

# Turning Generation Rent into homeowners

Jack Airey and Liam Booth-Smith



# About Localis

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Localis is an independent think-tank dedicated to issues related to politics, public service reform and localism. We carry out innovative research, hold a calendar of events and facilitate a growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

## Our philosophy

We believe in a greater devolution of power to the local level. Decisions should be made by those most closely affected, and they should be accountable to the people which they serve. Services should be delivered effectively. People should be given a greater choice of services and the means to influence the ways in which these are delivered.

## What we do

Localis aims to provide a link between local Government and the key figures in business, academia, the third sector, parliament and the media. We aim to influence the debate on localism, providing innovative and fresh thinking on all areas which local Government is concerned with. We have a broad events programme, including roundtable discussions, publication launches and an extensive party conference programme.

## Find out more

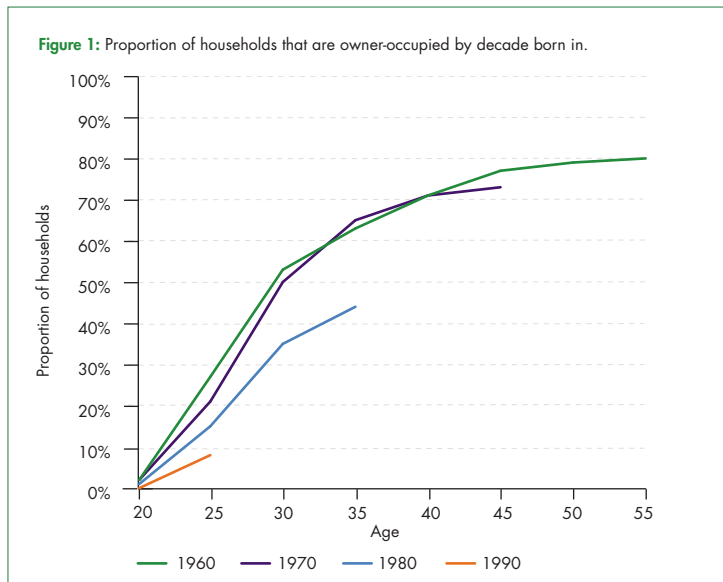
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# Introduction

Given the choice to rent or buy a home, 86% of British people would buy.<sup>1</sup> From the pre-war generation, through to baby boomers and on to generation Y, every group polls at least 80% in favour of homeownership. Yet, the reality for many in Britain is the housing ladder has been pulled up. A whole generation is being locked out of the housing market. Rising house prices, cost of living increases, stagnant wages, depressed housing supply and tighter lending criteria are all contributing to the creation of a generation of renters, for whom the dream of homeownership remains just that, a fantasy.



Source:  
Council of  
Mortgage  
Lenders,  
2015.

This white paper is focused on one constituency, Generation Rent – those under 40s that are prospective first-time buyers, yet stuck in the renting cycle and struggling to save for a deposit. We recognise that the challenges facing the housing market are playing out differently for individual areas and people alike, but for younger people the housing market is an acute example of intergenerational inequity. It is a rigged race, where the finishing line is being moved further away faster than the majority will ever be able to run.

<sup>1</sup> Ipsos MORI (2016) - Housing Aspirations

Homeownership is a special achievement for any individual or family; we want to see this franchise extended to as many as possible.

There are many areas we could have focused on to increase options for younger people wanting to buy their own home, but for the purpose of brevity and directness we have chosen two. Firstly, schemes (amendments to existing ones and new) that address the inability to save for a deposit, and secondly, the supply of housing, with a particular focus on London and the South East in large part due to the economic and migration patterns of the UK.<sup>2</sup>

This report's signature recommendation, that of Government backed deposits for first time buyers, will be a contentious one. Particularly, as we advocate the return of 100% mortgages as the means to de-risk the Government's investment and ensure the money returns to Government coffers quickly. Whilst this would represent a significant move in Government action to support younger people, it would not represent a break in principle, either for Government or the market.<sup>3</sup>

This white paper is not an exhaustive policy document; it is a shot of intellectual adrenaline. We hope to provoke debate, criticism, new ideas, and where possible, agreement.

