by affordability.

The **failure of housing supply to respond to changes in demand** is the third symptom of a dysfunctional housing system. Housing supply has not responded to increases in house prices. The total UK housing output in 2005 was 233,000 units, which represented only a marginal increase from 224,000 units in 1996 (see *Figure 3*) despite a doubling of inflation-adjusted house prices in the same period²⁴. *Figure 3* highlights the historic trends in house building where the number of new dwellings produced by private enterprise has remained relatively consistent since the 1960s. In 2007, the government²⁵ outlined the need for 240,000 new homes to be built every year until 2020 in England alone, a conclusion that is broadly supported by evidence from the NHPAU which recommends that average annual supply should be between 237,800 and 290,500 during the period 2008 to 2031²⁶. The majority of this need is caused by increases in

life expectancy, the numbers of new single person households and changes in the pattern of migration. Recent analysis suggests that this need has not been altered significantly by the current economic situation²⁷. Supply of new homes is failing to respond to social and demographic change (*Figure 4*).

Housing supply failures can also be seen in the types of new dwellings that have been produced. During the first years of this decade the UK had the lowest average floor area for new dwellings of any of the countries in the EU at the time²⁸. This represented a major shift towards the building of flats and small houses which may be linked to rising land values. In the South East the percentage of dwellings that had three bedrooms or more fell from 70 per cent in 1997 to less than 40 per cent in 2006²⁹. Evidence of particularly rapid declines in prices of new build flats³⁰, high vacancy rates and consumer

Figure 4: Annual increases in new households compared to rates of new units supplied, England³¹



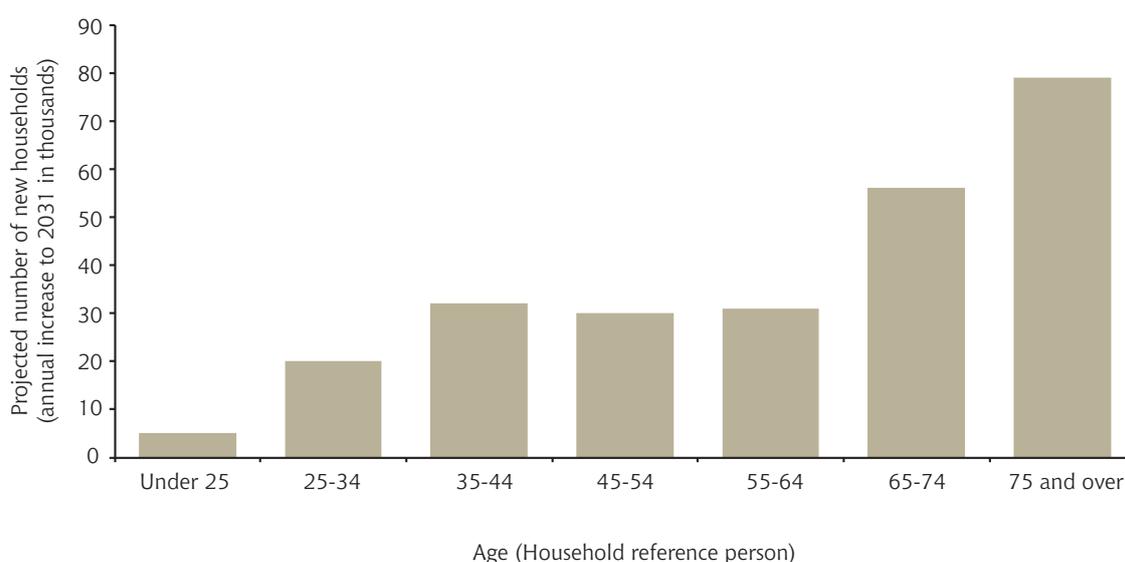
dissatisfaction suggests that the supply of this type of accommodation has significantly outstripped demand. The failure of new supply to meet demand is linked to a broader failure of the housing system which forms the fourth issue.

The fourth symptom of dysfunction is the **fitness of housing stock for current and future requirements**. Responding to the challenge of climate change will require significant changes to the housing system. At present, 27 per cent of CO₂ emissions produced by the UK comes from domestic buildings³². The Climate Change Act 2008 commits the UK to reducing carbon emissions by 80 per cent by 2050³³. Achieving this target will require major changes to the existing housing stock in addition to the government's commitment to ensure that all new homes are zero carbon by 2016³⁴. Responding to climate

change will require other changes to the housing system. One in six homes in England are at risk of flooding without significant improvements to prevention measures against floods and storm water runoff³⁵. Higher and more volatile prices for energy appear to be increasing the number of households affected by fuel poverty, with an estimated 5.4 million households currently needing to spend more than ten per cent of their income on their energy bills³⁶.

The housing system faces a serious challenge in responding to demographic and social changes. Increased demand for housing is primarily being driven by an ageing population (see *Figure 5*) and a growth in single person households³⁷. In addition to this, there are likely to be more people with disabilities and mental health problems.

Figure 5: Household growth by age group³⁸



The government's Lifetime Homes, Lifetime Neighbourhoods strategy is a significant development in this area, but more fundamental change will be required to create a housing system that is flexible enough to respond adequately to the needs of a changing population. These demographic and social changes are significant and unlikely to be reversed³⁹. A more flexible housing system would also be able to respond both to those changes and also to less predictable social changes, such as changing patterns of migration.

Most households live in accommodation of a much better quality than previous generations. This is partly due to the success of the Decent Homes programme in England and equivalents in the devolved administrations in Wales, Scotland and Northern Ireland. In 2006, 71.3 per cent of social housing in England reached the Decent Homes Standard, up from 47.4 per cent a decade earlier⁴⁰. Despite this progress, the programme is not yet complete and there are still significant numbers of dwellings in the private rented and owner occupied sectors that fail to meet these minimum standards (1.1 and 3.7 million respectively⁴¹). Private accommodation also has lower space standards than social housing. This can result in unused private accommodation being unsuitable for social housing despite high levels of demand. The UK also has much higher levels of deaths in winter months than other countries in northern Europe. These high levels of excess winter mortality appear to be linked to the quality of housing stock⁴². The recent loss of life caused by a fire in a block of local authority flats in Camberwell has highlighted the vital importance of a continued focus on ensuring that basic standards of health, safety and quality are achieved for every household.

The fifth symptom of dysfunction can be seen in the **adverse social impacts of the housing system**. There are strong associations between housing and health. This appears to be a multi-layered relationship that starts with the quality of the indoor environment (damp, mould, pollutants, etc.). This relationship also includes neighbourhood effects, such as access to green space, and broader macro-policy level issues such as housing allocation and tenure⁴³. Health is just one of the outcomes that is strongly linked to housing tenure. On a variety of measures, including health, well-being, education, employment and income, there is a greater tenure divide amongst today's children than any post war generation⁴⁴. For example, only 32 per cent of heads of household in social housing are in paid employment⁴⁵. It is not possible to fully understand the causal links in these associations, particularly the impacts of different tenures, and there are huge variations within tenures as well as between them. However, it appears highly likely that the housing system plays a key role in these negative social impacts.

In addition to impacts of the individual home on people's quality of life, there is also a need to consider wider issues of place. Improving social outcomes will almost certainly require improvements in the wider environment, particularly the local neighbourhood. There is evidence that residents in deprived neighbourhoods consider social factors such as low educational attainment and fear of crime to be the major issues affecting their quality of life⁴⁶. This highlights the need for coordination of policy and action across all levels of government, particularly at a time when the current economic situation has had a significant adverse effect on government action

to regenerate parts of England⁴⁷. Some European approaches have been successful in renewing neighbourhoods and wider urban areas, including Gothenburg and Rotterdam⁴⁸.

Many people experience severe problems in accessing housing, the most visible evidence of which is rough sleeping. The major political parties in the UK agree the need to end rough sleeping but there is still significant work to be done in achieving this goal⁴⁹. Overcrowding is also a major issue for many households, and more than a million children are currently living in overcrowded conditions⁵⁰. There are also a number of groups that have particular difficulties in accessing decent accommodation including Gypsies and Travellers⁵¹, refugees⁵² and children with disabilities⁵³. The current economic situation has highlighted the problem of repossession. The Council of Mortgage Lenders predict that there will be 65,000 repossessions in 2009⁵⁴. Shelter has warned that this could rise to 125,000 repossessions per year by 2011 and Which? predict that 500,000 households could be in mortgage arrears by that time⁵⁵. Repossession has a significant long term impact on households and these numbers would place increased strain on social housing and other support services.

We have an historic opportunity for change in the housing system

The current housing system in the UK has developed over decades, reflecting a range of different government policies and market conditions. The system has become increasingly flawed in recent years and is characterised today by volatile house prices, a widening social and economic divide, a need for around three million new homes in England over the

next decade, and the vast majority of existing homes being unfit to meet the environmental challenges facing us in the near future.

Radical change to the housing system is possible, as evidenced by the major shifts that have taken place during the last century. These changes include the development of social housing and the associated safety nets, the post-war housing construction boom, the massive decline (and recent re-emergence) of the private rented sector and the massive increase in owner occupation.

A return to 'business as usual' would lead to widening inequality, increasing unaffordability and ever more unsustainable levels of housing debt. This is not a path we should pursue or aspire to rejoin. **We now have a rare opportunity** to respond to the challenges posed by the dysfunction in the current situation, to evaluate the role that housing should play in society and to act to deliver changes that will improve the system. There is now a widespread recognition of the need to address the failure of the current system as a whole, rather than tinker with different component parts.

This historic opportunity to change the UK housing system has arisen with the **convergence of significant changes in the housing system**. The unprecedented changes include the dramatic shrinkage in mortgage lending, the near collapse and rescue in late 2008 of major UK lenders accounting for 36 per cent of mortgages issued and the investment of massive amounts of government funding to shore up the financial system⁵⁶. These events have occurred whilst the housing system is already in flux, with significant changes now occurring in different parts of it.

The **private rented sector** has changed extensively in the last twenty years, growing in both absolute and relative terms. From its lowest point in 1988, it had increased by 41 per cent by 2006, twice the rate of growth in owner occupied dwellings⁵⁷. The commissioning of the Rugg Review⁵⁸ into the private rented sector highlights the growing profile of the sector and the need for a clear government response to the changes that are occurring within it. The review provides a clearer picture of the sector as a whole and indicates that there are now around 1.2 million non-resident landlords in England. At present, however, much of the policy response in this area focuses on how the sector functions, rather than on how the wider housing system will need to adapt to accommodate and complement a renewed private rented sector.

