DISRUPTING THE HOUSING MARKET
A policy programme to save the home-owning democracy

Jack Airey
About Localis

Who we are
We are an independent, cross-party, leading not-for-profit think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism
Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people’s lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

• Reshaping our economy. How places can take control of their economies and drive local growth.

• Culture, tradition and beauty. Crafting policy to help our heritage, physical environment and cultural life continue to enrich our lives.

• Reforming public services. Ideas to help save the public services and institutions upon which many in society depend.

• Improving family life. Fresh thinking to ensure the UK remains one of the most family-friendly places in the world.

What we do
We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas.

We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme.

We also run a membership network of local authorities and corporate fellows.
Acknowledgements

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Any errors or omissions are my own.

Jack Airey
Advisory Panel

This research project was supported by an Advisory Panel, whose members are listed below. Advisory Panel members were interviewed and provided comments on report drafts. They may not necessarily agree with every analysis and recommendation made in the report.

- Niall Bolger, Chief Executive of Sutton Council
- Eamonn Boylan, Chief Executive of the Greater Manchester Combined Authority
- Nicholas Boys Smith, Founding Director of Create Streets
- Louise Brooke-Smith, Partner at Arcadis
- Sir Merrick Cockell, Chair of London Pensions Fund Authority
- Keith Exford, Chief Executive of Clarion Housing Group
- Liam Halligan, Columnist at the Telegraph
- Sir Edward Lister, Chair of the Homes and Communities Agency
- Toby Lloyd, Head of Housing Development at Shelter
- Sadie Morgan, co-founder of dRMM architects
- Brian Reynolds, Programme Director at One Public Estate
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Foreword

There is a quotation that says: if you always do what you have always done you will get what you always got. To me, this sums up the housing market.

As the government’s housing white paper stated, the market is broken and there is no single fix. Increasing housing supply requires new products and approaches, flexibility and partnerships. In these terms, this Localis report analyses the current housing market and provides a number of policy opportunities for disruption.

As my organisation prepares to become Homes England, we have been thinking hard about what we do and how we can play a more active role in the housebuilding industry. We can take a long-term view and we will help anyone that wants to disrupt the housing market in a positive way.

In my view, there are three main ingredients to the housing problem: planning, land and finance. Planning is the starting point and the current inconsistency in local plan-making has clearly been identified by government as a barrier to housing delivery. The Housing White Paper prioritises planning for more homes in the right places and the consultation on housing needs assessment shows government intends to bring clarity to this situation. This Localis report puts forward further ideas to clarify and speed up the process.

Land release is the second ingredient. Not enough land comes forward where and when it is needed for new homes and accompanying infrastructure. More is being done to this end – for instance, my organisation is increasing the disposal of surplus public land and funding infrastructure to unlock large sites – but more can and must be done. This requires innovative thinking and, as this report identifies, using all tools in the policy box. It also necessitates a collective effort: from government, the private sector and, of course, local government which, in a great deal of places, is the largest land owner.

Finally there is access to finance. This report shows that new and innovative sectors, for instance Build-to-Rent, are filling a big gap in the market, but often struggle to finance development. We also need to open up the market to smaller and medium sized builders and increase innovation by encouraging modern methods of construction. Government has committed significant funding to support a more diverse, dynamic market and we are keen to see, and learn from, different kinds of partnerships between the private and public sector.

The report is a welcome contribution to each of these debates and the wider structural issues that face the housing market and, more broadly, society. The vast majority of people have aspirations to own their home. Only by rethinking how the housing market works will those aspirations be achieved.

Sir Edward Lister
Chairman of the Homes and Communities Agency
Executive summary

The number of homes bought by people aged twenty-five to forty-four with a mortgage has dropped by over 1.6 million in just over a decade. Over the same period the number of homes owned outright by people aged over sixty-five increased by over 1.4 million. What we are witnessing is the accelerated decline of the home-owning democracy and this should trouble us because it is an inheritance worth preserving.

As this report makes clear this is for reasons of cost, quality and security, but for more visceral reasons too. It is a bulwark against populism and radicalisation: when you have a tangible stake in society you are less likely to want tear it down. Most importantly home-ownership is an important life ambition, one that recent generations have enjoyed and future generations should too.

This report, however, is not blind to major structural challenges besetting the housing market. There is a clear connection between the hallmarks of the private rental sector and the ability of people to accrue enough capital to own their own home. Deep rooted and disruptive reform of the housing market is required. This report puts forward a policy programme to reform the private rental sector in order to extend the franchise of a home-owning democracy to future generations.

Figure i: Change in number of households by age of household reference person and tenure between 2003-04 and 2015-16

Strengthening people’s deposit saving capacity

One of the most important steps government can take to save the home-owning democracy is reforming the ways in which people can save for a mortgage deposit. The current laissez-faire approach is simply not working: research for this report finds fifty-eight percent of people who do not already own their home
(outright or with a mortgage) are saving *nothing at all* each month for a deposit to buy a home in the future. Just twenty-three percent are saving *anything*. This trend cuts across people of all ages, tenures, regions and socio-economic classes.

**Figure ii:** Roughly how much money, if any, do you save each month for a deposit to buy a property in the future?

Government, therefore should make deposit saving a more attractive option. The auto-enrolment of employees aged 18-40 to pension schemes by employers should include the option to make contributions towards a Lifetime ISA. Employers should be expected to make contributions equal to three percent of the employee’s qualifying salary and, as with the Lifetime ISA, government should continue to match twenty-five percent of employee contributions.

This would revolutionise the way by which deposits are saved for. Far more people would be building their financial capacity to buy a home. Their employer would contribute. And viable deposit sums would be reached much more quickly: our calculations show that for someone on a salary of £30,000, after fifteen years their total savings would be £32,600 by this scheme.

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**More homes built where people want to live**

Not enough homes are built where people want to live. In a majority of places there is not even a local development framework by which current and future housing demand is to be met. This has a direct impact on people’s capacity to

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1. Polling carried out by YouGov. Total sample size was 1,593 adults. Fieldwork was undertaken between 18th - 19th July 2017. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Full tables in Appendix 1.
own their own home: insufficient supply is one factor that has made homes less affordable and deposits further out of reach.

There is no one course of action government can take to increase housing supply. The reasons why not enough homes are delivered where they are wanted are numerous, complex and vary widely across the country. No single part of the housebuilding process that can be blamed. This necessitates a reforming housebuilding strategy spanning all sectors, public and private, which brings forward more land for development in a more efficient manner and then ensures that land is used productively.

To these ends the following measures should be introduced:

- **Providing local authorities more flexibility to plan for new homes.** The green belt is a part of the welfare state and yet it does not serve public welfare. It is a blunt planning control method which forces new homes to be built in inappropriate places and blocks their construction in areas entirely suitable. Government should take a new approach to green belt policy, outlining a new direction based on public welfare for local authorities to follow:
  - Either the National Planning Policy Framework (NPPF) should be amended, stipulating that unmet housing need represents exceptional circumstances in which green belt land, which local authorities deem inappropriately regulated, can be allocated for residential development. Or;
  - Local authorities should be compelled to prepare, maintain and publish ‘yellowfield’ registers: land which does not meet the five purposes that green belt land serves.

- **A programme of new towns in the South East.** London’s reach extends well beyond its borders, but there is little to no strategic direction for the planning and delivery of new homes to meet the city-region and wider area’s demand. Government should fill this gap:
  - The National Infrastructure Commission’s (NIC’s) remit should be widened to shine a light on where new settlements are needed and what state support each would require;
  - Local authorities, strategic authorities and the Homes and Communities Agency (HCA) should work together to plan and deliver new settlements via local plans or development corporations;
  - In places where land ownership is necessary to drive forward delivery the state should purchase land, either via planning freedoms schemes or reformed CPO powers.

- **Disruptive intervention in the housebuilding industry.** As government recognises in the Housing White Paper, a diverse base of providers is needed “to achieve the amount, quality and choice of housing that people want.” This means diversity in business models, product and construction methods. To support this government should:
  - Allow small sites that are brownfield or infill to qualify as permitted development;
  - Via direct equity investment, loan finance or land provision, government should support the building of more modular and new technologies factories. Investment should be directed towards once place, which could become a hub of the off-site construction industry.
  - State subsidy for building new homes should be weighted towards rewarding housebuilders who use off-site construction methods.
• **A more direct use of public land.** Government needs a clearer strategy on disposal of land and assets by its own departments. This strategy should include the following:

  – Wider and more accessible data coverage of non-operational sites: Make e-PIMS publicly available and mandate that all land owned by departments is registered on the Land Registry. Public and private sectors should be encouraged to be proactive in bringing forward proposals to departments.

  – Cabinet Office guidance for surplus property disposal on the open market should place stronger emphasis on achieving *long-term best*, rather than *market*, value.

### A safer and more secure private rental sector

Saving the home-owning democracy need not come at the expense of those who live, and whose home may only ever be, in the private rental sector. In fact its preservation is dependent on a private rental sector that is safer, more secure and which chews into less of renters’ incomes each month. This necessitates regulation which better reflects the size of the sector and circumstance of private renters.

Last year 4.5 million households rented privately – over double the amount when the legislation that guides private tenancy agreements was introduced in 1996. Of these, 1.6 million were households with dependent children. For this group assured shorthold tenancy agreements are not fit-for-purpose.

If government is serious about creating “a country that works for everyone” this cannot continue. Government should reform legislation to allow private tenants to choose their initial tenancy length at six month intervals up to thirty-six months, with a one month break option after six months. Regulation should also change to allow rent increases at only twelve month intervals and for those increases to be agreed and locked-in from the start of the contract. This would be important to prevent eviction by rent increase in place of a tenancy being ended early.

These proposals prioritise consumer choice. A footloose person would still have their flexibility and freedom to choose a tenancy length that didn’t tie them to one place. And a family would be provided the guarantee that three years later they would still be living in that area.

### A collective sacrifice

Saving the home-owning democracy demands a collective sacrifice. Homeowners have to accept new homes will be built in their area. Their home may lose value, it may rise in value, but that value will be fictional if no-one has the financial capacity to buy it. Developers’ construction models will need to adjust. As labour and material shortages bite, modern methods such as off-site construction will become a necessity rather than a speculative investment. Financiers will need to be more creative in mortgage products. People are living longer and earn their income in different ways: the market should catch up with that. And anyone who wants to own their home in the future will need to put more money away each month for a deposit.

Only government has the platform to trigger this collective sacrifice and it goes against almost half a century of orthodoxy. Housing policy over the past few decades has been characterised by minimising the number of losers, generating as little productive activity as possible, rather than policy in line with public good. In truth the condition of the housing market is the biggest state failure of the past forty years. A combination of poor decisions and no decisions by governments of all political parties and all tiers of the state has led to this juncture. Most directly it is the young and private renters who have shouldered the cost of this failure.
Any party aspiring to govern should treat housing as a social service

Above all this comes down to politics. Effective housing policy has only happened and only will happen when there is a strong enough political will from central government. The radical reforms of the housing market and welfare state by the post-war Labour government stemmed from the desire to win the peace. The 1951 Conservative manifesto described housing as the “first social service”.

The Grenfell Tower disaster holds the shortcomings of the state’s long-running approach to housing up to the light. A fundamental rethink is now required on how the housing market functions and for whom. We have put forward a number of measures which would go some way to doing that. And while it may require political capital in the short-term, there are clear longer-term political benefits in doing so. It is government who are on the hook with the electorate.

For the Conservatives, things can only get better. A recent poll by YouGov found that just four percent of 18-24s believed the party best for housing. Its struggles with the under-50 demographic, those who stand to gain most from a more interventionist housing strategy, are well documented. For Labour, the picture is rosier in terms of perception – forty-four percent of 18-24s believed the party best for housing – but their plans remain inadequate. For instance its pledge to build 500,000 council homes by 2022. Even if grant was substantially increased, it is a fantasy to expect the sector to uprate the 1,840 council homes completed last year by 5435% to 100,000 per year.

For both parties, and any future government, reforming the housing market must be the priority.
Full list of recommendations

1. To incentivise a wider coverage of local plans, government should announce it will withhold New Homes Bonus from local authorities without an adopted local plan from 2018/19. Government should also reaffirm its support for the Homes and Communities Agency (HCA) or relevant strategic authority to intervene in plan-making where little progress is being made towards that deadline, or where plans, under preparation or submitted, do not sufficiently respond.

2. Strategic authorities, with support of constituent local authorities, should put forward ‘housing deal’ proposals to government.

3. Government should once again treat the green belt as part of the welfare state, outlining a new direction based on public welfare for local authorities to follow:
   
   - Either the NPPF should be amended stipulating that unmet housing need represents exceptional circumstances in which green belt land, which local authorities deem inappropriately regulated, can be allocated for residential development;
   
   - Or local authorities should be compelled to prepare, maintain and publish yellowfield registers.

4. Central government should take a more muscular role in the planning and delivery of new towns in the South East:
   
   - The National Infrastructure Commission’s remit should be widened to shine a light on where new settlements are needed, sustainable; and what support each would require;
   
   - Local authorities, strategic authorities and the HCA should then work together to plan and deliver new settlements;
   
   - In places where land ownership is necessary to drive forward delivery the state should purchase land either via planning freedoms schemes or reformed CPO powers;
   
   - The HCA should be supported with requisite loan funding to be more active in the private land market.

5. To achieve its aims of using more public land to build homes, government should:
   
   - Make e-PIMS publicly available and mandate that all land owned by departments is registered on the Land Registry;
   
   - Direct government departments and Arm’s Length Bodies to manage their assets more strategically and proactively;
   
   - Allow disposing departments to keep a bigger cut of proceeds made through outright sale or co-development of land, thus better incentivising more surplus land to be disposed;
6. Government should allow small sites that are brownfield or infill to qualify as permitted development.