## Recommendations

1. Government should revise its Rent to Buy scheme to become Save to Buy, a product which provides Generation Rent with subsidised Living Rent and the financial headroom with which to obligatorily save for a deposit.
2. Government should establish a Deposit Guarantee scheme for first-time buyers under 40 (or most appropriate age determined by Government) purchasing new-build homes.
3. Government should commission the development of 'Abercrombie 2.0', a new masterplan for the release of new land for housing across London and the South East.
4. Government should commission a comprehensive review of the Green Belt. This should be focused on London and the South East but with reference to other metropolitan Green Belts.

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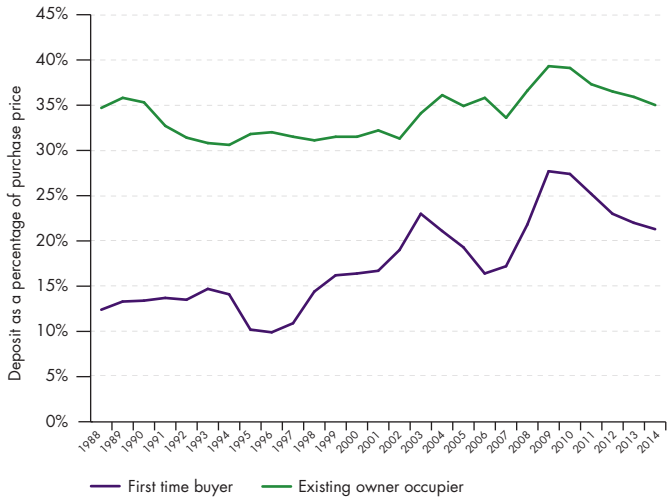
2 James Gleeson (2016) - Tracking England's shifting centre of gravity over time

3 'Help to Buy has already established that Government can have a role to play in providing support for house buying deposits, and the market, via Barclays Bank's new 100% mortgage offer, has established that such products are still viable, albeit with the strict conditions and security.

# Lowering the ladder

As house prices have risen in recent decades so too have mortgage deposit contributions. Since 1988 the average deposit for a first time buyer has more than doubled (hitting 28% in 2009).<sup>4</sup> Increases in asset values wouldn't necessarily be a problem if they are being tracked by wages but this hasn't been the case. Since 2000 the average wage has increased by 51% but the average house price has increased by 132%.<sup>5</sup>

Figure 2: Deposit as a percentage of purchase price by type of buyer, 1988 to 2014.



Source: UK Perspectives 2016: Housing and home ownership in the UK, ONS Digital.

In recent years, as house prices continued to rise, wage stagnation has exacerbated the problem.<sup>6</sup> The overwhelming losers in all of this are those in their 20s and 30s. In previous generations, the expectation would have been to lend serious consideration to purchasing your first home at that age, but with house prices set to increase 23% by 2020,<sup>7</sup> and wages unlikely to increase by a sixth of this, younger people are set to have the gap between them and the property market widened even further.

4 ONS (2016) - UK Perspectives 2016: Housing and home ownership in the UK

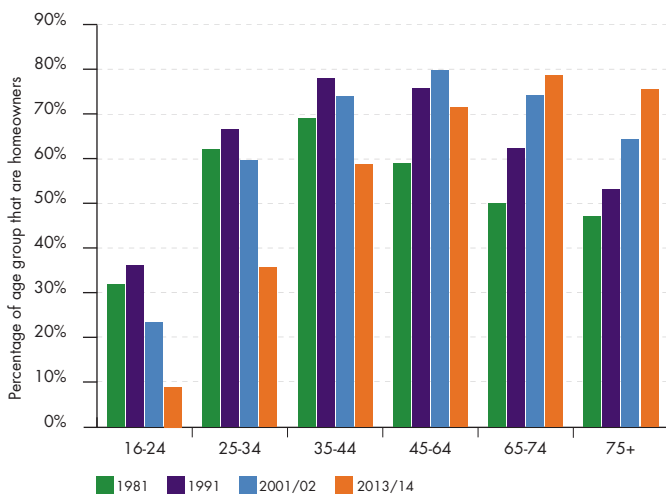
5 Civitas (2016) - Restoring a Nation of Home Owners

6 ISE (2016) - Real wages and living standards: the latest UK evidence

7 Santander (2016) - Number of million pound properties in the UK will more than triple by 2030

We believe that Government needs to make home ownership for Generation Rent a priority. Existing schemes are already in place but these can and should go further. Three-quarters of those who rent privately want to be future home owners, yet less than half are already saving for a deposit.<sup>8</sup> Alongside greater flexibility in the planning regime, new schemes and amendments to existing ones can be provided by Government to make home ownership more accessible to Generation Rent.