Social housing is also undergoing a period of significant change. Its widely-perceived role as a residual housing welfare system has come under renewed scrutiny. Two significant reviews of social housing in England, the Hills⁵⁹ and Cave⁶⁰ Reviews, have provided detailed analysis of the sector. Possibly the most significant current change in the sector is a recent government review into the Housing Revenue Account subsidy system. It has concluded that the current system should be dismantled and replaced with one that provides greater independence and freedom for local authorities to manage their own housing stock⁶¹. The government has also announced its intention to give some support to local authorities who wish to develop new housing stock.

The **owner occupied** sector has also undergone major changes in the last two years. Annual measures of house prices have

fallen for the first time since 1993⁶² and fell very sharply reaching a rate of decline of 17.6 per cent in the year ending February 2009⁶³. There have been major reductions in the availability of mortgage credit and a reduction in the loan to value ratios that are available to borrowers. Mortgages that offered 100 per cent or more of the property's value were readily available before 2007 but have now almost completely disappeared. The Financial Services Authority is undertaking a major review of mortgage finance that is expected to report in autumn 2009 and is likely to build upon the Crosby Review⁶⁴ of mortgage finance.

In addition to changes in the three main tenures there have been a number of other government reviews that suggest considerable changes to specific areas of the housing system including planning (Killian Pretty Review⁶⁵), house building delivery (Callcutt Review⁶⁶) and regeneration (Parkinson Review⁶⁷).

The current **economic situation** presents a significant threat to the housing system, but may also provide an opportunity for change. It appears that the underlying causes of the current recession are different to previous recessions, particularly as this is the first global recession since the Second World War. The International Monetary Fund suggests that the global economic outlook is "exceptionally uncertain"⁶⁸. Short term impacts of the current economic situation are already being seen in reduced access to mortgage finance (both for private rented sector landlords and owner occupiers), falling house prices and increasing numbers of repossessions. Long-term pressures, however, may have an even greater impact on the housing system. Changes in access to

mortgage finance in the medium to long term will have a significant effect on the whole housing system. Increased pressure on public spending is likely to be another important long-term driver of the housing system. For example, a reduction of net annual capital spending from £44 billion in 2009-10 to £22 billion by 2013-14 was announced in the 2009 Budget⁶⁹. If public spending on the housing system is reduced it could have a considerable detrimental effect across different tenures. However, it could also provide the impetus required to make radical changes that would improve the system.

Viewed together, this combination of events will cause major shifts in the housing system. Without intervention these changes are likely to increase the dysfunction in the system, but they could also provide an opportunity to make changes that would lead to significant improvements. Responding to the failings of the housing system can, and should, form a central part of the response to the current economic situation and a wider desire for change in the UK. Taking hold of this opportunity will require the commitment of a wide range of stakeholders and from across the political spectrum.

2. Where do we want to be?

Objectives for the housing system

Current changes in the housing system and the wider economy mean that we have a once-in-a-generation opportunity to look at the state of housing in the UK and begin to address its failures.

Participants at the Consultation accepted, as a broad direction of travel, the view of Europe's not for profit housing providers that "a housing system should provide access to decent and affordable housing for all, in communities which are socially, economically and environmentally sustainable and where all are enabled to reach their full potential"⁷⁰. Although we recognise that radical change will take a decade or more to deliver, the first steps on the path lie in defining what it is we wish the housing system to achieve.

A decent roof over everyone's head

The first aim of our housing system is that everyone should have somewhere decent to live, without being overcrowded, having to live in squalor or in fear of eviction. The chronic shortages which lead to overcrowding will need to be tackled. Housing options need to be expanded to ensure greater flexibility and the ability to move between tenures, without reducing existing levels of security for the most vulnerable. Particular and immediate attention should be given to meeting the changing housing needs of our ageing population. Housing in every tenure must at least meet minimum quality and safety standards.

A home fit for the future

Our responsibility to provide decent housing extends not just to the current generation, but also to those in the future. Ensuring that both our new and existing homes have minimal energy requirements is an urgent priority. This is will be vital if we are to achieve the government target of an 80 per cent reduction in carbon emissions by 2050. Our home designs, building materials and construction methods have changed little in the last 50 years and are inefficient in the use of energy, slow to build and increasingly unfit for purpose.

Affordability and stability

A key objective of the housing system is that there should be a sufficient supply of affordable housing. Everyone should be able to access decent housing without having to spend a disproportionate amount of their income. Creating a more stable housing system would eliminate many of the very damaging consequences of the boom and bust cycles of rising and falling house prices. Individuals would benefit from protection against problems such as repossession and the wider economy would be able to function more efficiently.

A decent neighbourhood to live in

Living in a decent house is not enough. The quality of the physical environment and community in which you live is equally important. This highlights the need to create

decent neighbourhoods which are economically, socially and environmentally sustainable. Decent neighbourhoods need to provide a reasonable opportunity to earn a living and to access the wider economy. They need to provide the opportunity for strong, safe communities to exist with access to education, healthcare and other support services. They need to provide the opportunity for people to respond to a changing climate, access green space and adopt sustainable lifestyles.

Recognition of housing as a system

The recent upheavals in the financial and housing markets have clearly illustrated the need to look at the housing system as a whole. The provision of housing in the UK has tended to focus on its component parts, with little integrated thinking about how the various elements of the system interact. Greater attention to the housing system as a whole could help to ensure that it is delivering its main objective of providing decent housing for everyone.

3. How can we get there?

A serious discussion on reforming the UK housing system

The housing system in the UK is dysfunctional, but we have an historic opportunity for change due to the major shifts that are occurring both within the system and the wider economy. As the housing system is large and complex, the proportionate response must be coherent, wide-ranging and pursued over an extended period of time.

The key areas for attention outlined below provide an opportunity to create just such a response. The analysis in the earlier parts of this report has established a broad framework of problems within the housing system and a vision for its potential. Within that framework, these key areas have been identified as requiring detailed examination, serious discussion and, potentially, considerable change. They have been selected in part for their breadth of scope and their relevance to the housing system as a whole.

The need for serious investigation and discussion is not an excuse for inaction in the interim. Many important proposals for change are relatively well developed and could be implemented quickly. Other proposals require further discussion and would take a significant amount of time and research to develop fully. Questions exploring the potential of a large number of policy and practice options are detailed in the final section of this report, 'improving the UK

housing system: some key questions'. These questions are not designed to limit discussion, but to provide a basis for other stakeholders to contribute their skills, experience and perspective to the debate. A coherent vision of the desired outcomes of the housing system, as outlined earlier in this report, may help to guide the answers to the questions outlined in the final section.

Key areas for attention

The Consultation identified a need for further examination of the housing system as a whole. Outlined below are eight key areas for attention. Examination of these eight areas, and how they work together, would form the basis of just such a systemic review.

It is vital that all aspects of the housing system work towards a common goal: decent housing for everyone in the UK. Analysis of, and changes to, different parts of the housing system must contribute towards this common goal. Different aspects of the housing system must build into a coherent whole. Many public policy areas affect, and are affected by, housing; there is a need to view these areas holistically, to ensure that policies adopted in one area do not act against policy objectives in another.

Participants from the Consultation recognise the urgency of this situation and are going to begin the work of developing more detailed proposals in several of the following key areas for attention.

1. **Reforming the role of taxation in the housing system**

The taxation system is one of the key levers the government has to influence the housing system through financial incentives and penalties. Taxation could be used more effectively to help deliver decent housing for everyone. The arguments relating to changes in taxation need to be examined in detail, along with consideration of the wider implications of changing the system including how changes could practically be introduced. In-depth assessment of the merits of different forms of property or land taxation deserves particular attention.

2. **Addressing house price volatility**

Reducing house price volatility would benefit many individuals and the wider economy. Improving housing supply would be a key component in reducing house price volatility. The Barker Review⁷¹ covered this process in considerable depth; that research does not need repeating, although progress on implementation of the Review's recommendations should be monitored. However, the scope of the Review meant that it was not able to cover the relationship of housing supply to other factors within the housing system which contribute to house price volatility. These areas, particularly land markets and mortgage finance, warrant further attention. It would also be beneficial to assess the social impacts of more stable housing markets. A taskforce that is being co-ordinated by the Joseph Rowntree Foundation will be investigating this issue in the coming year⁷².

3. **Retrofitting of the existing stock to reduce carbon emissions**

The government⁷³ and many other stakeholders⁷⁴ recognise the need to improve the existing housing stock to reduce household carbon emissions through a large-scale programme of retrofitting. Such a programme could have a significant role in long-term poverty reduction by mitigating future increases in energy prices⁷⁵ and creating new jobs. A number of barriers will need to be overcome if the intention for large-scale retrofitting is to be quickly turned into a reality. The first is identifying the range of techniques and technologies that will achieve the desired goals most effectively. These methods will then need to be rolled out on a massive scale which will require the development of new skills in the workforce. Possibly the most important barrier to be overcome is the development of a viable funding model for the programme.

4. **Reviewing the effectiveness of housing support systems**

There will always be people who require support with their housing costs, although this number should decrease if the housing system as a whole functions more effectively. The division of government housing support between different tenures should be reassessed, particularly in regard to whether income-based rather than tenure-based support would be more effective. A review of housing support would include examination of the role that housing benefit plays within the housing system and whether it should be reformed (or replaced).

5. Increasing the range of housing producers

At present, a large proportion of new housing construction is carried out by a small number of providers that are heavily dependant on one business model. Increasing the range of housing producers should increase overall supply and help to reduce volatility in its delivery. To achieve this goal, a number of smaller-scale delivery models could be actively encouraged. These could include delivery by smaller housing associations, co-operatives, community land trusts and other mutual providers. The private rented sector may be able to access new sources of funding, such as institutional investment, to increase development, diversifying the business model of delivery. Local authorities could be offered a greater role in housing delivery through reform of the Housing Revenue Account subsidy system and the development of finance models like local housing companies. More generally, a review of barriers that prevent new producers entering the market should be undertaken.