7. To expand the provision of sub-market homes for sale and rent, the HCA and local authorities should look to enter joint ventures with institutional investors, putting forward public land as equity. This requires the HCA and/or local authorities to establish investment vehicles in which they invest land as equity and the institutional investor brings debt.

8. Government should be more active in kick-starting the off-site construction industry:
   - Via direct equity investment, loan finance or the provision of land, government should support the building of more modular and new technologies factories;
   - State subsidy for building new homes should be weighted towards rewarding housebuilders who use off-site construction methods.

9. The auto-enrolment of employees aged 18-40 to pension schemes by employers should include an option to make contributions towards a Lifetime ISA. Employers should be expected to make contributions equal to three percent of the employee’s qualifying salary and, as with the Lifetime ISA, government should continue to match twenty-five percent of employee contributions.

10. Government should reform Stamp Duty Land Tax (SDLT) for first-time buyers by either:
    - Allowing the transfer of SDLT liability to point of onward sale;
    - Waiving SDLT liability on the first £250,000 of the property cost;
    - Allowing SDLT liabilities to be paid in instalments.

11. The legislation which guides private tenancy agreements should be amended to:
    - Allow private renters to choose their initial tenancy length at six month intervals up to thirty-six months, with a one month break option after six months;
    - Allow rent increases at only twelve month intervals and for those increases to be locked-in from the contract’s start.

12. Strategic authorities should be devolved powers from central government to permit landlord licensing schemes.

13. Local authorities should, like with empty homes, be able to levy council tax surcharges on second homes. The rate at which this surcharge can be applied should be increased to one-thousand percent.
Chapter One — Introduction

What is the housing crisis? We began this research hypothesising it was one of happiness: people tend to be unhappy with their home so something must be done.

However public polling conducted for this report finds that Brits are in fact rather content with their home: seventy-eight percent of respondents were either very or fairly happy and eight percent fairly or very unhappy.² Even in the places and tenures reported to experiencing the most acute of housing crises – Londoners, private and social renters – there are large majorities who are happy with their home.

So if it is not a crisis of happiness, what about of need? We found that British homes tend to be functional: eighty-seven percent of respondents said their home completely or partly met their and their family’s needs. Nine percent said their home met their needs not very much or not at all. Again, across all ages, tenures and places, the large majority of respondents said their home met both theirs and their family’s needs.

² Polling carried out by YouGov. Total sample size was 1,593 adults. Fieldwork was undertaken between 18th - 19th July 2017. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Full tables in Appendix 1.
What about a crisis of cost?

More so. There is a notable difference between those paying rent compared with those who are paying off mortgages when asked if their home is worth the costs. However, an optimist might say that with two-thirds of the population saying they believe their home – normally the most significant monthly outlay – is worth the costs, this is not a crisis.
What these results show is that in terms of happiness, need and cost, a significant minority of people are experiencing a housing crisis that is, in some cases, highly acute, but that the majority experience no crisis at all. For instance a homeowner whose housing equity has grown inordinately may feel the housing market works perfectly well. The fourteen percent of private renters, fifteen percent of social renters and fifteen percent of respondents from London who say they are unhappy with their home, alongside the twenty-one percent of social renters who say their home does not meet their or their family’s needs, may not. One person’s dysfunction is another’s pension.

The plight of those at the margins of the housing market requires urgent redress. Much of the analysis and many of the recommendations made in this report are aimed at supporting this group. However, over the longer term, improving the living standards of those at the margins of the housing market – and preventing the housing crisis widening by more people and families joining their number – requires addressing the much broader structural shift in the housing market, and in society at large, over the last two decades: an end to the home-owning democracy.

That people are less and less likely to own their home is well-known. What our research shows is that a large majority of non-homeowners are saving nothing at all each month towards a deposit and that, without stronger intervention, the trend away from home-ownership will only accelerate (explored in Chapter Two).

This report contends the home-owning democracy is something worth caring about, worth preserving, and thus considers what can be done to lower the barriers to buying a first home. However, we also argue that British society and politics need to come to terms with the reality that for a large proportion of the population, given their financial (in)capacities and the sharp drop in the availability of social housing, privately renting is often the only choice for them and their family. This choice needs to be made safer and more secure.

To these ends this report makes a suite of policy recommendations on how the state can intervene and disrupt the housing market in the interests of its users. We consider how land comes to market for new homes where and when it is needed (Chapter Three) and how this land can then be distributed and used more productively (Chapter Four). Finally we argue for a radical shift in power towards consumers through more choice and protection in the housing market (Chapter Five).

Report scope

Housing is a hugely multifarious topic. We have addressed those areas we believe most relevant to the challenge of an ending to the home-owning democracy. This has meant leaving a number of other policy areas such as leasehold redress, social housing regulation, wealth taxation and downsizing. Each are important issues on their own but to cover them in this report would be scope creep on our part.
Chapter Two — An end to the home-owning democracy?

The pace at which the housing market has changed shape in the past twenty years is remarkable. In two decades the gap between the proportion of homes in England being bought with a mortgage and those rented privately has dropped from over thirty percent to less than ten percent. Today a home in England is more likely to be owned outright than to be bought with a mortgage. These trends are particularly pronounced across younger demographics.3

![Figure 4: Trends in tenure in England, 1997 to 2015-16](image)

The brief explanation for these trends is that not enough people are taking out mortgages to replace those who have paid theirs off. Moreover, as a recent report by the Council of Mortgage Lenders has found, those that have a mortgage are not moving up the housing ladder: there are now 140,000 fewer transactions by ‘mortgaged movers’ than before the recession.4 The report authors suggest the economic conditions of the late twentieth century which allowed millions to climb onto then up the housing ladder – favourable lending conditions, relative housing affordability and rapid levels of growth in housing equity – were unique. “Expecting or hoping for a return to those times or even something bearing close resemblance would seem unrealistic.”

This has profound consequence for British society, the economy and politics, and our research suggests the plight of home-ownership levels will worsen. In our public polling, fifty-eight percent of survey respondents who did not own their

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3 Between 2003-04 and 2015-16 the proportion of 16-24s in buying with a mortgage decreased by 16.2% and the proportion privately renting increased by 18.1%. For 25-34s the equivalent figures were 19.6% and 17.8%. For 35-44s they were 20.9% and 24.7%. For 35-44s they were 20.9% and 24.7%. For 45+ the equivalent figures were 16.6% and 17.8%.

4 CML (2017) - Missing Movers
home (outright or with a mortgage) said they were saving nothing at all each month for a deposit to buy a home in the future. Just twenty-three percent of respondents said they were saving something.

Figure 5: Roughly how much money, if any, do you save each month for a deposit to buy a property in the future?

Whether out of choice, or simply because they do not have enough money at the end of each month to do so, this means a majority of people are not building any financial capacity with which to get a mortgage and purchase a home in the future. (For context last year the average deposit for a first time buyer in the UK was £32,321 and in London it was £100,445.5 Research by Resolution Foundation shows “the average young family today [has] to save for 19 years to accumulate enough for a typical deposit compared to just 3 years a generation ago”.6) This crisis of saving transcends people of all tenures, ages, regions and socio-economic classes, as shown by Figure 6.

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5 Halifax (2017): Number of first-time buyers reaches 10-year high
6 Resolution Foundation (2017): Home Affront: Housing across the generations
Yet these consequences are underappreciated, least of all by non-homeowners themselves: in the latest English Housing Survey sixty percent of private renters said they expect to buy a home, twenty-five percent of which expect to buy in less than two years, thirty-three percent in two-to-five years and forty percent in five years or more.\textsuperscript{7} Large numbers of people and families who we would have historically expected to own their home are now unlikely to do so. Particularly those with little or no financial support from parents.

\section*{2.1 Why we should care}

A shift away from home-ownership towards private-renting is a profound change in the security, finances and lifestyle of a huge swathe of the population. For instance renting privately is expensive: households that do so spend twice as much of their income (thirty-five percent) on rent as owner occupiers do on mortgage payments (seventeen percent).\textsuperscript{8} At the same time, and no doubt linked, in the past decade median household income, after housing costs, has increased by four percent for private renters compared to seventeen percent for people with mortgages.\textsuperscript{9} Housing costs are a brake on private renters’ income growth. Moreover the quality of privately-rented housing tends to be worse than other tenures. In 2015/16 twenty-eight percent of homes in the private rental sector failed to meet the government’s Decent Homes Standard compared to eighteen percent of owner-occupied homes. Privately-rented homes are smaller than owned homes too (averaging 76m\textsuperscript{2} compared to 108m\textsuperscript{2}). And we also know private renters are less settled – last year forty-two percent of private renters had been in their home less than two years\textsuperscript{10} – and that the sector has a high churn rate: last year 787,000 households moved from one privately-rented home to another and there were 187,000 moves into the sector.\textsuperscript{11}

\begin{itemize}
    \item \textsuperscript{7} English Housing Survey, Annex Table 1.10: Buying expectations, social and private renters, 2015-16
    \item \textsuperscript{8} English Housing Survey, 2015-16. This figure includes housing benefit. Excluding housing benefit 41.0% of privately renting household’s income is spent on rent.
    \item \textsuperscript{9} Resolution Foundation (2017) The Living Standards Audit
    \item \textsuperscript{10} English Housing Survey, Annex Table 3.2: Length of residence in current home, 2015-16
    \item \textsuperscript{11} English Housing Survey, 2015-16
\end{itemize}
Beyond these issues of quality and cost, it is our contention that the home-owning democracy is worth caring about for more visceral reasons too. Firstly, it is a bulwark against populism and radicalisation. When you have a tangible stake in society you are less likely to want to tear it down. Secondly, the available evidence overwhelmingly points to the vast majority of people, even now, still wanting to own a home. It is an important life ambition, one that recent generations have enjoyed and future generations should too.

Thirdly, our research shows that people who own their home are more likely to be happy with it. Twenty-one percent more survey respondents who owned their home with a mortgage, and twenty-nine percent who owned outright, were happier with their home than private renters. As illustrated by Figure 7, homeowners are also much more likely to feel their home has met their expectations when growing up than private or social renters.

And finally, the housing market is everyone’s problem. Those who already own their home are dependent on someone else buying it. If the first rung of the housing ladder is lifted too high, there will be fewer and fewer buyers to sell to in the future. A Burkean intergenerational contract needs to be restored between those who wish to own their home, those that already do; and those that want to leave for retirement.

**Figure 7:** To what extent, if at all, does your current home meet the expectations that you had for your future housing when you were growing up? (Excluding don’t knows)

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### 2.2 Widening renters’ rights

To make home ownership attainable to more people, their financial capacity needs to be stronger and homes more affordable. While we make a number of recommendations in this report aimed at targeting both, neither has a short-term fix and both are dependent on wider markets. For the former, government can incentivise new savings products but these could still be tempered by low wage growth and by low interest rates. For the latter, the state can facilitate the building of new homes but there is no guarantee this will result in lower prices, and those prices will factor in credit availability and a second hand market. In short, it’s complicated.

In fact it is likely there is a generation who, without inheriting a substantial

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12 The British Social Attitudes Survey
sum or with a very high income, will never own their home. A recent Council of Mortgage Lenders report finds there is only a ‘slim chance’ someone over the age of forty, who does not already, will own their home.\footnote{CML (2017) - Missing Movers} More and more pensioners will have to use their retirement income to pay rent.

The growing size of the private rental sector and the increasing number of families living in it – 1.6 million in 2015-16, 664,000 more than in 2008-09\footnote{English Housing Survey} – demands rules and regulations suited to the lives and ambitions of private renters. All too often politics and policy leaves the 4.5 million privately-renting households in the shadows. This weight of concern is also reflected in the legal system.

It is vital that the private rental sector is reformed to be more secure. The truth is a limited security of tenure can have a stifling impact on local solidarity. A person or family is less likely to have a stake in their local community if they have no guarantee they will be part of it in six months’ time.

\section*{2.3 Rethinking how the housing market functions and for who}

Together with increasing supply to meet population growth, government has long been alive to the challenge laid out so far in this report. However, its and previous governments’ responses have been too weak and not focused enough on reforming the private rental sector so that a) people have some capacity to save after paying rent and b) it is a pleasant and secure tenure to live in whether temporarily or permanently. As the former Chancellor Iain Macleod once said: “You cannot ask men to stand on their own two feet if you give them no ground to stand on.”

The truth is recent governments of all colours have detached themselves from the outcomes of the housing market. Policy has been characterised more by a numbers game than any sense of ownership or responsibility for the position many people find themselves in today. One government-commissioned review after another has diagnosed these issues but follow-up reform has been tepid at best. And while many local authorities will argue (often rightly) that they are hamstrung by national policy, many could have done more to improve their local housing markets too.

Above all, this comes down to politics. Effective and life-changing housing policy has and only will happen when there is a strong enough political will from central government. The radical reforms of the housing market and welfare state by the post-war Labour government stemmed from the desire to win the peace. The 1951 Conservative manifesto described housing as the “first social service”.

Progress was made in the Housing White Paper and recent housing bills, but, as this report makes clear, only fundamentally reformist policies will suffice to meet the challenges that lie ahead. Government may be unable to introduce primary legislation given the clustered parliamentary calendar and arithmetic. Yet there is already substantial existing legislation and opportunity for secondary legislation and executive order; and changes to the NPPF forecast for the end of the year. Moreover, a large number of strategic and local authorities are willing and ready to negotiate bespoke housing deals, as put forward in the Housing White Paper. Our recommendations are constructed with this in mind.