**Figure 3:** Rates of home ownership by age group over the past four decades.



Sources:  
Table FC2101: Percentage of each age group that are owner occupiers, DCLG (for 1981, 1991 and 2013/14 data); Table S106: Age of household reference person by tenure (for 2001/02 data).

## Turn Rent to Buy into Save to Buy

As part of its package of measures to support homeownership, the Government has a scheme called Rent to Buy. In simple terms, this scheme is where a property is rented to a tenant at a reduced (affordable) rate, with the proviso that the reduction in their rent is put towards saving for a deposit. Following a period of time (5 years) the tenant is then given the option to either purchase the

<sup>8</sup> Knight Frank (2016) - Tenant Survey 2015/16

property using their money or take their capital stake and invest it elsewhere.

In comparison to other policies such as Starter Homes and Help to Buy, the Rent to Buy scheme has been relatively low key. It was announced alongside a £400m low-cost loan pot and forms a small proportion of the Government's 2016-21 Affordable Homes programme for outside of London.<sup>9,10</sup> Moreover the evidence suggests that whilst people value the reduced rents, they are not necessarily saving the money for a deposit.

We propose an amendment to and expansion of this scheme, **making the deposit saving mandatory**. To make it more attractive, rent reductions should be increased from the current affordable rent rate (20%) to **a new Living Rent rate** (which links rent levels to local income levels), as proposed by the Joseph Rowntree Foundation, National Housing Federation and Savills.<sup>11</sup> Thus placing the emphasis on the saving as opposed to renting. A minor rebrand and relaunch of the scheme as **Save to Buy** would also be a sensible step to raise awareness.

To fund reduced rents, Government should considerably expand the loan pot. Furthermore, local authorities should be able to promote the supply of Save to Buy housing alongside or in place of Starter Homes.

### Recommendation 1

Government should revise its Rent to Buy scheme to become Save to Buy, a product which provides Generation Rent with subsidised Living Rent and the financial headroom with which to obligatorily save for a deposit. As part of this, local authorities should be able to promote the supply of Save to Buy housing alongside or in place of Starter Homes.

## The Deposit Guarantee

The 100% mortgage was sacrificed during the 2008/09 financial crash because of its perceived symbolism; that of unsafe lending. The market, however, is showing signs of maturing past this.

<sup>9</sup> DCLG (2014) - New 'Rent to Buy' scheme to help young people save and move up housing ladder

<sup>10</sup> Grant funding will be provided for 10,000 Rent to Buy units over five years. Inside Housing (2016) - Government invites bids for £4.7bn programme

<sup>11</sup> JRF, NHF and Savills - Living Rents - a new development framework for Affordable Housing



One bank, Barclays, has already reintroduced a 100% mortgage product, with the requirement however, that a parent (or other party) places 10% of the total loan value into a savings account for three years as security for the period of the mortgage during which the deposit contribution would be paid.<sup>12</sup> Following three years successful mortgage payments the money would be released to the original lender.

This scheme only benefits those who can lean on the bank of mum and dad for the deposit, however. And with many young people now expressing concern at relying on financial aid from parents,<sup>13</sup> there is an opening for Government to step in and support younger people who could comfortably afford a mortgage, but are unable to save for a deposit.



Source: Council of Mortgage Lenders, 2016.

Government, potentially via the Homes and Communities Agency as they did with Help to Buy, could establish a **Deposit Guarantee scheme**, whereby they contribute the 10% required, up to a fixed property value. This would require an expansion of mortgage schemes similar to the one developed by Barclays Bank; and should be **specific to new-build homes**.

<sup>12</sup> Barclays (2016) – Family Springboard Mortgage'

<sup>13</sup> Mark Bogard, chief executive of the Family Building Society, has said that his company's research has shown that younger people, particularly females with single mothers, tend to be strongly concerned about the financial risk that their borrowing can have on their parents. Financial Times (2016) - Return of '100% mortgages' ease burden on Bank of Mum and Dad

Upon successful completion of the pre-requisite mortgage payments by the owners, the Government would then reclaim the deposit contribution to reinvest.

## Recommendation 2

Government should establish a Deposit Guarantee scheme for first-time buyers under 40 (or most appropriate age determined by Government) purchasing new-build homes.