6. Improving the flexibility of tenure structures

The idea of tenure flexibility has been discussed for a number of years. It is time to assess how a more flexible, yet reasonably secure, tenure system could work in practice. How could a 'lifetime of person and asset' approach be developed, which would reflect households' changing housing needs and uses of their assets over the course of their lifetime? This would potentially

allow movement between tenures in different directions, building up and releasing housing equity, either with or without moves between different homes. This could help to reduce the barriers that currently exist between different tenures and allow people to release part of their asset to serve other needs at different stages in their life. This would need to be linked to other areas of the housing system such as Right to Buy policies and access to social housing.

7. Undertaking a regulatory audit

A huge variety of regulation currently affects the housing system. It is necessary to understand whether regulation is supporting the provision of decent housing or whether it is creating unintended negative consequences. Some areas of regulation will need to be strengthened to achieve this outcome, whilst others will need to be moderated or removed. One area that might benefit from this approach is planning policy. Are planning policies that were designed many decades ago, such as green belt policies, still delivering the desired outcomes? How do more recent planning policies interact with those that are longer established?

8. Encouraging innovation

Providing decent housing and responding to changing housing needs within society will require innovation in all aspects of the housing system including design, construction and finance. Some potentially beneficial new ideas already exist but will require support during their development and evaluation.

An example of this is the JESSICA model⁷⁶ of funding that recycles a capital development grant by using it to provide loans, equity or guarantees. Other innovation is at a very early stage and is often found operating at a small scale. Mechanisms to support, foster and

deliver innovative approaches within the UK housing sector need to be identified. Innovative practices often also benefit from research and evaluation to identify their strengths and weaknesses, enhancing the value of any transfer of the practice.

4. Improving the UK housing system: some key questions

A large number of detailed options for improvement of the UK housing system were also discussed at the Consultation. It was not possible to give them the in-depth examination that each one deserved. Consequently, they have been collected in this section as a basis for further discussion and suggestions for future changes in policy.

The objectives for the housing system, outlined above in the section ‘where do we want to be?’, provide a framework that policy makers and decision takers can use to respond to the questions outlined below. Would the suggestions raised help to achieve the objectives that have been set out? In devising detailed implementations of ideas there is particular strength in considering the extent to which the objectives can be achieved through the use of incentives as these are often more publicly acceptable than measures of compulsion.

They are organised in the following sections:

- **Finance of housing;**
- **Increasing supply – finance and institutional change;**
- **Increasing supply – land, planning and construction;**
- **Existing housing stock;**
- **Enhanced tenure options and flexibility;**
- **Creating place/neighbourhoods;**
- **Research and the evidence base.**

Finance of housing

The finance systems that underpin the housing system have a major impact on the use of the UK’s housing stock. These systems include taxation, which can create incentives and disincentives to certain types of behaviour (as well as generating revenue for central and local government), mortgages that fund home purchases, and safety nets to ensure the most vulnerable in society can afford housing.

Financial systems also affect the production and provision of housing on an institutional level. These impacts are addressed separately under the heading, ‘increasing supply – finance and institutional change’.

Taxation

Would a property or land value taxation system help to subdue house price cycles?

Taxation based on property or land values could help to avoid house price crashes by discouraging the speculative purchase of assets that causes bubbles to inflate by imposing a cost on under-utilisation.

A reduction in volatility would also serve to reduce developer risks (and consequently the returns required) and increase the scope for investment in long term rental income streams.

There are a variety of property and land taxation options which may merit further investigation. Changes to the tax system may be easier to introduce if they work with changes in the wider economy. For example, the phased withdrawal of mortgage interest tax relief was balanced by a period of falling interest rates.

Given the unpopularity of council tax and its failings, would some form of property tax be appealing to the public and local authorities as a replacement?

Council tax has significant problems due to properties not having been revalued and the regressive nature of the banding system. Any successor tax must provide for having regular revaluation (every year, or at worst every two years).

A restructured property tax might also achieve other policy objectives including encouraging development of unused land.

There are ways of ensuring that a possible land- or property-based taxation system receives broad support. It could be a revenue neutral change that replaces existing property taxes (e.g. stamp duty and council tax). In Denmark, the equivalent system allows pensioners to postpone some or all of the charge until their home is sold.

The viability of this proposal should be weighed up by a detailed commission on the issue.

Should the differences in the fiscal treatment of different tenures be lessened?

In spite of the phasing out of mortgage interest tax relief for owner occupiers in the

1990s, there is still variation in the treatment of the tenures for tax purposes. For example, unlike owners who rent out property in the private rented sector, owner occupiers pay no tax on imputed rent of their home and no capital gains tax is paid on their principal private residence.

Increased equality of the fiscal treatment of the different tenures would encourage people to make objective decisions based on which of the tenure options best suited their current situation, without having pressures applied from the tax system. There is also a need to look at the variations in fiscal treatment that occur within tenures, for example, whether first-time buyers are disadvantaged compared to existing homeowners.

Should capital gains on people's primary residences be taxed in the same way as other assets?

The tax break on unearned capital gains on primary residences creates disparity between the tenures, favouring owner occupation.

A move to this type of taxation could be introduced gradually, and hence made more publicly acceptable, by introducing it now, at a time when house prices have recently fallen, with a relatively high threshold, and allowing more people to fall within the tax later through fiscal drag (the process by which thresholds are not increased in line with inflation, causing an automatic increase in the proportion of people falling within its reach).

The system could also be structured to allow a degree of roll-over, for example for

households downsizing in retirement, whereby the tax would be paid by the estate on death.

Should inheritance tax be re-designed so as to encourage capital transfer during lifetimes?

Inter vivos transfers (i.e. transfers made during the lifetime) could enable efficient use of the housing stock if older people who have a home larger than they need could pass some of their housing asset to the next generation, who may have more need for extra space. This would not be a means of compelling older people to relinquish their larger homes but could form one aspect of a package of measures to provide an incentive for them to do so. Such a package of measures would have to include an attractive housing offer to meet their needs.

These transfers could be encouraged by giving them favourable treatment for inheritance tax purposes. At present, gifts of this nature would normally be considered 'Potentially Exempt Transfers', and would only avoid incurring inheritance tax if the person making the gift survived seven years afterwards.

The benefits of a policy of giving favourable taxation treatment to these types of transfers would have to be balanced against its costs. In general inheritance tax is a tax on unearned wealth for the recipient, so is potentially fairer than other taxes; however, this may be offset by the greater good of reducing the levels of under-occupation.

Consideration of this idea could be linked to a re-appraisal of the exemption from capital gains tax on primary residences (see above).

Mortgage lending

Could counter-cyclical caps on mortgage lending be introduced to provide a balance of control and flexibility whilst ensuring prudence?

The Financial Services Authority is currently reviewing the mortgage market to investigate its long term sustainability. The current economic situation suggests that a more responsible approach to lending is required. However, introducing crude caps on ratios of loan amount to property value ('loan to value') would potentially be damaging at a time when a lot of people are experiencing negative equity. Counter-cyclical caps may offer a different solution by structuring them to have higher loan to value limits in downturns.

As there are problems with rigid limits on lending, approaches could be taken to instead make these caps above which certain additional constraints on lenders apply. It may, for example, be beneficial to require lenders to make additional financial provision in relation to more risky lending, and/or to enhance the security of home buyers, effectively exposing lenders to a larger proportion of the risks of this type of lending.

Could standard limits on credit be introduced whilst still allowing flexibility, subject to closer scrutiny?

One option would be to introduce a standard loan to income ratio limit on mortgage lending of, say, five to one. To avoid removing flexibility where a higher loan

would genuinely be affordable, this limit could be supported by the ability for the lender to exceed it, but only if more stringent checks are passed and/or to require the lender to make additional provisions, as described above.

Another area where limits on lending could be applied might be to end the abuse of self-certified mortgages. Any tightening of regulations on these mortgage products would need to consider their use by self-employed people, and ensure that their access to a mortgage would not be unduly constrained.

Would an increase in banks' reserve requirements help to ensure lending is more prudent, as well as addressing the systemic dangers to the mortgage market of under-capitalised institutions?

Any proposal that only ensured caps on lending for housing debt would run the risk of having harmful unintended consequences. Most other types of debt are more expensive for the borrower, so the option of borrowing against a housing asset can make financial sense if, for example, it reduces the need for credit card debt. The goal should be to deal holistically with the problems associated with excessive credit and irresponsible lending. This may require a review of the regulatory standards and approaches adopted by different government departments and agencies including the Financial Services Authority, HM Treasury and the Office for Fair Trading.

A system that limited all types of borrowing could be arranged by increasing banks' reserve

requirements, effectively requiring banks to have some money before they can lend it. To minimise the impact of such a change, one option might be to introduce the changes with the flow of the economic cycle, gradually increasing the ratio requirement in proportion to the flows of credit into the system.

The details of such a systemic change would require careful analysis as there are far-ranging implications in sectors other than housing of lowering the availability of credit.

Would it be better to aim for remutualisation of the Northern Rock or other government banking assets, rather than private sale, in due course?

Not one of the former building societies that demutualised following the Building Societies Act 1986 still exists as a successful independent organisation. There is some evidence that the mutual sector has been significantly less affected by the problems the banks have experienced during the credit crunch, despite a small number of building societies experiencing difficulties.

Should we pilot and evaluate debt-free or interest-free models of housing finance?

There are several models allowing debt- or interest-free housing finance. Pilot schemes could be established to evaluate the relative benefits of these systems. These models would be particularly appealing to people with religious beliefs that prohibit usury, but they also have potential appeal to wider audiences, and possibly have a beneficial impact on the type of housing constructed.

One model of debt-free housing finance involves the finance company and the 'owner' each buying equity shares in a property, with the owner allowed to purchase more of the property over time.

Another option would be for an agency of the state to issue interest-free debt for housing purchases.

The Swedish JAK Members' Bank provides another model that could form the basis of an interest-free financing system in the UK. Members of the bank have to save an equivalent amount of money to the cost of their mortgage for an equivalent period, either before or after they hold the loan, measured through a system of points. There are also parallels with the UK's former terminating building societies, which were designed to support a group of people into homeownership and be wound up when all members had a house.