To be clear, greater state intervention in the housing market does not equate to the end of a free market. In fact, as the title of the government’s Housing White Paper indicated, it is about fixing a broken market that works for no-one but the already capitalised; to allow it to function as a free and fair market should. A more muscular role by government in the housing market is common across the world. For instance in Singapore, a bastion of free trade, eighty-two percent of the population lives in state-built accommodation, ninety-nine percent of whom are owner-occupiers with ninety-nine year leases. The point is simple: government can act if it wants to.
Chapter Three — A policy framework for homes where and when they are needed

A more functional housing market would be, at its most simple, housing supply better matching housing demand. It is often heard the ‘solution’ to this, in England at least, is building 200,000-300,000 new homes per year (depending on who you ask) and meeting this number has been a primary focus of recent governments, at least in terms of housing. Yet it is far too simplistic.

Firstly the extent of housing demand varies across the country. For instance in the next ten years England’s population is expected to increase by more than two million households. This household growth is projected to vary widely across the country – the number of households in Tower Hamlets is projected to grow by twenty-seven percent compared to negative growth in Barrow-in Furness – which means some places will need to uprate housing supply more than others.

This challenge is illustrated by the map on the next page. A large number of places are building at a rate that meets projected future demand. There are, however, a number of hot spots where new build delivery needs to increase significantly; most notably London and the wider South East. A higher numbers of homes is only useful if they are in places where people want to live.
Figure 8: Where will new housing supply need to increase the most? Map showing the rate at which new build delivery in local authority areas (measured by average new builds delivered per year over past four years) needs to increase to meet projected demand over next ten years (measured by average annual projected increase in population over next ten years).

Legend: Rate at which annual new build delivery needs to increase to meet projected demand over next ten years (%)

- 450%: Places that need to uprate delivery of new homes the most
- 0%: Delivery of new builds meeting demand
- -100%: Places that do not need to uprate delivery of new homes

Places that need to uprate delivery of new homes the most:

450+

Delivery of new builds meeting demand:

0%

Places that do not need to uprate delivery of new homes:

-100%
Secondly the nature of housing demand varies from place to place. In areas with high numbers of retirees, housing that is accessible will be the local priority. The priority of areas with a highly transient population – for instance city centres – will likely be more homes for rent. Higher numbers of homes are only useful when they are homes people want, and can afford, to live in.

These principles seem obvious yet they are often forgotten in debates over housing supply. Housing demand is inherently local so, whether a home is newly-built or built anew, to be owned or rented, any strategy which aims to increase the supply of homes that people want and can afford has to be locally-led. (And, given the impact of jobs growth on housing demand, aligned with local industrial strategies.)

In this chapter we put forward disruptive measures by which local and central policy frameworks can be strengthened to support this. Our proposals are focused on three aims in particular.

1. Delivering certainty

The reasons why not enough homes are delivered where they are wanted are numerous, complex and vary widely across the country. There is no single part of the housebuilding process that can be blamed. Having said that, there is one consistent theme: uncertainty.

From purchasing a plot of land – where the price a speculative investor will pay is dependent on their expectations of development value in a few years’ time (the residual land value) – to knowing whether planning permission will or won’t be granted, to not knowing when or where infrastructure will be delivered and who will foot the bill, uncertainty is common across the period over which a home is built.

Uncertainty increases risk and deters private and public investment. It is also unpopular with local communities. Homes can be built on a speculative basis and with little alignment with the delivery of strategic infrastructure. And, because it can squeeze construction costs, volatility in the land market impacts the differential between good and bad design.

It is, therefore, sensible for central and local government to bring as much certainty in its policy framework as possible. This means rules that are harder to break. And it means more certainty over what is deliverable over a defined period.

2. All tiers of government involved

Uprating the delivery of new homes where and when they are needed is something that all tiers of government have a stake in and which all, with different capacities and control of different policy levers, have a role to play. Government’s housing strategy should emphasise this.

For local authorities, the majority of their revenue sources are linked to land and property (something that becomes ever more important as they become more financially independent). More homes means a higher New Homes Bonus payment and a wider council tax base. It also impacts business rates: if a business cannot guarantee a ready local labour supply or customer base it may not invest or decide to leave the area.

For strategic authorities, which we define as a formal collaborative arrangement of local councils across a geography with democratic legitimacy, an area-wide approach to managing new housing demand is fundamental to its economic growth, a factor that assumes ever more importance as places write their local industrial strategies.\textsuperscript{15} The case for

\textsuperscript{15} Localis (2017) - The Making of an Industrial Strategy
jobs and new homes needs to be made together. A strategic authority has the wherewithal to marshal expertise, attract and arrange finance; and respond to commercial interests at scale, with a voice heard at national level useful for infrastructure investment. Their role should be emphasised. For central government, alongside the broader impact on economic growth and taxation of low housing supply, it is they who are on the hook with the electorate. Housing is one of the three most important issues for a fifth of the electorate, particularly younger voters. Yet government’s financial and planning support is also nowhere near as ambitious as it should be. With what is in effect insider knowledge on where and when major infrastructure projects will be delivered, alongside where demand for new homes is highest and most suitably met, we believe central government should take a firmer role in the planning and development of new settlements, essentially an insider trader role.

3. The state using its land and land procurement capacity more productively

“Land”, Savills has argued, “is the fundamental ingredient in the construction of new homes.” Because homes have to be sold at a price which ensures sufficient profit levels to the developer (typically twenty-percent) – which then depends on the sum paid for a site – land costs determine the target new build price, which affects all manner of things about the subsequent development:

- **The rate at which homes are built** – a developer will stagger build-out rate to maintain price levels in the local housing market that achieves that profit level. This often results in homes granted planning permission not being built at all: research by Shelter which found that between 2011/12 and 2015/16 the number of homes completed was sixty-eight percent of the number of units granted planning permission between 2011/12 and 2014/15.

- **The type and price of homes built** – in areas where land is most expensive, typically where housing demand is highest, this means new housing supply is likely to be focused on the upper ends of the market. It also increases pressure to lower build costs and increase density, impacting the size and build quality of homes.

- **Wider community benefits** – planning obligations, the contributions a developer will provide to make a development acceptable to the local community, are negotiated when permission is granted. In the past few years developers have been able to reopen negotiations when a development has become ‘unviable’. If a developer has overpaid for a plot of land, this typically results in, for instance, reduced affordable housing provision.

All producers have to purchase land from the same market, so this affects providers of sub-market homes too. Alongside heavily reduced government subsidy, high costs of land mean housing associations have to be increasingly commercial in this market, funding sub-market housing from profits made in the higher-end of the market.

The state has the capacity to transform this process if it chooses to. Alongside using its existing assets more productively – for which we put forward proposals in Chapter 3.5 – if public bodies used their procurement capacity more actively in the land market, they could bring

16 YouGov (2017) - Top Issues Tracker
17 Savills (2015) - The value of land
18 Shelter (2017) - ‘Phantom Homes’ - Planning Permissions, Completions and Profits
19 FT (2017) - UK housing associations use lure of luxury in social mission
land forward for development at a lower cost. In a number of places this would facilitate a more productive use of land, building good quality homes for an affordable price in a manner more acceptable to local communities. In Chapter 3.4 we put forward proposals by which this could be achieved in tandem with an expanded programme of new settlements where demand is highest.

To be clear, where the state can ensure a more productive use of land earmarked for new settlement than its existing owners – i.e. with the intention of bringing it to market as opposed to speculative development as characterised by state land procurement by English Partnerships – purchase should be considered. For the reasons above it would effectively be another form of grant for infrastructure and/or affordable housing.

3.1 Corralling local planning authorities to produce local plans

As is made clear in the Housing White Paper, the view of government is that not enough local planning authorities have development frameworks in place and some of those that do are not accurate reflections of what housing will be required in those places:

“At present too few places have an up-to-date plan: at the end of January 2017, 34 local planning authorities had not published a local plan for consultation, despite having had over twelve years to do so; and only a third of authorities had adopted a plan since the National Planning Policy Framework was published in March 2012. Even where plans are in place they may not be fulfilling their objective to recognise and plan for the homes that are needed.”

We agree. Local plans can be held up for a number of reasons, for instance by legal challenges, resource challenges and central government itself. However, when the local plan is so integral to the effective functioning of the national planning framework and local planning authorities have had a long time to produce one, it is intolerable that so many places have no pre- or post-NPPF in place. The planning consultancy Lichfields estimate forty-three percent of local planning authorities outside of London are so placed. This is even more worrying once their geography is considered: there are large rings of local planning authorities without local plans around large cities, the very places where demand for homes is projected to be highest.

Government proposed a number of measures to address some issues about local plans in the Housing White Paper. For instance a standardised methodology for calculating housing need will soon be the norm and regulations will be introduced that require plans to be reviewed at least once every five years. These are welcome but more pressure needs to be applied on those local planning authorities who either have no up-to-date plan in place (and who aren’t substantially underway to adoption) or those whose plan is demonstrably insufficient. Two years ago government pledged to intervene “In cases where no Local Plan has been produced by early 2017” – but this has proved hollow.

Government should take two courses of action, both aimed at encouraging universal coverage.

Firstly, government should revisit its decision to not withhold New Homes Bonus from local authorities without a submitted local plan. We have been told this is still a live proposal and would like to see its implementation from 2018/19 for local authorities without an adopted local plan.

20 For instance Birmingham’s local plan was upheld because of a local MP’s complaints.
21 Lichfields (2017) - Planned and deliver
Secondly, government should reaffirm its support for the Homes and Communities Agency (HCA) or relevant strategic authority to intervene in plan-making where little progress is being made towards that deadline, or where plans, under preparation or submitted, do not sufficiently respond to need. The Neighbourhood Planning Act 2017 now allows this. It provides county councils authority, as the Mayor of London and combined authorities already have, to prepare or revise local plans when the Secretary of State thinks the local authority is “failing or omitting to do anything it is necessary for them to do in connection with [their] preparation, revision or adoption”.

Intervention is punitive. An ideal scenario would be no interventions. Further, the capacity of strategic authorities and the HCA to intervene would make any intervention highly-selective. However in some cases it may be the only viable solution. Clearer more muscular direction from government on this would be an important step towards universal coverage.

Local plans are too important a plank of the national planning framework not to be prioritised and in place. Without them there is no local prospectus for how many new homes are needed, of what type, and where they will be built. Moreover, alongside issues around maintaining or expanding local tax bases, having no local plan in place can have other unforeseen circumstances. For instance one local planning authority we spoke to said that theirs had an increasing focus on commercialisation, which can bring risks, as a result of not being able to adopt a local plan that responds to assessed need within its current planning framework.

### Recommendation #1

Government should:

- Announce it will withhold New Homes Bonus from local authorities without an adopted local plan from 2018/19;
- Reaffirm its support for the Homes and Communities Agency (HCA) or relevant strategic authority to intervene in plan-making where little progress is being made towards that deadline, or where plans, under preparation or submitted, do not sufficiently respond to need.

### 3.2 Strategic authority bespoke housing deals

The role of strategic authorities in supporting local planning and delivery of housing varies across the country. In London the Mayor produces a statutory city-wide spatial plan which sets boroughs housing targets, informed by long-term demographic and economic trends. Within this role the Mayor has also set a threshold for affordable homes at which housebuilders will not need to negotiate with local councils. The GLA also assumes the role of the HCA in London.

Through devolution deals a number of combined authorities have also been provided city-wide housing and planning powers, notably Greater Manchester Combined Authority which is in the stages of producing a spatial framework and controls a £300m housing loan fund, focused on providing loan finance to SME developers.

And although there is no duty upon them to do so, a number of county councils are adopting strategic housing and planning functions. For instance Essex County Council has recently taken on a role best described as brokering public and private sector investment in collaboration with local district councils.

Further, only strategic authorities are able to bid for Forward Funding as part of government’s recently announced Housing Infrastructure Fund, allocated £2.3bn between 2017/18 and 2020/21 (the Forward Funding component allows bids of up to £250m for infrastructure on strategic sites and government “expect[s] the
The majority of our funding to go to forward funding proposals.\textsuperscript{23} The growing role of strategic authorities in housing and planning is important for two reasons specifically.

Firstly, since the abolition of regional spatial strategies in 2010 there has been a significant capacity gap in the planning and allocation of large strategic sites in some parts of the country. Strategic authority-wide spatial frameworks provide a platform to identify a credible and viable pipeline of sites, allowing for a more consistent approach to sustainable development across an area, rather than a piecemeal approach that can result in poorly-planned urban extensions, isolated settlements, or a blanket rejection of new housing altogether. Moreover, strategic authorities can provide brokerage support to local planning authorities increasingly under-resourced to adequately deal with large schemes which often cross boundaries.

Secondly, a long-term shared approach to planning across a wider area provides greater certainty on how, where and when growth will happen. This gives those who want to build new infrastructure, for instance utility providers, more confidence in planning their future cycles of investment in an area. It also provides a more prominent platform to negotiate with government departments. For instance, one London borough council chief executive we spoke to during research said Crossrail 2 would never have received funding without the Mayor.

And thirdly, a planning document that spans a whole city-region is an important framework with which to propagate good design standards. Although important not to be overly prescriptive on aesthetic decisions, a coordinated approach to what growth across a city-region should look like and how that reflects the needs of local communities is important, not least to push for other ways of thinking.\textsuperscript{24} The quality of an environment also matters for a place’s ability to attract investment and people.