Lenders would still need to apply stringent and proper lending criteria and could extend the period over which the loan is held. But the reintroduction of 100% mortgages would not necessarily be risky in and of itself.

Since 2009, repossession rates for home owners has fallen reaching its lowest ever rate in the first quarter of 2016. This means that the risk for Government of providing the mortgage guarantee would be relatively low. In the table below we have estimated the costs – and risks – of the scheme. With the cost of interest potentially passed onto the borrower, apart from any cost incurred from repossessions, **Government would fully recoup its investment in Generation Rent.**

Number using scheme	Estimated total cost to Government of providing 10% deposit <sup>14</sup>	Possible loss from foreclosures <sup>15</sup>
100,000	£1,754,530,000	£4,561,778
200,000	£3,509,060,000	£9,123,556
300,000	£5,263,590,000	£13,685,334
400,000	£7,018,120,000	£18,247,112
500,000	£8,772,650,000	£22,808,890

Table 1: Estimated cost of implementing Mortgage Guarantee scheme for Government.

<sup>14</sup> To estimate the total cost, we have used Nationwide's most recent figure for the average price of homes bought by first time buyers, £175,453.

<sup>15</sup> In the ten years up to 2013 (the last year for which these figures are publicly available), the average percentage of properties repossessed each year was 0.26%. We have assumed a similar repossession rate and very conservatively assumed that all are first-time buyers.

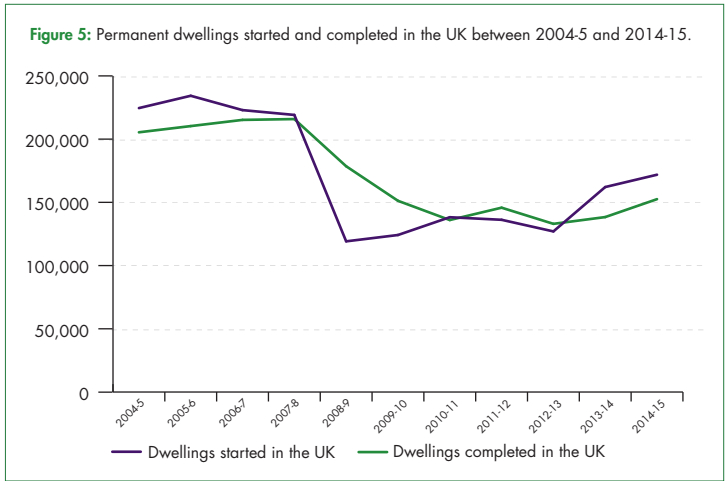
# Building for Generation Rent

*“Churchill says it is a gamble – make or mar my political career. But every humble home will bless my name, if I succeed. On the whole it seems impossible to refuse – but, oh dear, it is not my cup of tea... I really haven’t a clue how to set about the job.”*

These are the words that Harold Macmillan wrote in his diary in October 1951, after being summoned to Chartwell by Winston Churchill following the Conservative’s general election victory. He had just been appointed the new Government’s Housing Minister and was tasked with coming good on the party’s pre-election promise of building 300,000 homes a year. Within two years he had succeeded. 327,000 new homes were built in 1953, up from 202,000 in 1951, mainly driven by a surge in housebuilding by local authorities.<sup>16</sup>

Herculean tasks are nothing new when it comes to housing, but proactive Government in the housing market is of another age. To provide the homes that Generation Rent can live in, this needs to change.

Housebuilding rates are increasing but they still lag a long way behind the 237,000-290,000 new homes estimated to be required each year.<sup>17</sup> Moreover, the decision to leave the European Union is expected to have a substantial impact on housebuilding.



Source: Table 209 House building: permanent dwellings completed and Table 208 House building: permanent dwellings started, DCLG.

<sup>16</sup> DCLG, Table 241 House building: permanent dwellings completed, by tenure  
<sup>17</sup> National Housing and Planning Advice Unit (2009)

We need more homes, but we also need them to be built in the right place as well. Some of the fastest growing areas are also building the lowest number of homes. In Tower Hamlets for example, the number of households is projected to increase by 15.2% between 2016 and 2021 – the quickest in England – yet just 110 new homes were built in the borough in 2015-16. In high economic growth areas such as Oxford and Cambridge, just 280 and 410 new homes were built in the same period. This disconnect isn't sustainable.