Reform of safety nets

Would it be beneficial to reform housing benefit into a unitary system applying across all tenures?

At present the financial support with housing costs that is available varies according to tenure. Specifically, housing benefit is only available to tenants, not to owner occupiers who find themselves unable to afford their housing costs. The equivalent benefit for owner occupiers is Support for Mortgage Interest (SMI). SMI can normally only be claimed after waiting 39 weeks, although this has been temporarily reduced to 13 weeks; it only

covers the interest component of the repayments and is only available on loans of up to £200,000. This one national limit on SMI is also inconsistent with the local and variable limits on housing benefit payments. In the past there has no time limit on payment of SMI as long as the claimant qualifies on income grounds. However recent changes to regulations mean that people making a new claim for jobseekers allowance from January 2009 face a two year limit on entitlement to SMI.

Whilst any policy to provide an additional safety net comes at a cost, in analysing the viability of the policy these costs must be offset against the social impact of eviction and the financial help that is ultimately needed to get people into a new home.

A needs-related housing allowance, operated independent of tenure, could act to create fairness between the tenures. It might ensure that less affluent householders, whether they are tenants or owners, would be entitled to financial help with their housing costs. Such an allowance could be related to the income of the household, the size of accommodation required and the geographical variation in housing costs. Additional allowance could be made if anyone in the household requires more expensive housing due to age or disability.

Should housing benefit be restructured to ensure it does not create work disincentives?

It appears that housing benefit does not function effectively as an in-work benefit. Those who are out of work but have the

opportunity of taking up some casual or insecure work should not be deterred from doing so by a sudden reduction in their housing benefit entitlement. There is a particular need to simplify the links between housing benefit and tax credits.

One further potential amendment would be to fix eligibility for six months with no retrospective claw back (except in circumstances such as fraudulent claims); this would provide a greater incentive to work and reduce the reporting burden for people in casual work whose income (and therefore benefit entitlement) can change on a weekly basis.

Could properties repossessed by mortgage lenders be considered for conversion to social rent, allowing residents to stay in their homes as tenants?

Creating a presumption that the repossession of a property would trigger an assessment of the possibility of a social landlord taking over ownership of the house might allow some former owners to remain in their property as tenants. As well as reducing the social cost of evicting families from their homes there would also be financial benefits due to the authorities not having to re-house them. In some circumstances it may be appropriate to offer a shared ownership option as well as outright social renting.

The landlord could be the local authority if it is still stock-holding, or perhaps the Homes and Communities Agency, who might wish to contract the management to a housing association.

Care would need to be taken in the design of such a scheme that it did not automatically parachute all failed homeowners into a secure social housing tenancy when others might have waited on a landlord's housing register for an extended period.

These measures could build on the government's Mortgage Rescue Scheme, announced in the 2009 Budget, which aims to help 6000 households over two years⁷⁷.

There is also a case for reviewing the operation of the pre-action protocol, with a view to including more rigorous and specific requirements for lenders to exercise forbearance (i.e. in terms of periods of interest only mortgage payments or payment holidays) so that there is a clearer standard by which to judge that repossession is only being exercised as a last resort.

Other countries have different methods of reducing the risks associated with mortgages. In The Netherlands there is a National Mortgage Guarantee scheme that, for a small upfront fee, underwrites any negative equity if the owner is forced to sell the property⁷⁸.

Can provision of tenure-neutral housing advice be increased to ensure assistance is available irrespective of tenure?

Many providers of housing advice believe that recent changes to legal services contracts have had an impact on the level of housing advice available. This has occurred at a time when it is needed most, as more households experience difficulties related to the downturn.

Housing advice could be enhanced to provide tenure-neutral assistance that would be available not just at times of crisis, but to anyone considering their housing options.

Increasing supply – finance and institutional change

There are constraints on both public and private sources of finance at present: the availability of credit from mainstream banks, heavily dependent on international flows of capital, has been severely reduced in the global credit crunch. Public expenditure has been increased in response to this credit crunch and the resulting recession. Tax receipts have also fallen due to the recession, leading to an increase in public borrowing. As there seems to be only limited appetite for the state to increase money supply, all political parties are projecting a need for some combination of increased tax receipts and/or expenditure constraints to reduce the borrowing at some point (although the nature and timing of these are matters for intense political debate). This financial constraint has had a dramatic impact on the supply of housing in the UK: completion of new dwellings in 2009 may fall to the lowest levels recorded since the end of the Second World War.

The current economic situation highlights the dangers of relying too heavily on a limited number of financial sources for the development of housing. A more diverse finance supply system would provide greater opportunities for investment to continue development. Over time, developing a range of sources of finance for the development of housing could produce a buffer to mitigate

the cycles that affect particular types of investment in housing. There is particular need to ensure continuing investment in the delivery of affordable housing in light of the current financial constraints, and the increased demand the sector is likely to experience.

Could support to housing associations be provided to help increase the supply of affordable housing?

Housing associations typically adopt cautious approaches to investment in the delivery of housing. Encouraging them to adopt a less risk-averse strategy might increase the delivery of housing. This type of change might require different types of support for housing associations. The Homes and Communities Agency or Tenant Services Authority may be able to play a greater role in supporting housing associations in developing new sources of funding and utilising their existing assets. Housing associations' attitudes could also be influenced through changes to the regulatory regime.

Whilst these changes should not seek to encourage excessive risk-taking, a balance could be sought that would encourage a reasonable level of bolder moves. If this were to happen it should be acknowledged in advance that a proportion of risky moves will fail, and that this failure would not be unduly penalised, perhaps including a system where a risk could be sanctioned in advance by the regulator. The system would, of course, also have to ensure that existing tenants were not put at risk by their landlord taking part in these activities. Care

would need to be taken not to inject excessive risk into the system through any change of this nature.

Are there ways in which better value for money could be achieved by directing some of the housing benefit budget towards capital subsidy for new housing stock?

If fully effective, capital subsidy would 'correct' market failure, making housing affordable for everyone without the need for ongoing revenue subsidies like housing benefit. In contrast, the effect of a revenue subsidy is to enable people to survive within a market where prices may be constantly increasing. Rethinking the balance between capital and revenue subsidies could have significant long term benefits both for public finances and individual households. This long term benefit might be maximised by utilising models of investment that recycle the initial capital subsidy like community land trusts or JESSICA funds (see below).

Part of any consideration over the level of capital subsidy to be provided for housing construction would need to be the level of reduction in revenue subsidies, such as housing benefit, that could be expected to follow.

Could a relatively small investment of finance be made to achieve beyond its means by ring-fencing it and revolving it?

Creative alternatives to upfront capital subsidy could be considered to ensure that financial investments are utilised fully. An

idea that is currently being explored is the creation of JESSICA funds⁷⁹. European Union funding rules mean that Regional Development Agencies can use some of their structural fund allocations to create an urban development fund. This JESSICA fund can be used to provide equity, loans or guarantees. Funds can then be recycled over time as the receipts from equity and loans are realised. The basic idea that underpins this finance model could be replicated by other stakeholders.

Could supply be increased and diversified by supporting local authorities in the development of new housing stock?

Volume house builders are currently limited in their level of development due to significant decreases in land values. These decreases mean that many developments are no longer commercially viable. There has also been a move towards government support for only a limited number of preferred developing housing associations (which may not be able to develop if their finances are constrained). One response to this situation is that local authorities may become significant players in housing development again.

Experience has demonstrated the potential pitfalls associated with creating large mono-tenure council estates. Encouraging development by local authorities does not necessarily imply a return to this type of development. Local authorities could play a number of different roles in the development process. This might include development in partnership with other stakeholders with some of the stock to be used in the private rented or owner occupied sectors.

Could the level of housing development be increased by changing the UK's public accounting rules to a 'general government financial deficit' (GGFD) basis?

The UK currently adopts public sector net cash requirement (PSNCR) accounting rules (previously known as the public sector borrowing requirement, or PSBR). This method of accounting classifies any borrowing by local authorities as public and therefore subject to treasury limits. Consequently the level of development is constrained by limitations placed on the acceptable level of national debt. This is not the case for housing associations that develop new housing.

The government could change the public accounting rules to adopt the GGFD rules followed by other European Union countries, which classify local authority borrowing for trading activities like housing as private. Local authority housing represents a large (and largely unencumbered) asset that could be used as collateral for this kind of borrowing.

Should institutional buffers against cyclical variability be introduced?

The impact of the current economic cycle on section 106 contributions from developers is one indication that there is a need for a counter-cyclical investment mechanism or buffer. Section 106 contributions have provided a significant proportion of social rented housing delivery over recent years, in addition to other benefits like infrastructure and community buildings. However, these are inherently tied to cycles in private sector housing construction: when the rate of construction falls so do the rates of social housing development.

A mechanism that served to deliver more housing when levels of private construction fell would also be beneficial for the construction industry, ensuring skilled workers were not lost.

There are a number of models that could be pursued to create buffers against economic cycles. One example would be a revolving fund for re-investment, whereby an institutional structure was devised that would sell property in booms, responding to market signals of demand, and buy land and property during market falls; this should act to moderate both rises and falls in the market, making their effects less severe. The institutional structure could also ensure sustained delivery by adjusting its building rates counter-cyclically to the general levels of construction.

What steps are necessary to make investment in residential property an appealing investment for pension funds and other institutional investors?

Pension funds and similar institutional investors have long been cited as a potential source of investment in housing. Encouraging funds to invest in housing is dependent on whether it can be made an appealing investment. The Homes and Communities Agency is attempting to achieve this through its Private Rented Sector Initiative. Aviva is the first company to show a clear interest in this idea with the announcement of a plan to develop a £1 billion investment fund. Lessons and recommendations that emerge from this initiative should be carefully considered to ensure that this possible source of investment is fully utilised. A package of measures to support this type of investment might be relevant which could, for example,

include a guaranteed period of limited losses at the start of a scheme.

Ways of modifying the risk profile of institutional investment in the private rented sector might include creating tailored portfolios such as older persons' housing or through generating better information on long term rental returns in the sector. The taxation issues surrounding this type of investment may also benefit from further analysis.

If the initiative proves to be successful, local authority pension schemes could be encouraged to consider investing a proportion of their funds in local housing projects. This has the potential to create a beneficial spiral of increased development and work in the local area, improving local housing with an enhanced local authority area.