The challenges of local housing markets will determine what role is most appropriate for strategic authorities in housing and planning. With government “interested in the scope for bespoke housing deals with authorities in high demand areas, which have a genuine ambition to build”\textsuperscript{25} it is therefore incumbent on strategic authorities, with the support of constituent local councils, to come forward with proposals on the powers and support they require.\textsuperscript{25} These could include:

- The establishment of a spatial development plan which can allocate strategic sites;
- Funding with which to provide loan support to local SME developers struggling to access traditional commercial sources of finance;
- Grant funding to support the establishment of a housing and planning team who can offer brokerage support;
- A single pot for commuted sums collected across the whole strategic area which are not used within a certain timeframe by the local council. This would be used to fund sub-market housing across the whole area, and help prevent issues such as Kensington and Chelsea’s struggle to use its £50m pot.

Furthermore, our discussions with civil servants and councils suggests that the Housing Infrastructure Fund is heavily over-subscribed. Given the importance of infrastructure delivery to large strategic sites – and the common difficulty in structuring its financing between the public and private sectors – we hope that government considers expanding the capital grant fund, according to the number of bids that demonstrate funding will unlock the delivery of new homes.

\textsuperscript{23} DCLG (2017) - An introduction to the Housing Infrastructure Fund

\textsuperscript{24} For instance the Mayor of London’s Good Growth by Design.

\textsuperscript{25} For instance the West Midlands Combined Authority is already in talks with DCLG over such a deal.
Recommendation #2
Strategic authorities, with support of constituent local authorities, should put forward ‘housing deal’ proposals to government.

3.3 The green belt is part of the welfare state

Land use regulation should be considered a part of the welfare state. By nationalising development control in the years following the Second World War governments, rather than land owners, have been able to set the principles by which land can be used and development occur. This means development has to be appropriate, sustainable and in the public interest while not causing demonstrable harm to others.

A fundamental part of this post-war settlement on land regulation was the introduction of green belts around many of England’s cities. The policy has protected large swaths of land from being built upon, thereby preventing town and city growth outwards and maintaining rural ‘openness’. Protection was brought forward in the same period as the New Towns programme, ensuring an adequate supply of new homes (in the public interest) and the preservation of public open spaces that could be used for recreation (in the public interest).

It is in this context which green belt regulation should be considered today. It is a part of the welfare state so should serve the broader public interests as those interests change. As Nicholas Timmins wrote in The Five Giants: A Biography of the Welfare State, the welfare state should not be considered static but “a collection of services and policies and ideas and taxes… whose boundaries expand and contract over time”.

In some places, to varying extents, green belt boundaries are expanding and contracting in response to the needs of local populations. In one sense, this is what local plans are for. To manage growth sustainably, local planning authorities are able to change green belt boundaries. For instance in Windsor and Maidenhead, whose local plan is currently in consultation, eighty-three percent of land is designated green belt. The supply of suitable brownfield sites for housing is limited so to accommodate growth – assessed to be 712 new dwellings per year – parcels of green belt on the outskirts of existing settlements will be released for new homes. Strategic plans across city regions also provide a platform for the redrawing of green belt boundaries according to public need.

It is, however, no coincidence that those places slowest in adopting local plans tend to be local authorities whose boundaries are predominantly within the green belt. The Housing White Paper states that local authorities can amend green belt boundaries “only in exceptional circumstances when [they] can demonstrate that they have fully examined all other reasonable options for meeting their identified housing requirements”. For places with high assessed need this forces difficult decisions around green belt release. Indeed, at the time of writing, of the twelve local planning authorities whose area is over eighty percent green belt, just two have adopted and up-to-date local plans.

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26 The Beveridge Report identified town planning as an important policy tool to address the giant evil of squalor, not just in terms of delivering better quality homes but also ameliorating the impact of industrial growth.
27 In some places green belts were established in the years before the Second World War.
28 RBWM (2017) - Borough Local Plan 2013 - 2033 Submission version
The truth is that today green belt policy is a blunt and ineffective method by which to manage and plan for population growth at the same time as maintaining public access to green space and protecting land of value to public welfare. Firstly a great deal of brownfield land, which in some cases may be appropriate and viable for sustainable development, is protected by green belt status.30 This puts pressure on local authorities to bring forward land for development that may in fact be of much greater value to public welfare, for instance the loss of playing fields over the decades.

Secondly, although green belt protection prevents the construction of new buildings (save for a limited number of exceptions), it does not provide protection against other uses such as horse fields, golf courses and mono-culture, often low-grade, farming. This means that in areas where land could be entirely suitable for new homes, more priority is given to a limited number of people’s hobbies rather than something so fundamental to a person’s living standards as their home. And this is despite those uses being often exclusionary to the wider public and poor in environmental terms.

These are perverse outcomes for a policy that is meant to prioritise public welfare. In a large number of areas of high demand, where people want to live, green belt policy actively works against what would be in the public good: the planning consultancy Quod has identified 20,000 hectares of accessible land within London’s green belt which is less than 800m distance of a rail or tube station and with no other protection.31 In too many cases the rigid nature of

30 Although government has brought forward plans to allow the delivery of Starter Homes on such sites.
31 Barney Stringer (2017) - Is the green belt sustainable?

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Greenbelt land (Hectares)</th>
<th>Total area (Hectares)</th>
<th>Percentage greenbelt</th>
<th>Adopted and up to date local plan?</th>
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</table>
green belt policy is serving the interests of owners of property within green belt land rather than society as a whole, as the welfare state should. It is our contention that while local authorities are able to review and redraw their green belt boundaries in a pragmatic method in the public interests, only direction from government will make this happen with the impact required. In short government cannot expect local authorities, where demand is highest, to deliver enough land at the scale government (rightly) demands for new housing without a more relaxed approach to green belt disposal.

The five purposes of the green belt (from the NPPF)

- to check the unrestricted sprawl of large built-up areas
- to prevent neighbouring towns merging into one another
- to assist in safeguarding the countryside from encroachment
- to preserve the setting and special character of historic towns
- to assist in urban regeneration, by encouraging the recycling of derelict and other urban land

There are two ways we can see this happening (both of which will also be applicable to Metropolitan Open Land for London boroughs).

Firstly, government could issue Planning Practice Guidance stipulating that where local authorities have unmet housing need, this represents exceptional circumstances in which green belt land, which they deem to be inappropriately regulated, can be allocated for residential development. This would be confirmed to the Planning Inspectorate via a new Policy Instruction and government would make clear its support for local authorities to review green belt boundaries in local plans with an emphasis on public accessibility to green space and value to public welfare. This would also be included as part of changes scheduled to be made to the NPPF later in the year.

Secondly, in a similar vein to brownfield registers, local authorities could be compelled to prepare, maintain and publish registers of land that is designated green belt but demonstrably should not be. The NPPF outlines the five purposes that green belt land serves: if a local planning authority can demonstrate land does not serve these purposes, it should be included on their ‘yellowfield register’, and no longer designated green belt. For local authorities this would allow the sustainable release of land for new homes in areas where green belt protection is unwarranted.

**Recommendation #3**

Government should once again treat the green belt as part of the welfare state, outlining a new direction based on public welfare for local authorities to follow:

- Either the NPPF should be amended stipulating that unmet housing need represents exceptional circumstances in which green belt land, which local authorities deem inappropriately regulated, can be allocated for residential development;

- Or local authorities should be compelled to prepare, maintain and publish yellowfield registers.
3.4 A new wave of modern towns

Government has been supportive of new settlements across England. Earlier this year government announced financial support for fourteen new garden villages and three new garden towns. This follows a half-decade in which a number of organisations and reports have argued for a new generation of garden towns and cities, for instance the Town and Country Planning Association and Lyons Commission.

Support from government for new settlements is welcome. There is a strong political rationale behind new settlements – one big pill rather than many small ones – and, given the required uplift in housing supply, a full range of planning solutions is necessary. Moreover there is opportunity to build new settlements in alignment with the delivery of strategic infrastructure.

Identifying where new settlements should be

For the reasons noted we believe government support for new settlements should be much more directed and ambitious. One of the problems with planning in the past forty years in London and the South East has been the lack of overarching coordination and direction. The establishment of the Mayor of London and Greater London Authority in 1999 provided strategic direction for housing and planning within Greater London, but not beyond its boundaries; despite London’s reach extending well beyond them. The Mayor has to inform and consult with surrounding local authorities, and to cooperate with the preparation of their local plans, but no body is charged with considering how London and the South East’s ever-increasing population will be housed in comfortable and affordable homes now and in decades’ time.

In that regard government should expand the remit of the National Infrastructure Commission (NIC) to include new housing. Specifically the NIC should be tasked with providing advice on a new wave of modern towns in the South East, shining a light on:

- How many new settlements are needed – and at what scale – to meet current and future housing demand in and around London and the South East;
- Where settlements would be most appropriate and accessible;
- What existing transport and utility infrastructure can support sustainable development and what infrastructure would be required in places that are otherwise well-placed;
- The requisite support to drive forward each new settlement’s planning and development, be that from central government, local government or the private sector.

Bringing new settlements through the planning process

We do not intend to outline the practicalities of building a new settlement – the TCPA and finalists of the Wolfson Economics Prize have published reports on options – though note planning will vary from place to place, with existing legislation providing all tiers of government the capabilities to drive them forward.

In some places the building of new settlements will be possible within a local plan (or plans). For instance in Essex three new garden settlements are planned across the county. After a call for sites, land for the settlements was brought forward through three district local plans and now the local authorities are the strategic developers, master-planning the new settlements and with serviced plots to be offered to big and small developers. This is in comparison to the traditional method of private land promoters who tend to enter and leave the local market relatively quickly, rather than with an interest in the community over a twenty year
In other places a development corporation will be the most appropriate delivery vehicle. Development corporations, which allow a specific focus on an area’s regeneration, can be established by central government, some combined authorities and the GLA (mayoral development corporations); and, the Neighbourhood Planning Act 2017 also allows the Secretary of State to transfer responsibility for any development corporation to a local authority (or authorities).

State purchasing of land for new settlements where necessary

Alongside control of planning, in some places where new settlements are planned, ownership of land may also be important to development. This may be to unblock development – for instance when the site of a proposed settlement is owned by many landowners and one does not cooperate; or if land requires significant remediation – or, as we argue in the introduction to this chapter, to improve the quality of development. We envisage state purchasing of land for new settlements by two methods.

Firstly, development corporations should take advantage of what is known as the Lucas Clause in the Housing and Planning Bill 2016. The clause stipulates that the local planning authority may request to the Secretary of State that they can make a ‘planning freedoms scheme’, something which in effect allows an alternative land regulatory approach to be tried in the local area. This could allow, for instance, the state to set the price at which it will purchase land within the development corporation area. For landowners this may mean losing out on a higher value in the future, however more than its existing use value.

Secondly, in places where, within a given time period, relevant landowners cannot come to an agreement on selling land within development corporation boundaries, government should instruct the development corporation – who, because they are focused on regeneration and comprehensive redevelopment, have more powerful CPO powers than local authorities do under various housing and planning acts – to use its compulsory purchase powers to obtain the land. In this regard acquiring land before planning permission is granted is important. This would allow the value uplift conferred by the granting of planning permission to be captured by the local planning authority, providing more money to spend on infrastructure, housing that is affordable; and, the public realm.

Using CPO powers to acquire land closer to existing use rather than hope value would require legislative change. As the Centre for Progressive Capitalism has written, this “would require the 1961 Land Compensation Act for England & Wales to be amended to exclude prospective planning permission being taken into account for compensation purposes.”

This would be a step-change in government’s approach to intervention in the land market. Policy is already moving this way: the Conservative manifesto included plans to change the principle of compensation for compulsory purchases made on “derelict buildings in town centres, unused pocket sites and industrial sites” already. As Chris Giles notes in the Financial Times, this opens the door to extending the principle to other land uses. Yet it also requires stronger direction from the centre: the new remit of the HCA includes being “more active in the market” but, at an operational level at least, ministers should provide stronger direction and encouragement to do this. It may also require loan funding to enable initial land purchase – which would, of course, be repaid once plots are sold on – and any required remediation of a site.

32 Centre for Progressive Capitalism (2017) - New land compensation rules will drive up infrastructure investment and raise the rate of housebuilding
33 FT (2017) - Tory land compensation plan is first step in housing reform
34 DCiG (2016) - HCA Tailored Review
Recommendation #4

Central government should take a more muscular role in the planning and delivery of new towns in the South East:

- The National Infrastructure Commission’s remit should be widened to shine a light on where new settlements are needed, sustainable; and what support each would require;
- Local authorities, strategic authorities and the HCA should then work together to plan and deliver new settlements;
- In places where land ownership is necessary to drive forward delivery the state should purchase land either via planning freedoms schemes or reformed CPO powers;
- The HCA should be supported with requisite loan funding to be more active in the private land market.

3.5 Better and more direct use of public land and assets

Central government has placed a strong emphasis on releasing its own land for residential development. In 2011 the government pledged to release enough land for 100,000 new homes by 2015. Between 2015 and 2020 government now has a target to deliver at least £5 billion of land and property sales, releasing enough land for up to 160,000 homes. This focus has not been let up: in a recent article outlining her agenda for the 2017-2022 parliament, “Freeing up public sector land to build thousands of new houses” was noted by the Prime Minister.35

Government is right to focus on using the public estate as efficiently and productively as possible. In areas where land and assets are appropriate for residential development, this means more land coming to market. It also can mean extra capital receipts, if sold off, or, when co-developed, more affordable homes and long-term revenue streams.

A poor record of disposal

Yet, the truth is government’s record of land and asset disposal is, at best, poor. A 2015 National Audit Office (NAO) report found that no information was collected on the amount of money raised or number of new homes built as a result of disposals between 2011 and 2015.36 The following year another NAO report then reported that just seventy-seven sites, with capacity to support 8,580 homes (five percent of the 2015-2020 commitment), had been disposed of.37

So, land isn’t being disposed of at a quick enough rate to meet government’s aims. Throughout research we also heard that insufficient attention is being given to how disposed land and assets are then used. Departments who own most land and assets – for instance the Ministry of Defence – have little to no direct concern with building new homes. Land and asset disposal does not fit within their broader departmental strategies and forms no part of their assumed income, so there is no pressure to do anything useful with sites beyond flogging them for the highest price.