Ultimately Governments don't (or very rarely) build houses; private developers, local authorities and housing associations do. But with its unique tool-set, Government has the power to give housebuilding shot in the arm it needs. In this regard, its upmost priority should be doing all it can to bring more affordable land into the market.

Local authority area	Projected percentage increase in households 2016-21	Dwellings completed 2015-16
Five fastest growing areas		
Tower Hamlets	15.2%	110
Newham	12.6%	200
Barking and Dagenham	10.5%	1,250
Hackney	10.5%	700
Barnet	10.0%	1,090
Five slowest growing (or shrinking) areas		
Copeland	0.8%	10
Blackpool	0.6%	480
Richmondshire	0.3%	50
Barrow-in-Furness	-0.8%	1,760
Isles of Scilly	-3.6%	90

Sources:  
Table 253  
Housebuilding:  
permanent  
dwellings started  
and completed,  
by tenure and  
district, 2015-16,  
DCLG; Table  
406: Household  
projections by  
district, England,  
1991- 2039,  
DCLG.

Table 2: The rates of housebuilding in the five fastest and slowest growing (or shrinking) areas across England in terms of projected household growth.

# Fixing the failing land market

The land market is currently too dysfunctional to provide the number of homes the country needs. Supply is inherently scarce, but the planning system constrains it further, driving competition between developers and other landowners. And because land values gain considerable value after receiving planning permission, this also drives speculation and the trading and hoarding of land, rather than development.

All these factors mean that land gets more and more expensive and the end result is that not enough viable land is being brought forward for development in areas where people want to live. Shelter and KPMG have referred to this as the “land price trap” which they say is a key driver of our “high cost, low output housing sector”.<sup>18</sup>

We agree and believe **this necessitates greater state intervention in the land market**. The market signal of decade-long rises in house prices has not been met by an adequate supply-side response, for which previous Government inaction is partly to blame.<sup>19</sup>

## Stronger strategic planning

To help fix the land market, national and regional Government should play a much **stronger role in strategic spatial planning**. This should be with an explicit intention to bring more land forward for development.

In stark comparison to other countries, there is little to no strategic decision making about planning between national and local level in England.<sup>20</sup> The Mayor of London publishes the strategic London Plan; while cities such as Greater Manchester that have recently negotiated devolution deals are to be devolved similar statutory spatial development powers, but there is little strategic coordination beyond city borders.

When economies and travel to work areas overspill formal boundaries, this is a barrier to good growth. It is also in denial

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18 Shelter and KPMG (2015) - Building the Homes We Need

19 Of course, a major increase in land supply does not immediately mean that house prices will fall and become more affordable. A recent report makes this case, arguing that unaffordability stems from the demand side of the housebuilding equation. Civitas (2016) - Restoring a Nation of Home Owners

20 JRF (2013) - International review of land supply and planning systems

of the 11.2 million British people who commute from one local authority to another each day, many of whom would prefer to live closer to their work.<sup>21</sup> A more holistic and strategic approach to planning is required, with better coordination between local planning authorities and the provision of a stable supply of land.

Stronger management of spatial development will go hand in hand with the Government's intention to formulate a more active industrial strategy. Because the housing and labour markets are inherently linked, one will not work effectively without the other.

## Abercrombie 2.0

The primary focus of strengthened strategic planning should be London and the South East, where our population continues to shift.<sup>22</sup> Like the Abercrombie Plan was established for the post-war age, we believe that **London and its surrounding areas now need a new masterplan for the bringing forward of land for the delivery of new housing.**

### Recommendation 3

Government should commission the development of 'Abercrombie 2.0', a new masterplan for the release of new land for housing across London and the South East.

Building on the existing London Plan and local plans in the South East, this masterplan should bring together local politicians and stakeholders and be convened by the Secretary of State for Communities and Local Government and the Mayor of London. It would need to be cross-party and in collaboration with experts such as architects and planners.

Following in the footsteps of Patrick Abercrombie's 1944 Greater London Plan, **the new masterplan should focus on meeting five of the most important issues that the city and wider area faces.** For Abercrombie these were population growth, housing, employment and industry, recreation and transport.