Institutional investment may provide a method of increasing investment in housing but it may not necessarily improve levels of tenant satisfaction⁸⁰. Financial incentives directed towards the private rented sector should include a focus on improving quality in the sector (for example improvement of energy efficiency, meeting the Decent Homes Standard or provision of more secure tenancies).

Should intermediaries be created to marry institutional investors to property stock and management services?

Big institutions require large asset pools to invest in. They either do not have the skills to undertake property management or do not want to fulfil this role. Housing associations could play a role in this, providing their management skills and systems for a fee, and

consolidating projects into large enough groups of properties that they would be attractive for institutional investment.

Can housing bonds be created that attract people to invest their savings in the community?

Government, either national or local, could sell housing bonds to pay for the required investment in housing. Individuals and institutional investors would be able to invest in the bonds and investment could be encouraged by giving the bonds a favourable taxation treatment. Housing bonds have the potential to act as a mechanism to reconnect the housing finance system with local communities. Housing bonds might appeal to those releasing equity by down-trading who wish to retain an exposure to the property market, or to people with a long term interest in the supply of affordable housing such as parents investing money from child trust funds. This type of bond may begin to develop through the Homes and Communities Agencies' Private Rented Sector Initiative.

As well as public sector bonds, there may also be potential for not-for-profit housing organisations to issue bonds to fund investment in securing a long-term income from enduring housing assets.

Could central government provision of revenue deficit guarantees achieve greater levels of development than capital subsidies alone?

Revenue deficit guarantees are a way of encouraging development by providing a

guarantee to the developer that they will receive a certain level of income for a period of time. By removing part of the financial risk associated with development, the level of return that would be needed to consider a development viable would be decreased. Consequently more projects would be desirable for development at a given level of capital subsidy (or in situations where no capital subsidy is available).

The guarantees could be used in similar situations to capital subsidies, for example, in the provision of affordable housing. It would be important to ensure that the benefits of greater development outweighed the increase in risk that would be taken on by the public sector.

Could a National Housing Investment Bank be developed to encourage additional investment in housing?

In 1992 the Royal Institution of Chartered Surveyors called for a National Housing Investment Bank to be established to attract investment funds and provide loans to builders for the construction of low-cost housing⁸¹. The idea has been adopted in other countries and is once again worthy of consideration in the UK.

Could a more varied mortgage market be created to decrease reliance on international finance?

One of the underlying reasons why the credit crunch affected the UK was the banks' reliance on international finance to be able to lend. A reduced reliance on this would mean

that more of the lending would be financed by savings/investments from within the UK.

Local authorities (through dropping the public sector net borrowing requirement), mutual financial organisations and housing associations could have roles in such a system.

An approach involving local authorities in providing banking services might provide a means of accessing finance for the development of affordable housing. Local authority banks could be established by working in association with existing financial organisations; any such links would have to be made with banks or building societies carefully chosen for their suitability, including a strong and viable organisation without excessive exposure to risky areas of finance and showing a commitment to investment in the location.

Small mutual financial organisations, linked to the communities they serve, have potential to create a diversity of supply. In Germany, the presence of the BVR co-operative bank has contributed to diversity of sources of finance. It is a large bank with 30 million customers but it has a particular focus on small and medium sized enterprises that are supported through strong local networks.

Should a national guarantee fund for housing development be established?

National guarantee funds provide protection for those investing in certain areas by guaranteeing against losses they might incur in relation to the project. This acts in place of collateral requirements, encouraging financial

institutions to lend where it might have been reluctant to otherwise. There is the potential for high leverage of government funds, resulting in the use of private funds for far greater investment than the government funds alone would afford.

The fund's eligibility criteria could be defined to specifically target affordable housing providers. As this sector is low risk the default rate would be likely to be close to zero, allowing further recycling of the guaranteed funds in the future. Such a fund could be designed to be of particular benefit to smaller housing associations. This step may need to be taken in association with a change to the government's accounting rules to avoid placing all housing association debts on the public books.

Could tax increment finance schemes (TIFs) provide a new source of finance for local authorities?

TIFs are a funding mechanism used in the USA to allow local authorities to borrow money against future increases in tax revenue. The 2009 Budget contained the first steps towards development of TIFs with the chancellor inviting local authorities to submit proposals on how they might use them. A number of local authorities have expressed an interest in the scheme. The All Party Urban Development Group has assessed the wider implications of TIFs and recommended that the Homes and Communities Agency lead work on their development.

The viability of TIFs could be affected by whether they would be classified as public borrowing. As currently proposed, under

existing government accounting rules, they would be classified as such, and hence be subject to Treasury limits. Changes to the details of their proposed implementation and/or the accounting rules could affect this.

Should we avoid creating a reliance on institutions that are 'too big to fail' across the housing sector?

The recent credit crisis has highlighted the notion of organisations that are considered 'too big to fail' due to the impact their collapse would have on wider society. This term may also be applicable to some organisations in the housing system, including some housing associations and developers.

The homebuilding industry in the UK has become more concentrated into the hands of a small number of large builders; it is significantly more concentrated than, for example, in Australia and the USA.

Similarly, the Homes and Communities Agency, and the Housing Corporation before it, favoured development being entrusted to a limited selection of developing housing associations, representing a small fraction of the total number of registered housing associations.

Could existing marginal structures be mainstreamed to bring their benefits to a wider pool of potential residents?

A number of alternative housing models already exist in the UK or play a significant role in the housing systems of other countries. These may be able to play a more substantial

role if they are given the right type of support or have barriers to their development removed. These models include:

- **Sweat equity**, where people contribute their time and effort towards providing their own housing instead of financial equity;
- **Community land trusts**, that seek to provide long term affordable housing for a particular community;
- **Self build**, where individuals take a leading role in the design and/or building of their housing;
- **Housing co-operatives**, which jointly own and democratically manage housing stock.

These housing models, and others like them, account for only a fraction of the housing stock in the UK unlike some other countries in Europe or North America where they are much larger. However, many other potential residents in the UK may be attracted by the opportunity to develop long-term affordable housing in sustainable local communities. Building up the necessary social and financial capital to develop these types of models tends to take significant amounts of time and effort. This means that they are unlikely to contribute large amounts of new stock in the near future. In the past this has often led to these models being marginalised and institutional barriers have made it difficult for them to increase.

The Commission on Co-operative and Mutual Housing represents one example of work that is currently being undertaken to investigate how institutional and practical support can be provided to help address the barriers that they currently face. It is important to ensure

that those developing housing using innovative models can access finance. It may be appropriate for special lines of credit to be made available for cooperative and self-help housing, which occurs in other countries, for example through the German Federal Bank.

Should an agency be established to actively promote experiments and innovation in housing design, construction methods and delivery?

Other countries more actively promote and encourage innovation in their housing system. The UK might benefit from a wide range of innovation across the housing system. Organisations that are currently involved in supporting innovation, like the Building Research Establishment, could be supported further whilst the role that organisations like the Tenant Services Authority and Homes and Communities Agency play in innovation could be clarified.

The Netherlands has an agency that is designed to encourage experimentation in housing delivery called the SEV (Stuurgroep Experimenten Volkshuisvesting) or 'Steering Committee for Experiments in Housing'. SEV has actively encouraged 'bottom up' experiments that are built on local experience, rather than just the experience of large organisations. These individuals and small groups provide many of the most innovative ideas.

Conducting experiments of this nature also provides an opportunity to conduct research. Research strands can be included in experimental housing projects, to evaluate success and learn lessons.

For such an agency to be able to adequately attempt experiments it must be supported by an explicit understanding and acceptance that not all the experiments will work, but that some will produce new ideas that can be further developed or implemented elsewhere.

Could legislation be adopted that would allow national regulations to be set aside to undertake experimental projects in housing?

At present, many pilot schemes and innovative ideas that are to be tried out need primary legislation to set aside the standard rules. This inflexible approach can hinder innovation. Were a general ability introduced for a broad range of housing- and planning-related rules to be set aside for experiments, more innovative ideas could be attempted. For example, this might be the temporary local suspension of section 106 payments to allow an experimental housing project that would not otherwise be financially viable.

In the Netherlands the SEV (see above) is able to take on this kind of role. Giving such an agency these powers could support it in promoting innovation.

Would a stronger public sector role in housing supply provide balance to the market?

At present there is a very one-sided tenure system, with a large proportion of people in owner occupation or aspiring to owner occupation. This feeds a one-sided supply system, with the majority of construction

occurring in the private sector. A more balanced mix of tenure could help to deliver a more balanced supply side, and vice versa.

The public sector, particularly local authorities, could take a more proactive view of deciding what stock needs to be built and then managing the process of building it. That would not inevitably mean that the public sector would have to retain ownership of it and let it as social rented housing for the long term – it could be sold into the private market for owner occupation or private rental.

This form of delivery could be combined with enhanced use of compulsory purchase powers to ensure that the profile of stock supplied was also in the correct locations.

Could supply be increased and diversified by supporting smaller housing associations to develop?

The Homes and Communities Agency has selected some housing associations to become preferred development partners, commissioning them to develop new accommodation. This has the benefit of improving the delivery of larger projects. However, it may be worth reviewing the role that smaller housing associations can play in the delivery of new housing. They might be able to bring new assets, both land and capital, that may be beneficial in the delivery of smaller developments.

These smaller housing associations may also be able to add to diversity in supply by providing affordable housing in a broader range of locations and responding to the

polarisation within existing neighbourhoods. They may also be able to take on an important role in retrofitting existing stock.

Would targets better serve the needs for supply if the standard unit of measurement was something other than a dwelling?

At present build and cost targets are typically expressed as a number of dwellings. When government announces, for example, that it is making a specific amount of money available for a particular project, the number of dwellings this is expected to deliver is also usually stated. Alternative units would include the number of habitable square metres or the number of additional bedrooms to be delivered.

This approach could be adopted across a wide range of programmes, irrespective of whether it is specifying the development of new homes or the buying up of existing stock from the private sector. Relevant targets include national density targets, delivery targets for each region/local authority area and targets for the amount of housing to be delivered through grant schemes such as the social housing delivery grant.