In short government has no clear strategy for getting a public policy dividend from public land disposal, nor a set of aligned incentives to encourage more departmental public land to be brought forward for disposal. It puts too much emphasis on securing maximal capital receipts at the expense of other policy

35 Daily Mail (2017) – Prime Minister: How I’ll make Brexit a success for everyone
36 NAO (2015) - Disposal of public land for new homes
37 NAO (2016) - Disposal of public land for new homes: Progress report
drivers. For example we understand that the Department for Health would like to
develop new homes for NHS staff on surplus NHS land but have been told that
this is likely to depress land receipts.

A clearer strategy on disposal

It is essential that government takes a clearer strategy on disposal of land and
assets by its own departments. This is pressing on two fronts. Firstly, to uprate the
amount of land prime for new housing coming to market. Stronger incentives and
easier public-public and public-private sector collaboration is needed. Secondly,
to ensure that land appropriate for new homes becomes just that. There is only
one chance to dispose of an asset and without a clearer strategy there is a
danger that land appropriate for housing development ends up in land banks.
This strategy should be five-pronged:

1. **Wider and more accessible data coverage.** Through e-PIMS
government has made progress in making available data on where it owns
land and property. Most departments are mandated to upload details of their
assets onto the platform. Provisions were also made in the Housing White
Paper to improve Land Registry data coverage and accessibility. Yet data
access and coverage on both records remains poor. Recent evidence from
Remit Consulting, supported by Lovell, demonstrates that of over 90,000
government-owned sites, 279 sit in the government’s disposal register. A
number of sites are on the Land Registry but these are often incomplete and
inaccurate. And the e-PIMS database is not publicly-accessible. A sparsity
of complete and publicly available data hinders local authorities, housing
associations and private developers from approaching government with
opportunities for partnership, co-development or land swap, which could
support their objective to consolidate the public estate. Government should
mandate that all land owned by departments is registered on the Land
Registry. Data should be cleaned so that it represents a clear picture in an
accessible manner. Further, e-PIMS should be made available to the public.
At the same time government should encourage more partnerships across the
public sector and with the private sector too. Government should encourage
local authorities and, when necessary, development partners to come
forward with proposals to departments.

2. **More proactive business models.** Allied to greater data accessibility,
government should encourage departments and related Arm’s Length Bodies
(ALBs) to be more proactive in managing their assets strategically. This means
approaching other public bodies with opportunities for collaboration – for
instance for co-location or land release – and not waiting for land to be
declared surplus (which often results in seeking a planning consent or going
straight to auction). This would require a major cultural shift in departments’
willingsness to engage with other public bodies, namely local authorities, and
their risk appetite.

3. **A bigger share of proceeds to the disposing department.** There
is often little incentive for government departments to release land (or if there
is, it isn’t clearly signalled). In many cases it is simply not worth the effort and
when it is, as outlined above, short-term capital receipts are often prioritised
over longer-term revenue streams. To provide more incentive to release land
and its disposal, government should allow the disposing department to keep
a bigger cut of proceeds, whether through straight sale or partnership.

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38 Remit Consulting LLP was asked to find out how much data about land the government holds is in the public domain.
To do this Remit investigated the different data sources available that would be able to show the widest possible picture of
the government estate. Land Registry data was accessed through Datscha.

39 In some cases this may hit barriers of governance. For instance the Department for Education is not allowed to
engage in speculative developments. This may mean transferring sites into another department’s ownership (most likely the
Cabinet Office or DCLG).
4. **Revised disposal guidance.** The Cabinet Office’s guidance for surplus property disposal on the open market should place stronger emphasis on achieving *long-term best*, rather than *market*, value when disposing land and assets. Currently guidance states that “a disposal of property should demonstrate that value for money considerations and transparency have been taken into account”.

Both are worthy aims, but this often results in public sector bodies tying themselves in knots over the accompanying financial rules (for instance through a risk-averse approach to impairments, write-downs).

5. **Alignment with future infrastructure spending.** Disposal strategies for public land are long-term. It is broadly known what will be released and when over a five year period. This means that for sites that aren’t perfectly accessible or remediated, but could be in a few years’ time with directed investment, there is a strong rationale to linking future infrastructure spending with asset disposal strategies. For instance, as illustrated by the map in Appendix Two, there are large areas of public land along the Cambridge-Milton Keynes-Oxford railway route supported by government.

Recommendation #5:

To achieve its aims of using more public land to build homes, government should:

- Direct government departments and ALBs to manage their assets more strategically and proactively;
- Make e-PIMS publicly available and mandate that all available land owned by departments is registered on the Land Registry;
- Allow disposing departments to keep a bigger cut of proceeds made through outright sale or co-development of land;
- Revise Cabinet Office guidance for departments to place greater emphasis on achieving *long-term best value* when disposing land.

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40 Cabinet Office (2017) - Guide for the Disposal of Surplus Land
Chapter Four — Disrupting the housebuilding industry

We have put forward measures to increase supply and access to land. We have argued how it can come to market more productively. History suggests, however, that planning reforms are not enough to disrupt the housing market on their own. As government recognises in the Housing White Paper, a diverse base of providers is needed “to achieve the amount, quality and choice of housing that people want.” This means diversity in business models, product and source of capital. And it requires supporting “new and different providers, more innovation in methods of construction, and supporting new investors into residential development.”

A consolidated industry

Since the late 1980s a key feature of the housebuilding industry has been the rise in proportion of homes built by builders of 2000+ units per year: from around twenty percent to fifty percent in the mid-2000s. Over the same period the number of small builders (building 1-100 homes per year) more than halved (from over 12,000 in the late 1980s to fewer than 6,000). This trend was accelerated by the financial crisis. In 2013 there were fewer than 3,000 small builders.

Figure 9 – with figures reproduced from government’s Housing White Paper – shows the extent to which the industry has consolidated.

Figure 9: Market share by size of housebuilder, change between 2008 and 2015

Data source: NHBC Registrations, Great Britain

41 Europe Economics (2014) - How to Increase Competition, Diversity and Resilience in the Housebuilding Market?
42 NHBC (2014) – Improving the prospects for small house builders and developers
43 Ibid.
Why a more diverse sector is needed

Improving the capacity of new and different housing providers – public and private – and encouraging different types of investors, is important for a number of reasons.

Most obviously a more diverse set of suppliers would mean a more diverse supply of homes. The business model of volume housebuilders tends to focus on building homes for sale. Since the introduction of the Help to Buy Equity Loan Scheme these have been delivered at certain price points. More providers with business models focused on longer-term returns, for instance institutional investors, would mean more homes built for rent. With government support, investment could be directed towards the construction of, for instance, retirement homes and homes at affordable rents.

Through greater competition it would also encourage innovation in product. More providers would have a focus on achieving productivity gains in producing higher quality products (homes) and more of them – rather than at the point of land purchase, as typifies the strategy of volume housebuilders. As outlined in Chapter 4.4, this would bring improvements in build qualities and consumer choice in product design.

Finally it would improve resilience in the housebuilding industry. The speculative nature of volume housebuilder’s business model – predicated on selling homes at a specific price point to make a pre-defined return on initial land investment – makes the industry highly cyclical. As argued by IPPR, each recession “has precipitated a lost decade in UK house building”. Quite rationally their focus is rate of sales rather than total homes built, shareholder returns rather than increasing output to a socially-optimal rate: a strategy of risk management. More providers, particularly public providers, would help to mitigate against this.

More support needed

The introduction of the Accelerated Construction Programme and Home Building Fund by government has been welcomed by providers. It is a change in approach, focused on targeted intervention. This is positive. However our research identifies a wider programme of support focused on access to land, local authority building capacity, local authorities more open to institutional investment; and, more direct government support for the off-site construction industry.

4.1 Streamlined access to small sites

Like all smaller businesses, uncertainty and risk has a considerable impact on small and medium-sized housebuilders. From initial land purchase to construction materials, there are significant upfront costs to building homes. For smaller builders, because of their financial size and business model, this necessitates a quick construction time and turnover, something that neither the slow and uncertain nature of the planning system, nor the resource required to efficiently navigate it, are particularly conducive to.

Further, while for the aforementioned reasons lending to SMEs is of higher risk, their access to finance has been made more difficult since the financial crisis. Banks and building societies have had more stringent liquidity rules, preferring to finance developments with significant numbers of homes bought prior to construction. Their share of the commercial lending market has fallen from seventy-two percent in 2008 to thirty-nine percent in 2014. Alternative

44 Shelter (2017) - New Civic Housebuilding
45 IPPR (2011) – We Must Fix It
46 A recent study by academics at Sheffield Hallam University shows that between 2012 and 2015 returns to shareholders of the nine largest housebuilders increased much quicker than output.
47 CBRE (2015) - Is the capital to finance the cranes?
financing platforms have grown in number but, according to CBRE, “constitute a relatively small part of the market”.

SMEs increasingly use mezzanine finance to make their schemes viable.

Further still, a lack of small sites coming forward is cited by SME developers as a major barrier to increasing housing delivery. Small sites often make a limited part of land allocated for housing delivery within local plans because they are seen to be time and resource intensive. Moreover, when a planning application is made for a small site, planning officers and developers both view the process to be unnecessarily protracted: there is thought to be a lack of capacity in planning departments to appropriately deal with applications, planning applications are seen to be often of poor quality; and, the process is seen to be disproportionately difficult.

These issues afflict housing associations and local authorities too, albeit in different ways: there is only one planning system to be granted permission by and one land market to buy sites from. And both have seen their access to public subsidy sharply tightened in recent years. This has had acute implications for their business models: for housing associations, a reliance on funding sub-market homes by profits of selling luxury homes. For local authorities, in the large majority of cases, there is simply no viable business model that can be made for building new homes (Chapter 4.2).

Fewer homes built

Ultimately the aforementioned factors impact a development’s viability, make market entry less attractive; and have resulted in fewer homes being built. The SME developer industry has been in structural decline since the 1980s but this decline has been accelerated by the financial crisis. Between 2007 and 2009 a third of SME developers ceased building entirely. Last year only twelve percent of all new builds were built by SME developers, from just under forty percent in 1988.

Government is alive to these issues. The Housing White Paper promised to ‘open up’ the housing market to smaller developers. A third of the £3 billion Home Building Fund is earmarked to provide loan financing to SMEs and part of the HCA’s Accelerated Construction Programme includes partnering with SMEs. Support has been provided on a regional basis too: for instance the £300 million Greater Manchester Housing Fund used to support otherwise unviable schemes (on a competitive basis).

Market making

Although state financial support for SMEs is welcome, in the short term at least, it is only likely to be a relatively small part of the lending market. There is, however, potential for government to play a bigger role in ‘market making’ for the public and private SME developer industry, bringing forward more land with simplified planning which, as we argue, is a major barrier to the industry’s output growing.

Given the potential to better use small sites, we believe some should qualify under permitted developments: specifically those considered brownfield land or infill. Developers can be made to wait months, often years, to receive planning permission. For SMEs this is particularly crippling. Allowing small sites to qualify under permitted developments would directly address this issue and, with no need to be granted permission, their costs of navigating the planning process,

48 Ibid.
49 While there is no definition of what a small site is, it has been suggested that sites with capacity lower than thirty units or a size of 1.5 hectares or less. LGiU and FSB (2016) - Small is Beautiful
50 LGiU and FSB (2016) - Small is Beautiful
51 FT (2017) - UK housing associations use lure of luxury in social mission
52 HBF (2017) - Reversing the decline of small builders
53 Ibid.
benefiting public and private providers alike. Government may want to apply other planning conditions, for instance a proportion of homes constructed off-site, provided at sub-market rents; or developments designed a certain way.

**Recommendation #6**

Government should allow small sites that are brownfield or infill to qualify as permitted development.

### 4.2 The role of local authorities in housebuilding

Last year 1,490 homes were started by local authorities. Almost one-third (470) of these were built by just three local authorities (Newcastle, Camden and Nottingham). Of the 326 local authorities with responsibility for housing, 286 started building no homes at all. Nearly one third (just over one hundred) own no stock and thus cannot borrow against their Housing Revenue Account (HRA). As these numbers suggest, the majority of local government is not set up for the large-scale construction of housing anymore.

For one, government has created a very hostile environment in which local authorities can construct a viable business model to build new housing. Because the amount local authorities can borrow through their HRA is capped, their capacity to borrow against what are guaranteed revenue streams is highly limited. And, because whatever homes they do build are subject to the Right to Buy, there is a big risk attached to building a home: they may have to sell it at a considerable discount.

Moreover a local authority’s capacity and intention to build is very much dependent on the attitude of its members and officers. Building houses is complicated. Finding appropriate sites for development takes time. Assessing viability then arranging finance to buy land takes time. Securing planning consent takes time. Procuring design and construction takes time. Doing all this at a time when local authorities have a relentless focus on balancing their budgets with heavily reduced budgets and, for many, managing social care service pressures, takes a huge amount of will and ambition. At the same time a depressing number of local authority members will work against new homes and investment in their areas.

Against this the role that local authorities could play in disrupting the housing market by building new homes is strong and, now, well-versed. There is little sense in restricting their capability to invest in building new homes when it would both contribute to meeting local housing demand and be a more efficient way of spending public money (with less spent on housing low-income families in the private rental sector).54

Government is increasingly accepting of this argument publicly and privately. The Conservative’s 2017 manifesto said it would support “a new generation of council homes right across the country”. So did the opposition Labour Party’s 2017 manifesto, committing to 500,000 more council homes by 2022.