Over seventy years have passed since the Plan's publication, but many of the issues that London faces remain the same. The city's population continues to expand apace. The housing market is

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<sup>21</sup> UK Census, 2011

<sup>22</sup> James Gleeson (2016) - Tracking England's shifting centre of gravity over time

struggling to cope with its success. It leads globally in sectors such as financial services and generates huge numbers of jobs, yet Brexit throws that into question. The city is one of the greenest in the world but has high childhood obesity rates. And a daily commute on the tube is more than enough evidence of the need for more and better transport infrastructure in London.

What principles would Abercrombie follow today? We propose that the plan should focus on the following key issues.

<p>Delivering affordable and suitable homes</p>	<p>Affordability, the symptoms of which are often all too visible – homelessness, overcrowding – and in the case of resultant low disposable incomes, structurally embedded, should be the first priority of the masterplan. Alongside this new homes should be planned that are suitable for Generation Rent. This means smaller properties that reflect the way society is changing (i.e. not just building for nuclear families).</p>
<p>Homes where jobs are and where people want to live</p>	<p>The British population has steadily shifted south east over the past decade and is projected to do so further over the next few decades.<sup>23</sup> Job growth attracts migrants from across the UK and the world towards London and the South East, yet housing delivery has not kept up with these demographic shifts. It is imperative that a new masterplan does. Homes need to be provided close to where people work and where they want to live.</p>
<p>Providing requisite infrastructure</p>	<p>In recent years, as public perception of the housing crisis has grown, people have become more and more accepting of homes being built in their local area.<sup>24</sup> This death of so-called 'NIMBYism' is hugely positive, but people still rightly worry that their area cannot support newcomers without more and better infrastructure. As part of the new masterplan, the Government should therefore explore the options by which it can ensure that sufficient infrastructure is provided as part of new developments that are built on new land brought forward. This could mean 'capturing' a greater proportion of the value after planning permission is granted.</p>

23 James Gleeson (2016) - Tracking England's shifting centre of gravity over time  
 24 Shelter (2015) - The strange death of NIMBY England

<p>Development of a more stable and varied housebuilding sector</p>	<p>The very introduction of a more stable supply of land into the housebuilding sector should bring greater market functionality. But it is also important that any new land brought forward encourages small and medium sized developers back into the housing market. Currently, because land is so scarce, small and medium sized developers tend to be crowded out of the land market by larger national developers. This makes the housebuilding sector less diverse and less resistant to external factors. Government should encourage small and medium sized developers as far and wide as possible to use new land that comes forward for development as a result of the masterplan.</p>
<p>Environmental protection</p>	<p>Reform to the Green Belt is often met with incredulity because it is imagined to be sacrosanct green and pleasant land. While in many places this is certainly the case, in others it is not – for instance, 37% of London’s Green Belt is intensive agricultural land.<sup>25</sup> As part of the review, it is imperative that in areas that need genuine protection – e.g. Areas of Outstanding Natural Beauty – planning protections are enhanced. Other environmental issues, such as air pollution, should also be factored in.</p>

## Re-evaluating the Green Belt

As part of the masterplan, there should be **a comprehensive review of the extent and nature of the Green Belt**. This should mean the strengthening of protection in areas where land is genuinely in need of protection, but also the re-evaluation and release of land which is incorrectly classified. Urban extensions into previously Green Belt land should be prioritised, with special attention given to the expansion of satellite towns in the vicinity of the outskirts of Greater London.

It is fundamentally unfair that growth in London and the wider South East continues to be regulated by a land-use policy that was established when the capital was emerging from a world war and still an imperial city. It actively constrains the supply of land that can be developed for housing in the area where it is most needed

<sup>25</sup> Adam Smith Institute (2015) - The Green Noose



and delivers most benefit to existing owners of homes within the protected area. Because it prevents housing competing as a land use, the Green Belt is also in effect a subsidy to industries that use high amounts of land such as golf courses and horse riding centres.<sup>26</sup>

A more mature conversation is needed about the Green Belt on where the policy works and where it doesn't. **No other policy which is so impactful gets such little critical attention.** The benefits of doing so would be considerable. AECOM project that 2.5 million homes could be built on the 63,800 hectares of Green Belt land which is within one mile of a railway station and potentially developable (this figure excludes environmentally protected land such as flood plains).<sup>27</sup>

#### Recommendation 4

Government should commission a comprehensive review of the Green Belt. This should be focused on London and the South East but with reference to other metropolitan Green Belts.

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<sup>26</sup> Paul Cheshire (2014) – Turning houses into gold: the failure of British planning

<sup>27</sup> AECOM (2015) - London 2065