Expressing delivery targets as a number of dwellings tends to encourage the delivery of one- and two-bedroom homes. This may not meet housing needs in many areas. For example, if government requirements changed from 50,000 new social-rented homes being delivered with a particular piece of funding to 150,000 new bedrooms in social-rented homes, it would allow social

housing providers greater flexibility in tailoring their housing provision to meet the needs of the community.

To avoid introducing new perverse incentives through this move, for example a move from pressure to build dwellings with a small number of bedrooms to dwellings with small bedrooms, it might be necessary to create a measure that featured both size and number of bedrooms. A crude example of this would be 'number of bedrooms of not less than 10 square metres', although a more advanced model might need to feature the space of the dwelling as a whole.

There may also be a justification for reviewing space standards more generally, including in the private sector where unsold newly-built properties are often unsuitable for purchase by social landlords due to their size.

Should the culture of housing provision be altered to help create a system that focuses on delivering sufficient housing rather than particular tenures?

Whilst the relative advantages and disadvantages of different tenures in the current UK housing system mean that the tenure under which a property is occupied is not irrelevant, there is a case for considering whether the net supply of stock is more important.

This would be particularly the case if the system were better able to respond to tenure needs through movement of a proportion of the stock between tenures and if some of the inequalities between tenures could be reduced.

Increasing supply – land, planning and construction

The present business model of the construction industry has led to a situation where a small number of firms and other providers are responsible for the supply of a significant proportion of new housing stock. The weaknesses of this situation have been highlighted by the current economic crisis where housing supply has fallen to the lowest levels since the Second World War.

A more sustainable supply economy would feature a diverse mix of providers, with different providers building for different markets, based on different models, different financing structures and with different ownership options. How can we encourage a diversity of housing supply? Alongside less well-known types of organisations that might deliver housing, the possibility for more small builders to compete with the volume home builders would diversify supply and could have a positive impact on the visual character of housing. With pressures on finances there is a need to examine the viability of projects on a case-by-case basis according to local conditions. Lots of small pockets of delivery can add up to assist in meeting the large needs.

Government will have a role to play in encouraging a range of different methods of housing provision to develop, part of which needs to be low cost housing. Ensuring the provision of low cost, good quality housing is one way of alleviating the damaging effects of house price volatility. A variety of suppliers are also more likely to be able to meet the changing environmental and social needs.

Should site-specific planning decisions be based on a rational analysis of the costs and benefits of allowing development on a site, rather than focusing on its prior designation?

Almost any proposed development of a piece of land will come with both benefits and costs attached. A fully rational system would seek to weigh these up and permit development where the benefits outweigh the costs, ideally favouring those sites where the balance is most strongly in favour of the benefits, ahead of those where the assessment is more marginal.

Under the present plan-led system, a site's designation in a spatial plan is itself a material consideration as to whether planning permission should be granted on that site. Removing that system would allow a balanced consideration of the costs and benefits in each case; the justification for not developing the land would have to stand on its own merit.

Care would be needed in the design of this type of system to ensure that such a cost/benefit analysis included an assessment of the viability of serving the site with the infrastructure necessary to support sustainable communities. Sites that would entail a structural commitment to high usage of private transport (and the carbon emissions associated with such usage) would need to be marked down accordingly. At a time when international and national policies place great weight on producing lower carbon homes and communities, housing policies that could inadvertently increase carbon emissions should be avoided.

Potential disadvantages of this change to the system include the reduced certainty over land use that potential investors might have. An alternative model might include a plan element, but that the plan should be very strongly grounded in evidence and almost continuously reviewed to respond to changes in the evidence base.

Could the social costs associated with development be offset by a tariff?

If there is a social cost associated with a development in the countryside, for example, a tariff could be paid to the local authority by the developer; the local authority could distribute the money received to compensate for losses, including loss of amenity.

Other losses could include significant reductions in access to or increased costs in accessing infrastructure. They could also include raised energy costs and carbon emissions. It may be sensible to include a cut-off point at which a tariff cannot be used to manage the intrinsic lack of spatial sustainability of a development site.

Should land buffers be established to improve responsiveness to need?

Land buffers might be considered where additional development could be quickly permitted if extra need arises within the area. This would potentially allow for land to be brought into use relatively rapidly as market conditions change. The Barker Review outlined the benefits of this approach in greater detail and it should already form a part of a well-managed approach to housing in a development plan⁸².

Could housing policy objectives, including an increase in supply, be supported by updating green belt policy, without creating disproportionate harm to the countryside?

It may be time to re-examine the role of green belts and take a more holistic view of urban footprints. Green space in towns and cities is important to the social and environmental sustainability of urban areas; there is evidence that people value it more highly than green space in the countryside. Yet planning policies are more likely to protect countryside green space than precious urban green areas.

By allowing development on green space outside of cities (potentially including the inner edge of that currently designated as green belt), to be offset by the creation of an equivalent amount of green space within the city limits, housing could be delivered where it is most desired without creating a net reduction in the amount of green space.

Green belt policy should also be reviewed in light of the fact that many people now commute over green belts, with the result that desirable sustainable development policy objectives of reducing travelling can actually be hindered by the policy rather than helped.

Should a closer relationship between the planning process and infrastructure policy and provision be developed?

Housing development does not exist in isolation; without appropriate infrastructure provision even the most well thought out development will fall short of its ability to achieve sustainable outcomes.

By strengthening links for two-way interaction between infrastructure policy and the housing planning system there may be an opportunity to ensure that the two properly complement each other. Local Development Frameworks and Regional Spatial Strategies seek to provide these links, but can be slow to develop.

Should tenure targets be replaced with an effective housing system in which the tenure of properties entering the supply meet needs?

The housing system needs to be able to respond to a variety of factors that can change, including demographic change. The supply-side response to demand could come both from new-build properties and increased tenure flexibility for existing stock.

It is easy for a property to move between tenures in certain directions (for example from owner occupation to private rented), but less so in others (for example from owner occupation to social renting). This systemic inflexibility makes it hard for tenure balances to adjust to changes in need or demand.

Could supply be increased by reducing regulation on the re-development of previously developed land?

Previously developed land sitting idle in urban areas represents a valuable resource, with potential to provide a source of development land, reducing the need to build on new sites. However, regulation can prevent development if it requires site rehabilitation that is disproportionate to the

risk associated with the previous use. However this must be balanced against the health risks associated with developing on sites that have not been properly rehabilitated.

Could delivery be improved by providing clarity in advance to potential developers of sites over the requirements for each site?

At present potential developers often do not know the level of section 106 contributions they will be required to make on a site, nor the density that they will be able to achieve. This can result in land being purchased by the bidder that thinks they can squeeze the most units onto the site and negotiate the lowest section 106 contribution. Some local planning authorities have dealt with this problem by preparing supplementary planning documents that make clear the level of contribution sought. The Community Infrastructure Levy (CIL) legislated for in the Planning Act 2008 holds out the potential to enable systematised levy contributions.

Would adding VAT to new build housing provide a means of capturing planning gain and paying for infrastructure?

VAT is already charged on extensions and refurbishment of existing properties. Campaigners against empty homes have argued the playing field should be levelled by removing VAT from refurbishment. An alternative would be to achieve equality in the VAT rates by charging VAT on new build too. This could be an easier charge to levy than the community infrastructure levy (CIL) or planning gain supplement (PGS).

One factor that should be taken into account in examining the consequences of any change of this nature is the variation in the impact between regions.

Could the quantity and quality of new housing stock be increased by increasing the level of industrialised processes used?

Construction methods in the UK are very similar to those that were in use 50 years ago. Modern Methods of Construction (MMC) play a significant role in construction in the housing systems of other countries. MMC encompass a broad range of approaches, but would typically involve the production of some house parts off site. This could include ready-made parts like walls and roofs or entire rooms. The proposed benefits of MMC include faster construction and greater energy efficiency whilst using less onsite labour.

An important factor in increasing the adoption of MMC may be educating people about the benefits of these techniques. New construction methods will require training for construction staff, but also demonstration to the public of the benefit of these methods to ensure the end result is acceptable to potential purchasers and occupiers.

Should more be done to develop the skill-set of the construction workforce to meet the challenges of the future?

New challenges face the UK and different construction techniques might be able to play their part in responding to those challenges. For any construction technique to be viable

for widespread use there needs to be a workforce with the correct skills to develop with it.

Could the quality of housing produced be improved by reducing reliance on the current trader model of house building?

The Calcutt Review described the business model adopted by home builders in the UK as the 'current trader' model. Under the model builders do not take a long term interest in the development: homes are built, sold, and the builder moves on.

An alternative model might see builders adopting a longer-term commitment to developments which could result in higher-quality homes. Such a model might feature developers involved in renting part of the stock and consequently holding an ownership stake in sites for a longer term.

Could more land be brought into productive use through a concerted programme of compulsory purchases?

A concerted programme of compulsory purchase orders (CPOs) on land (potentially with planning consents in place) currently held in private land banks could allow it to be bought for a fair value that would allow maximum levels of development. The public sector would have a number of potential options for the land, including releasing it immediately to stimulate delivery or holding it as a long term asset, to be released during market rises to lessen the affordability impacts of the boom. A combination approach could also be taken, where the land

is developed immediately, creating housing supply, but the public body retains an interest in the land, creating a longer-term public asset. The role of the public sector in this could be to obtain the maximum social benefits from holding land for the long term, rather than seeking to extract maximum profits from speculative increases.

This could also be a mechanism for checking that the value of land stated on house builders' balance sheets accurately reflects its real value in the current market, allowing businesses and investors to make rational decisions based on accurate valuations.

Local authorities and the Homes and Communities Agency have CPO powers so a programme could be conducted at a local level or across a wider area.

Could the public sector take a role in supporting a mixed economy of housing provision?

The public sector, including local authorities, may be able to take on a more active role in masterplanning. This might be achieved by their assembling land for development, investing upfront in infrastructure, and dividing it into parcels for development by a range of providers. This process could be used both to increase the build out rate and to introduce a diversity of types of providers. Build out rates would be enhanced by bringing a larger number of mainstream developers onto large sites. Diversity could be increased by allocating a proportion (say 10 per cent) of each large site for development by co-operatives or self builders, although this would require coordination to ensure that

the development of infrastructure was properly managed.