Neither is remotely achievable without a fundamental shift in the mind-set and financial model of local authorities. In short if government wants a new generation of new council homes it has to resource and direct local authorities accordingly. As things stand there is little evidence to suggest there is the capacity, resource or expertise for them to build at a scale or pace that would meet demand. An extra 100,000 more council homes built per year – as recommended by the Labour Party – would mean the sector uprating its output by 3435%.

As we argue in this report, housing is a social service. This necessitates more

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54  Capital Economics (2015) - Building new social rent homes
homes that are genuinely affordable, for which local authorities can and should play a leading role. In the forthcoming social housing green paper government should take the chance to dispel the decades-long hangover of policy that has limited this by providing them the resource and legislative capacity to do so. The recent £2 billion increase in affordable housing grant is welcome but not enough funding to build new homes at the scale required. That being said, as outlined above, most local authorities have little to no organisational footprint of building homes. Uprating the sector’s delivery will take time.

4.3 Attracting alternative capital sources

Over the past decade, in response to growing demand for private rental homes and the relatively amateur nature of UK landlords, government has set out a policy platform to encourage institutional investment into the private rental sector. Most recently a raft of changes to improve the viability of Build to Rent developments were proposed in a consultation alongside the Housing White Paper – for instance NPPF amendments to encourage local authorities to consider the development type and a new form of affordable tenure.

Government is also using its brand and financial capacity to support investment into the institutional private rental sector. For instance the HCA has recently used its financial capacity to support investment into professionally managed private family homes in the private rental sector. The Agency directly invested £25 million in a PRS real estate investment trust (REIT) which floated on the London Stock Exchange earlier this year. Helped by the confidence of the HCA’s backing, the REIT raised the target £250 million and was heavily oversubscribed.\footnote{Property Week (2017) - HCA-backed PRS REIT raises £250m}

In terms of attracting alternative capital sources into the housing market and improving the private rental sector to be more professional, these trends are positive. Investment strategies of institutional investors are made on the basis of generating revenue over a long time period. And because investors are reliant on their products being useful in future decades, there is a need to ensure homes are enduring and retain their aesthetic value.

The potential of institutional investment as an affordable housing solution is often proposed.\footnote{For instance Resolution Foundation (2012) - Making Institutional Investment in the Private Rented Sector Work} Clearly there is a strong rationale to expanding this market place, but it is not happening at the scale required: research by the Estates Gazette has shown that new private rental schemes tend to be focused on the higher end of the market. “More than half of schemes with one-bed flats had rents of more than 40% the local median salary before tax. In over a quarter of the PRS schemes, tenants would have to pay half the local median salary toward rent if they lived alone.”\footnote{Estates Gazette (2017) - PRS will not solve the housing crisis} Indeed a recent Investment Property Forum survey showed 2016 investment intentions for sub-market rented/affordable housing shrinking to a third of what they were in 2014.\footnote{Investment Property Forum (2016) - UK Residential Institutional Investment Survey 2016}

Local authorities should take a stronger interest in using their local development frameworks and assets to attract institutional investors to their area. Alongside traditional homes for rent, developments such as retirement homes are also an attractive proposition to patient capital. Our discussions with investors and local authorities for this research suggests this option is often just not considered by some housing and planning departments. The HCA-supported REIT example shows that with some support from the public sector, institutional investors will come to the table.

\footnote{Property Week (2017) - HCA-backed PRS REIT raises £250m}
\footnote{For instance Resolution Foundation (2012) - Making Institutional Investment in the Private Rented Sector Work}
\footnote{Estates Gazette (2017) - PRS will not solve the housing crisis}
\footnote{Investment Property Forum (2016) - UK Residential Institutional Investment Survey 2016}
Recommendation #7

To expand the provision of sub-market homes for sale and rent, the HCA and local authorities should look to enter joint ventures with institutional investors, putting forward public land as equity. Often it is the large capital cost of land purchase that puts off investors: the public sector can provide land on the guarantee that a high proportion of homes affordable to local people are delivered.

- This would require the HCA and/or local authorities to establish investment vehicles in which they invest land as equity and the institutional investor brings debt;
- At least in the case of the HCA this would require endorsement from government.

4.4 How government should support product innovation

In most industries production innovation is a fundamental tenet of a successful business model. In this regard the housing industry is peculiar. Pressure to improve productivity tends to be focused on the point of land purchase rather than at the stage where the product is actually constructed and consumer experience created. As the Barker Review states, “house builders do not have to deliver a good product or high levels of customer service to win market share”. Rather than meeting the needs and aspirations of customers, new homes are “delivered in a way which largely accommodates the constraints of producers”.

This is the flipside to the consolidated nature of the house building industry. The marginal gains achieved through product innovation are often just not worth the cost for major housebuilders. For instance there is little incentive to deliver homes being built to be sold more quickly when most business models are predicated on staggering their delivery anyway.

The result is a market where consumer choice is stifled, construction costs often higher than they ought to be and product quality too-often unsatisfactory: A recent Shelter/YouGov poll found that fifty-one percent of owners of recently-built homes in England have experienced major problems with build quality, for instance with construction, unfinished fittings and faults with utilities. The same poll found that only one in five would prefer to buy a newly built home, whereas forty-seven percent would prefer an old home built ten or more years ago.

Even allowing for general consumer preference around architecture, in any market where buyers so considerably prefer older, literally recycled, products to new ones, something has gone badly wrong.

Government’s approach has been ineffective

Government has long been aware of this issue and the need for industry-wide reform. For instance in 2004 the government had a “100% commitment” to increasing the use of off-site construction methods, citing their value, reliability and quality. Beyond issues of improved consumer experience and choice, use of quicker and more efficient construction methods is important to achieving government’s aim of substantially increasing the rate of new housing supply. For some investors they also represent a less risky option than relying on on-site

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59 Shelter and KPMG (2015) - Building The Homes We Need
60 Barker et al. (2004) - Review of Housing Supply
61 Gann et al. (1999) - Flexibility and Choice in Housing
62 The Guardian (2017) - More than half of new-build homes in England ‘have major faults’
63 Building Design (2004) - Prefab housing gets 100% backing from government
construction given labour and material shortages.

In recent years this imperative has grown because, as the Farmer Review of the UK Construction Model, *Modernise or die*, found, there is a ticking time bomb in the industry’s workforce size and demographic. There is potential for a 20-25% reduction in available labour force within the next ten years. Adding to this the risk in the availability of skilled labour after the UK leaves the European Union and there is a critical risk of the construction industry simply not having the capacity to deliver the level of new homes envisaged by government.

However, government’s approach to pushing this agenda clearly hasn’t worked. That the 1997 Egan Review argued for the pursuit of greater efficiency and quality in the housebuilding industry, the Barker Review seven years urged the industry “to address its weak record of innovation” and, twenty years later still, a key aim of the Housing White Paper for the sector was “boosting productivity and innovation”, illustrates this.

**More direct intervention**

In truth the fundamental reasons why the industry has been reluctant to invest in and adopt new methods of construction – upfront capital costs and a steady future demand – have never been addressed. There are exceptions, for instance Legal & General’s investment in a factory which will produce 3,000 homes per year, but there is no reason to expect a market shift organically. Indeed it is telling that the biggest investment in off-site construction has come from a non-housebuilder.

It is our contention that government should be much more active in kick-starting the off-site construction industry. Alongside a plan to provide necessary support and confidence to mortgage financiers in what is an immature lending market – something beyond the scope of this report, though the Building Societies Association has put forward recommendations on issues such as valuations, standards and regulation – we recommend action on two fronts, the aim of which should be the non-cyclical baseload of all new housing supply being built off-site, with component construction in the UK, within the next ten years, and cyclical supply built on-site.

Firstly government should more directly support the building of more modular and new technologies factories. Via joint venture vehicles with developers and construction firms, state support could be direct equity investment, loan finance or the provision of land. Depending on the partner, one type of support may be more appropriate than another (for instance pension funds require land rather than funding). Government becoming a shareholder in off-site production factories would be a strong endorsement and signal of confidence to the industry. Given that before the Housing White Paper’s publication it was reported that DCLG had made plans for a government-owned factory, direct investment is already within the realms of government thinking.

Secondly government should take a stronger role in market making. In short any factory investor needs to know that someone will be there to buy their product. This means where the state is making land and subsidy available for housing, particularly on medium and large sites, the system should be weighted towards building those homes off-site. Positively the HCA is already using this approach: One objective of the HCA’s Accelerated Construction Programme funding prospectus, which supports development on public land, is “Greater use of offsite methods in the construction of homes”. This is welcome, but we believe it can be used on more grant funding: for instance the Shared Ownership and Affordable Homes Programme and the Starter Homes Local Authority Funding Programme, Help to Buy Equity Loans could only be used for homes built off-site construction;

64 Farmer (2016) - Modernise or Die
65 Building Societies Association (2016) - Laying the foundations for MMC
66 Property Week (2016) – Ministers plot modular housing push
while New Homes Bonus allocations could be weighted to local authorities that deliver an increased proportion of homes built off-site.

**Alignment with industrial strategy**

Government support for the adoption of modern methods of construction should be considered part of its industrial strategy. Off-site construction is an industry in itself and it is important that the component parts of new homes, built via an increase in the adoption of these methods, are built in the UK. Indeed government’s aim should be to import as little as possible.

If government chooses to invest in new factories as we recommend, there is opportunity to direct investment. For instance a place could become a hub of the off-site construction industry. This would generate growth and employment in an area as well as bringing the benefits of agglomeration, for instance spin-off businesses.

Further, alignment with industrial strategy is important because one of the failures of government and the industry’s approach to off-site construction methods to date has been a focus on the physical thing at the expense of the skills needed not just to put parts together but to think about how they can best be used. Off-site methods have been pushed onto an industry whose workforce remains, for the most part, the same. It is essential that the support for new factories and market making is combined with reskilling of construction workers. This would be beneficial especially for older workers as working in a factory is likely to be less-strenuous than going from site to site, allowing them to work for longer.

**Recommendation #8**

Government should be more active in kick-starting the off-site construction industry:

- Via direct equity investment, loan finance or the provision of land, government should support the building of more modular and new technologies factories;
- State subsidy for building new homes should be weighted towards rewarding housebuilders who use off-site construction methods.
Chapter Five — Consumer empowerment

In this report we have put forward recommendations for a more efficient housing market, with land brought forward for homes where and when it is needed and a more productive housebuilding industry. Most important, however, is the role of the consumer, how this is and will continue to change as the way housing is consumed evolves; and, how the industry reacts to these trends.

The reality is that the large majority of the population interacts with the second-hand housing market a great deal more than the new build market. Increasing the supply of homes that people can afford and which they want to live in at a rate that meets demand is greatly important, but it can often feel like the twenty-four million existing homes are forgotten in many of the debates concerning housing and its impact on people's lives.

As we have argued, a home-owning democracy is worth preserving but equally important is the security and protection of those who live, and whose home may only ever be, in the private rental sector. Consumer empowerment is vital to achieve both. Above all this means more consumer choice – and capacity to choose – in tenure and type. It means improving consumer experience when moving home, whether owning or renting. And it means greater protection in terms of product quality and access. Proposals put forward in this chapter are aimed at addressing these issues.

Recent scandals over issues such as new build quality and leasehold ground rent have illustrated the pressing need for reform and the extent to which the status-quo favours sellers and letters. The direction of policy is, however, positive. Announcements that letting agent fees and leasehold tenancies will be banned show a growing acceptance that regulation needs to shift in the interests of consumers. The market has a long way to shift, but it is shifting.

5.1 Helping first-time buyers

Through a number of schemes government has long-provided preferential support to first-time buyers in the private market, for instance the Starter Homes fund (£2.3 billion), the Help to Buy Equity Loan scheme (initially £12.5 billion with a further £10 billion recently announced), the now-closed Help to Buy Mortgage Guarantee (£12 billion), the Help to Buy ISA (£2.2 billion) and the Lifetime ISA (£2 billion). With the Bank of England, the Treasury also introduced the Funding for Lending scheme aimed at increasing bank lending to households and businesses.

Government support has been largely effective too: since the introduction of Funding for Lending in 2012, and then Help to Buy in 2013, the number of mortgaged first-time buyers has almost recovered to its 2006/07 peak. In fact government support has been so effective that the Help to Buy Equity Loan scheme is largely thought to be propping up parts of the housebuilding industry.

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67 Nine out of ten selling transactions are in the second-hand market.
68 CIH (2017) - UK Housing Review
69 CML (2017) - Missing Movers
For some major housebuilders the scheme supports around half of their sales. One member of the advisory panel for this research described the scheme as ‘developer crack’.

Like many people we spoke to for this research, whether government officials or housebuilders, we have a number of concerns about the impact of Help to Buy on the housing market. Beyond its impact on the structure and price points of the housing market, there are also major questions over whether it is a good or efficient use of public money (especially at a time when public subsidies for affordable housing have reduced so much over similar time periods). Above all it insufficiently addresses the key issue of most people who would like to buy a home in the future: their capacity to save for a mortgage deposit.

It is our contention that it is government’s responsibility to now introduce a number of longer-term schemes that support first-time buyers in two ways: engendering a culture of saving for a deposit from an early age and lowering transaction costs at the point of home purchase. We outline these interventions below.

**Auto-enrolment for deposit saving**

Although mortgage repayment costs have rarely been so affordable – driven by low interest rates – loan-to-value rates have rarely been so high. First-time buyers require ever higher deposits: last year the average deposit for a first time buyer in the UK was £32,321 and in London it was £100,445. According to the Resolution Foundation, “the typical deposit put down by first time buyers rose from 5 per cent in the 1990s to 10 per cent in 2007. Following the tightening of lending criteria post-financial crisis, the typical deposit now stands at 17 per cent.”

And yet the majority of Brits are woefully under-resourced. Just twenty-three percent of people that do not own their home are saving money each month for a deposit. Fifty-eight percent are saving nothing at all. This trend transcends tenures, ages, regions and socio-economic classes. And while some people will be able to rely on parental support, as shown by Figure 10, the large majority do not.

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**Figure 10: Source(s) of deposit for recent first-time buyers**

Data source: Annex Table 1.9, English Housing Survey 2015-16. Recent first-time buyer defined by EHS as someone resident in their first home for less than three years.

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70 The Times (2017) - Review of green belt needed to boost housing, says Persimmon
71 The Times (2017) - Leasehold scandal hits housebuilder Taylor Wimpey for £130m
72 Halifax (2017) - Number of first-time buyers reaches 10-year high
73 Resolution Foundation (2016) - Stagnation Generation
74 29.3% of first-time buyer respondents to the English Housing Survey indicated
Government has introduced the Lifetime ISA to encourage more saving, but we believe they should take a more muscular approach to achieve wider coverage and higher saving rates. Specifically, the auto-enrolment of employees aged 18-40 to pension schemes by employers should include an option to make contributions towards a Lifetime ISA. Employees should be given the option to make these contributions on top of, instead of, or alongside pension contributions. Like with pension contributions, employers should also be expected to make contributions equal to three percent of the employee’s qualifying salary. On top of this, as with the Lifetime ISA, we believe government should continue to match twenty-five percent of employee contributions.

Our research has shown that there is a widespread problem that people are simply not saving for a deposit. Extending the auto-enrolment scheme to mortgage deposits in this way would go some way to improving savings coverage: over 6.7 million people have been automatically enrolled onto a workplace pension and government expects that, once fully-rolled out, 10 million workers will either be newly saving or saving more in a workplace pension scheme.75

The scheme would also accelerate the rate at which someone can save. In the table below we show what a person on a number of salary levels could expect to save making minimum contributions wholly to the Lifetime ISA option. The average deposit paid by a first time buyer in the UK last year (£32,321) would be much more quickly in reach for all incomes.

<table>
<thead>
<tr>
<th>Salary</th>
<th>Total savings after 1 year</th>
<th>Total savings after 5 years</th>
<th>Total savings after 10 years</th>
<th>Total savings after 15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£20,000</td>
<td>£1,271</td>
<td>£6,356</td>
<td>£12,712</td>
<td>£19,067</td>
</tr>
<tr>
<td>£25,000</td>
<td>£1,721</td>
<td>£8,606</td>
<td>£17,212</td>
<td>£25,817</td>
</tr>
<tr>
<td>£30,000</td>
<td>£2,171</td>
<td>£10,856</td>
<td>£21,712</td>
<td>£32,567</td>
</tr>
<tr>
<td>£35,000</td>
<td>£2,621</td>
<td>£13,106</td>
<td>£26,212</td>
<td>£39,317</td>
</tr>
<tr>
<td>£40,000</td>
<td>£3,071</td>
<td>£15,356</td>
<td>£30,712</td>
<td>£46,067</td>
</tr>
<tr>
<td>£45,000</td>
<td>£3,521</td>
<td>£17,606</td>
<td>£35,212</td>
<td>£52,817</td>
</tr>
</tbody>
</table>

---

75 DWP (2016) - The number of people saving as a result of automatic enrolment to hit 10 million
In Figure 11 we have also broken down what annual contributions would look like by contributor for a person on these salary ranges (who makes minimum contributions wholly to the Lifetime ISA option).

While some will not agree with the diverting of savings away from pensions to mortgage deposits, we believe it is an important choice to be provided. Banks and building societies have already established Lifetime ISA products, making the scheme transition simpler than starting from scratch, while the financial benefits and security of owning your own home will for many people be greater and more immediate than upon receiving a pension at pension age. Indeed to a large extent a house is a pensionable asset already.

**Recommendation #9**

The auto-enrolment of employees aged 18-40 to pension schemes by employers should include an option to make contributions towards a Lifetime ISA. Employers should be expected to make contributions equal to three percent of the employee’s qualifying salary and, as with the Lifetime ISA, government should continue to match twenty-five percent of employee contributions.

**Stamp duty land tax support for first-time buyers**

Stamp duty land tax (henceforth SDLT) liabilities are a barrier to first-time buyers purchasing a home. Although the SDLT regime has recently been reformed to be more progressive, the tax remains a fairly substantial, often unexpected, cost to save for and then pay within thirty days of purchase. In the UK the average purchase price of a home bought by a first-time buyer is £205,170 which brings a SDLT liability of £1,603. In London the equivalent figures are £402,692 and £10,134.

Some lenders are alive to this issue – Barclays Bank offers a mortgage product in which they pay the SDLT upfront on behalf of the purchaser (though with higher mortgage rates) – but we believe there is a good case for government to ease

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76 Author’s calculations using HMRC’s SDLT calculator, using average purchase prices from Halifax (2017) - Number of first-time buyers reaches 10-year high

77 The Telegraph (2017) - Bank promises to pay first-time buyers’ stamp duty - so what’s the catch?
the burden on first-time buyers too. Similarly to surcharges placed on Buy-to-Let and second-home purchasers, there is scope to assist those who need support in the buyer market. We see three options for reform.

1. It has been said that sellers should be liable for SDLT instead of buyers. While this would shift the taxation burden, it could also result in sellers demanding higher prices to reflect their higher costs and/or a disincentive to sell. Instead, a first-time buyer could be allowed to transfer liability to their point of onward sale. Assuming their home gained value, this would result in a higher amount payable in tax. They would also have to pay SDLT if purchasing another home. However, it removes an upfront burden to home-ownership.

2. There is scope for government to waive first-time buyer’s SDLT liability on the first £250,000 of the property cost. The tax is a substantial revenue raiser for government – last year it raised £11.7 billion – but the proportion paid by first-time buyers is relatively low. According to Halifax last year twenty-nine percent of the country’s 335,750 first-time buyers purchased properties below the £125,000 threshold (so therefore paid no SDLT at all). Forty-five percent bought homes within the £125,001-£250,000 threshold. And twenty-six percent bought homes in the £250,001-£925,000 threshold. While we have no access to the price distribution of purchases, even assuming that all homes within the £125,001-£250,000 threshold were bought at the upper limit, the cost of waiving liability on the first £250,000 would be £596 million, or five percent of last year’s revenue.

3. There is also scope for government to introduce a mechanism by which SDLT is paid in instalments. Spreading the cost of the tax over a longer period would greatly reduce the initial upfront costs to the first-time buyer. Assuming a residential property is being bought freehold as an individual (i.e. not as a company or trust), we have calculated in the table below what spreading the tax liability over five, ten and fifteen years would mean to a first-time buyer.

<table>
<thead>
<tr>
<th>Cost of home</th>
<th>Upfront SDLT due</th>
<th>Annual cost if paid in equal instalments over five years</th>
<th>Paid over ten years</th>
<th>Paid over fifteen years</th>
</tr>
</thead>
<tbody>
<tr>
<td>£100,000</td>
<td>£0</td>
<td>£0</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>£200,000</td>
<td>£1,500</td>
<td>£300</td>
<td>£150</td>
<td>£100</td>
</tr>
<tr>
<td>£300,000</td>
<td>£5,000</td>
<td>£1,000</td>
<td>£500</td>
<td>£333</td>
</tr>
<tr>
<td>£400,000</td>
<td>£10,000</td>
<td>£2,000</td>
<td>£1,000</td>
<td>£666</td>
</tr>
<tr>
<td>£500,000</td>
<td>£15,000</td>
<td>£3,000</td>
<td>£1,500</td>
<td>£1,000</td>
</tr>
</tbody>
</table>

78 Stamp duty: housebuilder raises spectre of sellers paying tax
79 HMRC (2017) - Tax and NIC Receipts
80 Halifax (2017) - Number of first-time buyers reaches 10-year high
81 SDLT liability for a home costing £250,000 is £2,500. £2,500 multiplied by the number of FTBs in the £125,001-£250,000 threshold (derived from the Halifax data) is £378 million. £2,500 multiplied by the number of FTBs in the other thresholds is £218 million.
5.2 Making the process of buying a home easier

We have put forward proposals that would help grow people’s capacity to get a mortgage in the future. In the short-term at least, however, the housing market and its ancillaries have to contend with the fact that their domestic consumer pool is shrinking. Further, shifts in construction methods towards modern methods and build customisation, albeit slow, are a glimmer of the future: one of greater consumer choice and products more in line with their lives and tastes.

In fact, each market could look radically different in the future.

Firstly, less need for middlemen. There is already a growth in online conveyancy. As the Land Registry becomes both more complete and digitised, we could see the introduction of other forms of technology to quicken the exchange process. For instance in Sweden blockchain, the technology behind BitCoin, is being used to digitise the country’s Land Registry. The project will eliminate paperwork, reduce fraud and quicken housing transactions.

Secondly, innovation in financial product. There has already been a steady rise in the market share of alternative lenders. As the population becomes older and the retirement age increases, logic would suggest the way mortgage products are structured will change; for instance length and cost of repayment.

Finally a new build market with a greater focus on quality. Major house builders have proved adept at managing market risks and uncertainties, especially since the 2008 recession. An important risk to now contend with is public perception of their product and the quality of the built environment at large. We know a review of building regulations will follow the Grenfell tragedy but it was the contention of many we spoke to that the most important driver of quality improvement would come from within.

5.3 Regulation to match the size and composition of the modern private rental sector

In the past few decades the size of the private rental sector has increased considerably and totalled 4.5 million households last year. As we outline in Chapter 2, trends suggest the sector will only get bigger. As the sector’s size has changed, so has its general composition, and three trends stick out.

Firstly, private renters are now older. Growth in the number of private renters over the past decade has, as shown by Figure 12, been driven by the 25-34, 35-44 and 45-64 age cohorts.

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82 Quartz (2017) - Sweden’s blockchain-powered land registry is inching towards reality
83 For each graph figures have been extrapolated from percentages provided in the English Housing Survey (using total number of households in the PRS from the same source).
Secondly, many more families now live in the sector. The number of households with dependent children that privately rent totalled 1.6 million in 2015-16, 664,000 more than in 2008-09.

Thirdly, private renters are living in their home for longer. While the number of privately renting households who have lived in their home for less than one year has stayed at a similar level in the past decade or so, as Figure 14 illustrates, the number staying for 1-3 years, 3-5 years and 5-10 years has grown by considerable proportions.
The growing size and changing nature of the private rental sector demands rules and regulations fit to the part it plays in the country’s housing market. Reflecting the large number of households with dependent children, it is imperative that these are focused on families and applicable to all properties that are rented privately (otherwise landlords could discriminate against families). By banning letting fees, government has already showed its willingness to intervene on behalf of the private renter. As part of a wider Tenants Fees Bill – the draft of which was outlined in the Queen’s Speech – we think it should now introduce reforms to tenancy agreements and extend the practice of licensing landlords.

Greater choice in tenancy length

The Housing Act 1988 gave landlords the right to provide tenants assured shorthold tenancy agreements, which guarantee tenants the right to remain in their home for up to six months. These tenancies were made the norm by the Housing Act 1996 and, as seen in Figure 15, this has had a big impact on the market. In 2015-16 the initial tenancy length for the vast majority of private renters was either six or twelve months.
For a large number of private renters these form of tenancies, and the flexibility they can provide, are broadly suited to their circumstances. In some cases six or twelve months is the only guarantee a person may want. Indeed, of the 1.8 million households private renters who have moved from a privately-rented home in the last three years, 1.3 million have wanted to do so.\(^8^4\)

However as more and more families live in the private rental sector, assured shorthold tenancy agreements have become less and less fit-for-purpose. As illustrated by the graph above, 190,000 households were asked to leave by their landlord, 79,000 of which were households with dependent children.

The regulation which dictates tenancy agreements needs to change to provide families with a guarantee that they can lay down their roots. This is important not just for providing them with a stake in their area, but also children’s life chances too: research from Swansea University has shown that children who move house

\(^8^4\) DCLG (2017) - English Housing Survey: Private rented sector, 2015-16
often are less likely to achieve their key stage one assessments than those who did not.\textsuperscript{85}

The Housing White Paper responded to these trends, encouraging lengthier tenancies. To that end government is considering amending the NPPF to ensure Build to Rent properties offer three-year tenancies, and a number of investors and developers who build such properties have signed a pledge to introduce them.\textsuperscript{86}

This is welcome but it is important that much greater choice in tenancy length is offered to all private renters whatever their property and whenever it was built. As a recent consultation response to government’s plans showed, when asked if they agreed with the offer of three-year Build to Rent tenancies to customers who wanted one, twenty-one percent of developers and investors supported the proposal and sixty-four percent were against.\textsuperscript{87} Reformed regulation is required.

Our proposal is that private tenants should be able to choose their initial tenancy length at six month intervals up to thirty-six months, with a one month break option after six months. Regulation should also change to allow rent increases at only twelve month intervals and for those increases to be agreed and locked-in from the start of the contract. This would be important to prevent eviction by rent increase in place of a tenancy being ended early.

These proposals prioritise consumer choice. A footloose person would still have their flexibility and freedom to choose a tenancy length that didn’t tie them to one place. And a family would be provided the guarantee that three years later they would still be living in that area.

**Recommendation #11**

The legislation which guides private tenancy agreements should be amended to:

- Allow private renters to choose their initial tenancy length at six month intervals up to thirty-six months, with a one month break option after six months;
- Allow rent increases at only twelve month intervals and for those increases to be locked-in from the contract’s start.