Could steps be taken to ensure it is feasible for local authorities to release land they hold for development at no cost?

In some cases the donation of a piece of land owned by a local authority could act as the 'subsidy' that makes a development project viable. Local authorities can be legally constrained from such an act by a requirement to obtain best value or best consideration when disposing of assets. It should be easier for them to take a broader view of what is for the good of the area, including being able to dispose of land for no (or greatly reduced) value if it will produce a benefit through providing much-needed housing.

It may be necessary to provide incentives to local authorities to supply their land in this fashion. In any event, care would be needed to ensure that such a system did not incentivise housing development on land that was poorly located and unable to provide a sustainable portfolio of services/infrastructure.

In the medium and long term, as the stock of available public land is used up, local authorities may need to switch their emphasis towards public land assembly.

Could supply innovation be enhanced by creating more effective opportunities for consumer voices to be expressed?

There is a general need for timely innovation in the UK housing system. Lifestyles have changed rapidly, requiring new housing arrangements;

the environmental challenges we face demand swift action to address them. Meanwhile housing and house-building models have changed little in 50 years or more. New approaches are required across the system: new approaches to design, new approaches to cost control, new approaches to construction.

In finding out what people need there could be a role for more sophisticated techniques to elicit consumer voices and to communicate back to consumers.

Could an offer be devised that would make living in flats attractive?

In the UK, unlike in many parts of Europe, very few people report a desire to live in a flat. The historically poor quality of flats provided in the UK has almost certainly contributed to people's beliefs that a house is always a better option. This has been exacerbated by the recent oversupply of flats in some cities in the UK. Flats, however, potentially represent an environmentally and financially sustainable way of living; they permit relatively high densities, reducing the need for land to be developed, and can be cheaper to build and run than a house developed on the same land.

A focus on the types of design and building techniques that are used to supply flats could help to create an offer that would be genuinely appealing. Other components of the offer could also receive attention, such as the availability of amenities and communal resources such as shared gardens. By examining the factors that have been successful in creating desirable flat-living elsewhere it may be possible to extend this to the UK.

Existing housing stock

Although more housing will be required over the coming years, the existing stock is substantial, comprising some 26 million dwellings. Two-thirds of the homes of 2050 are probably already in existence⁸³ so any successful programme of policies must consider the existing stock alongside the development of new homes.

Energy efficiency

Improving the energy efficiency of the housing stock will be necessary if the UK is to meet its climate change commitments. Behavioural change has a part to play in households reducing their energy use and standards can be introduced to ensure that new build stock performs well from the outset. In addition to these measures, physical changes to the existing housing stock will be necessary if today's homes are to make their contribution to increased energy efficiency. Improved energy efficiency of housing can also play a part in reducing ongoing household expenditure, particularly if energy prices rise.

Could incentives be provided for people to improve their homes, including their energy performance, during the current downturn?

Recessions often create a situation whereby some people are actually better off, despite the difficulties faced by many people through problems such as redundancy.

Incentives provided to those who are still relatively well off could encourage improvement of the housing stock, and therefore support employment in the construction industry.

Could a programme of loans be developed to increase the energy efficiency of homes, with the loan repayments offset against decreased energy costs in the future?

The goals of the programme would include helping to achieve retrofitting of the existing stock to reduce carbon emissions in line with international obligations and national legislation and manage the consequences of environmental vulnerabilities. Residents would also experience an effective reduction in energy costs once loans are paid off, and insulation from volatility in energy pricing from the point of installation.

The state-owned German bank, KfW, operates loan schemes to promote energy efficiency in the housing sector, including through the rehabilitation of existing housing stock. Loans are available for up to 100 per cent of the eligible costs, on favourable terms, including low interest rates with long fixed terms and grace periods at the start of the loan when no repayments are due.

Such a programme could involve energy companies and others in soft loan provision. One option might be to attach loan repayments to the property rather than the present occupant. Tax incentives could be used to stimulate the programme.

Could some ideas from the proposed Green New Deal be used in improving the existing housing stock, to combine delivering investment and training in skills for greening and refurbishment?

The Green New Deal Group⁸⁴ proposes a massive environmental transformation of

the economy to tackle what it terms the 'triple crunch' of the financial crisis, climate change and insecure energy supplies. The group calls for massive investment in renewable energy and wider environmental transformation in the UK, leading to the creation of thousands of new 'green collar jobs', simultaneously addressing issues of unemployment caused by the downturn and climate change.

The existing housing stock is a major contributor to the nation's carbon emissions, and retrofitting the stock to deliver the necessary reductions will be both labour- and skills-intensive. It makes sense to focus the public investment in training and labour at a time of recession to keep people in employment or training, as well as to act promptly due to the pressing nature of climate change.

Vacancy and under-occupation

Under-occupation is the term used to describe households that have homes larger than they would typically need for the number and relationship of people occupying the dwelling, for example a couple occupying a four bedroom house. Common reasons for under-occupation can include older households wanting to have space available for family to return to visit. Under-occupation can occur in any tenure.

If under-occupation were reduced some small households would move into small homes, freeing up large homes for larger households to occupy. This would allow more households to obtain housing suitable to their needs within the existing stock.

Although persuading under-occupying households to trade down would help to respond to pressing needs for larger homes, any attempt to deal with under-occupation must accept that people should be free to make their own choices and be sensitive to people's bonds to the homes that they may have occupied for many years. Responses should be structured to provide incentives for downsizing not punishment for continued under-occupation.

Should guidance for local authorities on conducting housing needs assessments recommend that account is taken of under-occupation?

In many areas under-occupation is potentially a significant factor in the housing market, yet little data is gathered on the extent in surveys designed to assess local housing need. By gaining an evidence base about the level of under-occupation in their areas, local authorities would be better placed to make strategic decisions about how best to address this issue (for example by encouraging development of housing in the area that would be appealing for people to downsize into).

In order to achieve this it may be necessary to update the definition of under-occupation, which is still based on standards established before the Second World War, to better reflect contemporary social norms.

Is it possible to create a compelling offer to help deal with the problems of under-occupation?

People are understandably reluctant to use tools of compulsion to try to force people out

of their homes, be they tenants or owner occupiers.

A much more acceptable approach to achieve the same ends would be to provide an attractive alternative housing offer so that people under-occupying their homes voluntarily chose to move.

Much of the housing that is under-occupied belongs to older people whose families have left home, so a focus on creating housing that would be appealing to that group would be a particularly useful response to issues of under-occupation. There appear to be limited housing options for older people. The Homes and Communities Agency has established a new innovation panel to ensure that future housing meets the needs and aspirations of an ageing population.

An attractive offer might include communal guest flats (as those under-occupying often do so to have space for family to visit) and space that residents can use for offices. In considering such an offer it is important to remember that the under-occupied property will often be more than just a house – it will be a home, with feelings and memories attached. This implies that the replacement will have to be exceptionally appealing, if it is to prove desirable enough to attract people out of their homes.

What steps can be taken to improve local authorities' empty dwelling management order (EDMO) powers to ensure they are deliverable, sensible, and not a financial drain on the authority?

EDMOs, and other tools for tackling empty dwellings, aim to help make more efficient

use of the existing stock. The current EDMO system is difficult and expensive for local authorities to use in practice.

Could changes to the probate system help to reduce the number of empty homes?

At present homes are often not sold until the end of the probate process, leaving them empty in the interim. A legislative change to permit them to be sold before probate has been settled could allow them to be brought back into use more promptly.

Enhanced tenure options and flexibility

For those seeking a secure home, the only real option is often owner occupation. Whilst social renting provides good security of tenure, access to it is highly constrained. This lack of realistic alternatives can lead to people opting for owner occupation when it may not be suitable, for example by overstretching themselves financially. A broader range of tenure options, including options with enhanced levels of security of tenure, are needed to help avoid this.

Can additional tenure options be created that are more secure than assured shorthold tenancies in the private rented sector, but fall short of a fully secure tenancy?

A tenure option falling between a six month assured shorthold tenancy and security of tenure for life would be very appealing for some private tenants who are at present

forced to move into owner occupation if they want to establish a home where they would be able to stay for a long period of time. Consequently steps to provide more secure options in the private rented sector would save some households from overstretching themselves, and the resultant social costs.

Under current legislation private rented sector landlords can offer, for example, a five year tenancy with a tenant's break clause, but it is very uncommon for them to do so. In general, if the tenants are not causing any problems and are paying the rent, most landlords would not want them to move out. One possible factor preventing more landlords entering extended agreements is lenders' attitudes to long tenancy terms. If the landlord has a mortgage, the provider is likely to insist on a maximum length of tenancy of around 12 months as it wishes to be easily able to gain vacant possession of the property in the event of the landlord defaulting on the repayments.

Steps to encourage lenders to look more favourably on allowing longer-term tenancies might include a presumption of appointing a receiver of rents in the event that the landlord falls into arrears, and a structure that makes that viable, so the lender continues to receive an income from the property.

Another step to promote additional security of tenure in the private rented sector might be the use of incentives, possibly including tax incentives. Landlords could receive some form of favourable treatment if they were willing to grant longer-term tenancies.

Could there be more flexibility on rent levels in the social sector?

At present, there are strong central controls on social housing rent levels. These ensure that social landlords do not increase rents levels unreasonably, but do not provide flexibility to reflect improvements that are made to housing stock. Should there be more freedom for housing associations and local authorities to set rents that relate to different properties, people and market contexts?

One specific example of when it might be suitable to allow social rents to be increased is in response to works undertaken to improve the energy efficiency of the property. As this measure would be saving the tenant money on their energy costs, they would not be left out of pocket. This would encourage landlords to take the relevant steps, as they would know they would have a revenue stream to contribute towards the cost of the works, in the form of increased rent.

How can we ensure that any levelling of security of tenure is achieved by increasing security in the private rented sector rather than reducing the security of those who rent in the social rented sector?

The lack of security offered by accommodation in the private rented sector is one of the most common complaints made by tenants. Increasing the security offered to tenants in the private rented sector might improve the attractiveness of this tenure. However, increased security of tenure inherently requires some degree of rent control, as otherwise landlords can force

tenants to leave their property by inflating the rent to an unaffordable level. Careful consideration would be needed to ensure any controls were designed to avoid a mass exit of landlords from the private rented sector, leading to a reduction in investment in the sector and consequently in the housing system as a whole. Rent controls would need to take account of the variability of a number of factors that affect landlords' costs, and therefore the rent they charge (such as changes in interest rates affecting borrowing, what other bills were included in the rent and how they might change, or the location of the property and the tenant group it was being let to). Tax incentives that promote quality and security of tenure in the private rented sector might provide a way of improving the attractiveness of the tenure without discouraging further investment.

Full security of tenure can prevent dwellings being made available for a short period of time (for example where an owner wants to defer selling in depressed market conditions). Increased security for tenants needs to be balanced against reasonable flexibility for owners.

Could social landlords play an enhanced role in the provision of properties for market rents?

The involvement of social landlords in the provision of market rental properties could help to strengthen the standing of the sector and provide diversity of supply. Landlords may be able to develop or acquire properties that it would not be viable for them to run as social rental properties, adding to the number of people who can benefit from the good

management services and security of tenure within the social rented sector.

With appropriate constraints to avoid inappropriate decisions (and particularly to exclude net reductions in the social rented stock), social landlords could even gain flexibility to respond to different types of housing need and market demand if they were to have some flexibility about whether properties becoming available for re-letting were let on a market or social rental basis.

Could the Right to Buy be restructured to allow the purchaser to stay in their home and community whilst moving tenure, but without putting the local authority out of pocket?

At present when properties are sold under Right to Buy the combination of the discount and the proportion of the sale price remitted to central government means local authorities receive significantly less than the cost of replacement with similar stock. Receiving only a fraction of the market value of the property means that a local authority would not be able to replace a high enough proportion of the stock sold.

One advantage of Right to Buy is that it permits people to stay in their home and the community where they may have strong links yet still realise their aspiration of owner occupation.

If the discount were removed, and the local authority were to receive a substantial proportion of the market value of the property for reinvestment, the Right to Buy policy could be retained whilst minimising net loss in the social rented housing stock.

How can the opportunity to move between tenures be increased?

At present it is often very difficult to move between tenures, particularly if you do not wish to move home. Where the choice does exist it often only operates in one direction. For example, through Right to Buy a social tenant can become an owner occupier, but an owner occupier, staying in their home, is unlikely to be able to become a social tenant.

Although various low-cost home ownership schemes have instituted the possibility for shared ownership, where rent is paid to a housing association on the part of the property that the occupier does not own, and the ability to 'staircase up' the amount of ownership, the ability for an outright owner to sell a percentage of their property to a social landlord does not currently exist. Schemes that would allow tenants in the private rented sector to build up a stake in a housing-related asset, could also be considered.

Creating place/neighbourhoods

People experience housing on a local level, and the development of vibrant and thriving places will support (and be supported by) successful local housing systems.

Could central government enable the development of stronger local communities by reinforcing the powers of local government?

Across political parties there are national politicians who are proponents of devolving responsibilities towards local levels. If that is

to be successful then power and resources need to be attached. As identified by the Layfield Committee as long ago as 1976⁸⁵, an increase in local autonomy would require a significant increase in local financial autonomy, with local taxes going to local government.

The extensive powers (including of taxation) devolved to strong regional and local governments in Germany have been cited as a contributory factor in the country's housing successes.

The additional fiscal freedom, with significant local tax bases, common in local and regional government in Europe provides them with a greater ability to borrow, making it more feasible to deliver infrastructure and increase their involvement in important place-making projects such as land assembly. The ability to use additional mechanisms such as tax increment financing (TIF) may also be enhanced by the presence of a local tax base.

One important consideration in establishing the limits of devolution of powers to local levels would relate to delivery of housing, especially affordable housing, where there is frequently local resistance to its development. The views of existing residents will have to be balanced against the needs of people who require access to affordable housing.

Can links between local authorities and smaller local housing associations be facilitated?

Large housing associations, with their significant capacity to deliver social rented

housing, are an important part of the housing system. However, for local authorities looking to shape their areas, smaller housing associations may sometimes represent a better opportunity to work with an organisation that has a local focus and a longer-term commitment to the area.

Should incentives be introduced to encourage local authorities to welcome development in their areas?

At present local authorities have a fiscal disincentive for permitting development in their area: council tax derived from the properties provides a relatively small proportion of the cost of delivering local services and there is a time delay before the remaining costs are provided from central government, leaving a shortfall in the interim.

If local authorities were to receive the majority of the resulting income from development they would have a strong incentive to welcome development. There is some evidence that this type of approach delivers benefits to local authorities in Germany and Switzerland⁸⁶. Potential options include long-term council tax retention and a modified formula for deriving grants from central government.

As democratically-elected organisations, local authorities are naturally conscious of constituents' concerns over development in their areas. Incentives that would allow local authorities to provide benefits to existing residents as a result of the development could help local authorities to welcome it to their area.

How can we improve the management of places (as opposed to just homes)?

The neighbourhood and wider area in which you live can be as important as the individual property in determining quality of life and social outcomes. Local authorities will have a central role in delivering changes that improve places as well as individual dwellings, but it will also require close cooperation between a variety of stakeholders including housing associations, ALMOs, private landlords and the wider public sector (for example education and healthcare services).

A strong local authority might, for example, identify that what is most needed to make its area desirable is an investment in transport infrastructure, such as a local tram service or a high speed rail link. Allowing local authorities this sort of breadth of powers to take a role in shaping their areas could lead to improved neighbourhood and housing outcomes.

Local authorities would have the opportunity to promote the concept of place/ neighbourhoods, and urban authorities could seek to create inclusive and socially integrated cities. Housing and the promotion of social and economic integration have strong impacts on each other.

Should the Housing Revenue Account subsidy system be dismantled?

Under the present system, local authority housing revenues are effectively pooled centrally, with local authorities that are operating in surplus subsidising those that are operating at a loss. A major cause of the disparity between the financial standing of

local authorities' housing operations is the historic level of debt attached to their stock.

A system whereby, through a one-off transfer of obligations, the playing field would be levelled for all local authorities has been proposed. This scheme would give local authorities more freedom, facilitating a move towards autonomous budgeting and management at a local level. This proposal has been supported by government in a recent consultation paper on the subject⁸⁷. However, there is still work to be done to deliver real changes to the system.

Can the public sector achieve some of its goals through an enabling/disseminating role?

Amongst its other roles, the public sector could disseminate information to help people see what is possible, allowing local communities to conduct the project themselves. By providing general and contextual support the public sector could enable some people to achieve desirable outcomes without having to foot the bill itself.

Do the newly-created, largely rural unitary authorities present an opportunity for more creative thinking in the provision of housing than their predecessor authorities?

In the parts of the country affected, the recent change to (largely rural) unitary authorities has been one of the biggest changes to local government in many years. These new organisations bring together the powers of districts and counties; this empowerment, combined with their novelty, presents an opportunity for creative thinking

about how best to address the housing needs of their populations.

Should local authorities and housing associations be encouraged/supported to buy and sell housing stock to meet needs?

The ability to manage their portfolios of housing stock by trading would enable landlords to consider what stock would best meet the needs of their (potential) tenants. It may be that identified need could suggest that stock would be more useful if provided in a different area (also helping to reduce concentrations of social rented housing on mono-tenure estates), or could indicate that different types of housing are needed.

Stock could be assessed for trading as it becomes empty through the normal turnover of tenancies.

Research and the evidence base

Improving the housing system in the UK will depend upon a strong evidence base. At present, most housing research and policy development is focused around specific issues within the system. The development of a whole system approach will require new types of evidence to support it.

What would be the benefits of comparative evaluation with housing systems in other countries, as well as between the UK's constituent nations?

An understanding of how other housing systems work, the contexts in which they

operate, and their relative strengths and weaknesses would be a valuable first step in reviewing the UK's current housing system. Not only would this enable the strengths and weakness of our system to be brought into clearer focus, it would also suggest alternative ways of addressing the broad range of issues that impact directly or indirectly on the housing system.

Many of the European and North American housing models are significantly different from that in the UK. The German system, for example, has greater diversity of stock and providers, a wider range of tenure options and easier inter-tenure mobility. The Netherlands has significantly changed the way in which its housing associations operate. Canada and Sweden have both experienced sharp drops in grant subsidy for future provision and could provide valuable lessons for how we could cope with lower grant levels in the future. There are a broad range of different policy regimes within the USA, some of which could also bring lessons for the UK.

With the devolution of housing responsibilities to Wales, Scotland and Northern Ireland, different approaches have been employed to address housing problems in these nations. There are valuable lessons to learn from each other about what has, and has not, been successful.

Could a stronger evidence base be ensured by enhancing the housing research capacity of UK universities?

The volume of housing research in UK universities is now significantly lower than it was five years ago and can be expected to

decline further with the anticipated future reductions in university research funding.

Increasing this research capacity is vital if government policy is to be developed in response to a thorough analysis of the relevant problems. The wider impact of the research findings could be enhanced if universities focussed part of their research effort on the knowledge transfer process, in addition to carrying out primary research.

How can proposals for amendments to the housing system (and current policy and regulatory frameworks) be cross-checked to ensure that they do not trip each other up?

In the light of recent events, the interconnect-
edness of the housing system has become in-
creasingly apparent. A greater understanding

of the system as a whole, as well as how it in-
teracts with the wider economy and financial
system, will enable a more thorough 'proof-
ing' of new policy approaches in terms of
their system-wide impact. It would thus be
easier to avoid the hidden traps of subsidies
and incentives that are acting in opposite di-
rections, as for example with the different
VAT treatments of new construction and refur-
nishment; as well as the unintended conse-
quences of policy changes. One of the
challenges that might arise in undertaking
these reviews is the large number of govern-
ment departments likely to be involved in
various related policy areas.

An audit of the various regulatory
frameworks would help to build an
understanding of the system as a whole, as
well as providing an understanding of the
extent of regulatory pressure on different
parts of the system.

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Four panellists joined the Consultation on the final day. They were:

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Author of the Barker Review of Housing Supply

Mr Stuart Macdonald

Editor, Inside Housing magazine

Mr Bill Rashleigh

Editor, ROOF magazine

Mr John Stewart

Director of Economic Affairs, Home Builders Federation

The consultation was chaired by

Lord Richard Best, OBE

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