**Landlord licensing schemes at strategic authority level**

Alongside tenancies more appropriate to the circumstances of families, more needs be done to enforce the minimum standards at which their properties should be kept. Although local authorities have enforcement powers to tackle rogue landlords – more of which have been provided by the Housing White Paper, for instance banning orders – the widespread view is that enforcement of standards is highly variable by local authority. For instance in London one quarter of borough councils didn’t prosecute a single landlord in 2015/16.\textsuperscript{88}

We would like to see this change. Apart from for houses of multiple occupation, there is no mandatory scheme in England by which landlords have to obtain a license to prove that they and their properties are fit and proper to be a landlord and let respectively. In fact government outright opposes the establishment of local licensing schemes. Since 2015 it has required all local authorities to apply to the Secretary of State for permission to introduce a scheme when it affects over twenty percent of privately rented homes in the borough. A letter from the then Housing Minister Brandon Lewis argued that a scheme “impacts on all landlords

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\textsuperscript{85} Hutchings et al. (2013) - Do Children Who Move Home and School Frequently Have Poorer Educational Outcomes in Their Early Years at School? An Anonymised Cohort Study

\textsuperscript{86} British Property Foundation (2017) - BPF launches three-year pledge for build to rent

\textsuperscript{87} DCLG (2017) - Planning and affordable housing for Build to Rent

\textsuperscript{88} Pidgeon, C (2016) - Rogue landlords in London
and places additional burdens on reputable landlords who are already fully compliant with their obligations.\textsuperscript{89}

While government’s concerns are valid, they are not to an extent that warrants total opposition given the benefit schemes can bring. For instance in Newham a compulsory licensing scheme was introduced in 2013 (its five-year license comes to an end this December). Since introduced the borough’s scheme has discovered there are 50,000 properties privately rented out by 27,000 landlords, whereas before it had estimated 30,000 rental properties by 5,000 landlords.\textsuperscript{90} With seventy percent of all prosecutions for housing crimes in London instigated in Newham, it has also shone a light on bad practice.\textsuperscript{91}

There is a strong case for strategic authorities to be devolved powers from central government to permit landlord licensing schemes. This could be done with the stipulation that the strategic authority, rather than the local housing authority, would design the area-wide template for the scheme which would then be applied by the local housing authority. Furthermore, it could be stipulated that the template is designed in consultation with local housing authorities, landlord and tenants, with the aim of a scheme made as easy as possible for good landlords. Given the size of the private sector in London, a sensible first step would be to devolve these powers to the GLA as a pilot programme.

\textbf{Recommendation #12}

Strategic authorities should be devolved powers from central government to permit landlord licensing schemes.

\section*{5.4 What to do about multiple home ownership?}

The rise in multiple home ownership is one of the defining trends of the country’s housing market in the past few decades. Recent research by the Resolution Foundation finds in 2012-14 just over five million adults owned multiple properties, 1.6 million more adults than in 2000-02.\textsuperscript{92} This has had big implications for wealth distribution – Resolution Foundation find “second home owners are mainly adults in prime age or early retirement, are rich and wealthy even among their peers, and are most likely to be living in the south of England.”\textsuperscript{93} And also, if a property is rented out, incomes.

This last point is particularly important in considering the rise in multiple home ownership. While second home ownership tends to conjure visions of homes left empty most of the week, the truth is more nuanced: Resolution Foundation’s research finds that the proportion of adults with multiple property wealth rose by around two-percent between 2000-02 and “the proportion of adults in the UK receiving income from other property as landlords doubled between 1998-99–2000-01 and 2013-14–2015-16 – from 1.7 per cent to 3.4 per cent.” In other words, trends suggest second homes tend to be let rather than left empty.

\textbf{Supporting first-time buyers over multiple home-owners}

The extent to which the rise in the number of people owning multiple homes is a symptom or a cause of the decline in home-ownership is beyond the scope of this report. However, if the home-owning democracy is to be preserved, something this report firmly argues for, it is right that first-time buyers are given a leg-up in the buying market above those who are purchasing their nth home.

\textsuperscript{89} DCLG (2015) - Private rented sector - Reform of selective licensing
\textsuperscript{90} The Guardian (2017) - Half of landlords in one London borough fail to declare rental income
\textsuperscript{91} The Guardian (2017) - Half of landlords in one London borough fail to declare rental income
\textsuperscript{92} Resolution Foundation (2017) - Homes sweet homes – the rise of multiple property ownership in Britain
\textsuperscript{93} Ibid.
Government has already introduced a three-percent SDLT surcharge on purchases of additional properties. This generated close to £1 billion in tax in the second half of 2016 after the surcharge was introduced (suggesting it has done little to dampen demand).94 Government has also ended higher-rate tax relief on mortgage interest payments and increased new affordability constraints buy-to-let lenders.

Council tax incentives

At the same time the number of second homes subject to council tax discounts has reduced from 39,555 in 2013 – the year from which discounts could be applied to – 21,741 in 2016. As the table below shows, this is at the same time as the number of second homes has increased.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of second homes subject to a discount</td>
<td>39,555</td>
<td>27,277</td>
<td>26,805</td>
<td>21,741</td>
</tr>
<tr>
<td>Total number of dwellings classed as second homes</td>
<td>254,981</td>
<td>251,518</td>
<td>245,324</td>
<td>246,540</td>
</tr>
</tbody>
</table>

Looking beyond the principles of whether second homes should be provided any council tax discount at all, the truth is discounts are decreasing and, as below, tend to be small. There may be a case for government to remove local authorities’ ability to provide discounts, but it is weak. In places of high demand local authorities simply don’t, or shouldn’t, provide discounts. And for places where there is little housing demand pressure, discounts can be useful to attract investment to their area.

Data source: DCLG (2017) Table 4, Local Authority Council Tax base England 2016 - revised

94 FT (2017) - Buy-to-let landlords shrug off UK tax rise in £1bn Treasury boost
95 Table 4: Number of dwellings classed as second homes by level of discount 2013 – 2016 DCLG (2017) Local Authority Council Tax base England 2016 - revised
Council tax surcharge on second homes

Where we believe practical action could be taken on this issue to support first-time buyers in areas of high housing demand is widening the scope of local authorities’ power to levy council tax premiums on second home owners in their area.

Currently a surcharge of up to fifty percent can be applied to homes that have been unoccupied and substantially unfurnished for over two years. We would like to see this surcharge widened to include second homes (defined the same way as when a discount is provided – “a property which is not the ‘sole or main residence’ of any individual for council tax purposes.”)96

We would also like to see the rate at which the surcharge can be applied increased. As Boris Johnson, then Mayor of London suggested, the law should be changed to allow surcharges of up to one-thousand percent. 97 (The Foreign Secretary called for “at least” a tenfold increase on the rate at which the surcharge could be applied.)98

Recommendation #13

Local authorities should, like with empty homes, be able to levy council tax surcharges on second homes. The rate at which this surcharge can be applied should be increased to one-thousand percent.

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96 House of Commons Library (2017) - Council tax : discount on second homes and long-term empty properties
97 The Guardian (2014) - Boris Johnson calls for massive council tax rise for owners of empty homes
98 Ibid.
Appendices

Appendix One: YouGov/Localis survey results
Fieldwork dates: 18th - 19th July 2017
Prepared by YouGov plc on behalf of Localis
Sample size: 1,593 GB Adults

*Any percentages calculated on bases fewer than 50 respondents do not represent a wide enough cross-section of the target population to be considered statistically reliable. These figures will be italicised.

Appendix Two: Public land availability along Cambridge-Milton Keynes-Oxford railway route

Map generated by 3D Maps in Excel and produced by Remit Consulting
YOUGOV/LOCALIS
SURVEY RESULTS
<table>
<thead>
<tr>
<th></th>
<th>Vote in 2017</th>
<th>EU Ref 2016</th>
<th>Gender</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Con</td>
<td>Lab</td>
<td>Lib Dem</td>
</tr>
<tr>
<td>Weighted Sample</td>
<td>1593</td>
<td>546</td>
<td>523</td>
<td>97</td>
</tr>
<tr>
<td>Unweighted Sample</td>
<td>1593</td>
<td>518</td>
<td>574</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Generally speaking, how happy or unhappy are you with the home you currently live in?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very happy</td>
<td>35</td>
<td>44</td>
<td>34</td>
<td>38</td>
</tr>
<tr>
<td>Fairly happy</td>
<td>43</td>
<td>41</td>
<td>43</td>
<td>40</td>
</tr>
<tr>
<td>TOTAL HAPPY</td>
<td>78</td>
<td>85</td>
<td>77</td>
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*Thinking about the expectations that you had for your future housing when you were growing up...
To what extent, if at all, does your current home meet those expectations?*

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Please indicate the extent to which your current home meets the expectations that you had for your future housing when you were growing up on the below scale, where 0 means your expectations have not been met at all and 10 means that your expectation have been met entirely. 

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To what extent, if at all, does your current home meet you and your family’s needs?

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65
## Total Not Much / Not at All

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## Vote in 2017

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<th>Leave</th>
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<td>876</td>
<td>200</td>
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## Roughly how much money, if any, do you save each month for a deposit to buy a property in the future?

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<td>0</td>
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</tbody>
</table>
To what extent, if at all, do you think your home is worth the costs that you pay for it each month? Please indicate on the scale below, where 0 means not worth the costs at all and 10 means entirely worth the costs.

This question was NOT asked to those who own house outright or do not pay rent as living with family; n=988

Please note, the figures in the column “Neither - live with family and pay rent / rent free” relate ONLY to those who pay rent, as those who do not pay rent were excluded from this question.

Roughly how much money, if any, do you save each month for a deposit to buy a property in the future?

This question was NOT asked to those who own their house outright or own through a mortgage; n=633

Please note, the figures in the column “Own with Mortgage / Part Own” relate ONLY to those who part-own, as those who have a mortgage were excluded from this question.

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| | % | % | % | % | % | % | % | % | % | % | % | % | % | % | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2 | 2 | 3 | 2 | 1 | 2 | 1 | 0 | 1 | 3 | 3 | 0 | 4 |
| 2 | 2 | 9 | 1 | 1 | 1 | 0 | 0 | 0 | 4 | 3 | 0 | 1 |
| 2 | 2 | 5 | 2 | 2 | 0 | 2 | 0 | 2 | 4 | 3 | 5 | 5 | 4 |
| 4 | 8 | 7 | 4 | 3 | 8 | 11 | 0 | 1 | 12 | 12 | 10 | 4 |
| 4 | 4 | 5 | 3 | 5 | 4 | 5 | 0 | 1 | 9 | 4 | 10 | 0 |
| 8 | 12 | 9 | 9 | 14 | 9 | 9 | 0 | 6 | 10 | 17 | 6 | 13 |
| 10 | 8 | 8 | 13 | 6 | 9 | 6 | 0 | 9 | 12 | 9 | 4 | 4 |
| 19 | 16 | 17 | 17 | 20 | 18 | 12 | 0 | 23 | 13 | 14 | 21 | 0 |
| 16 | 14 | 12 | 17 | 19 | 14 | 12 | 0 | 19 | 8 | 15 | 17 | 17 |
| 10 | 7 | 1 | 9 | 7 | 8 | 18 | 0 | 13 | 6 | 4 | 4 | 4 |
| 17 | 15 | 15 | 16 | 13 | 19 | 18 | 0 | 21 | 12 | 11 | 9 | 24 |
| 6 | 10 | 10 | 7 | 8 | 8 | 6 | 0 | 5 | 6 | 8 | 19 | 30 |

| 50 | 65 | 49 | 54 | 61 | 67 | 60 | 0 | 67 | 56 | 74 | 45 | 38 |
| 3 | 4 | 1 | 4 | 3 | 5 | 5 | 0 | 15 | 6 | 3 | 1 | 2 |
| 4 | 2 | 7 | 2 | 1 | 2 | 0 | 0 | 0 | 5 | 2 | 1 | 0 |
| 6 | 4 | 9 | 2 | 4 | 3 | 11 | 0 | 0 | 6 | 3 | 6 | 0 |
| 7 | 2 | 3 | 6 | 6 | 2 | 6 | 0 | 12 | 7 | 2 | 6 | 0 |
|-------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| £200 – £300       | 2    | 2    | 3    | 3    | 4    | 1    | 2    | 3    | 1    | 3    | 2    | 2    | 2    |
| £300 – £400       | 1    | 1    | 2    | 0    | 0    | 2    | 1    | 1    | 0    | 2    | 0    | 0    | 0    |
| £400 – £500       | 1    | 1    | 2    | 6    | 2    | 2    | 2    | 1    | 1    | 2    | 1    | 0    | 0    |
| £500 – £1,000     | 2    | 2    | 2    | 0    | 2    | 2    | 2    | 1    | 3    | 1    | 0    | 0    | 0    |
| More than £1,000  | 1    | 5    | 0    | 2    | 2    | 1    | 2    | 0    | 1    | 2    | 1    | 0    | 0    |
| Prefer not to say | 9    | 12   | 5    | 7    | 7    | 10   | 8    | 10   | 12   | 6    | 9    | 13   | 0    |
| Don’t know        | 10   | 6    | 7    | 10   | 9    | 6    | 12   | 8    | 20   | 6    | 4    | 14   | 0    |

Which of the following views comes closest to your own?

- **Ultimately it is the responsibility of government to ensure that everyone has a home**
  - 35
  - 16
  - 50
  - 39
  - 44
  - 24
  - 35
  - 34
  - 54
  - 33
  - 36
  - 25

- **Ultimately it is the responsibility of the individual to ensure that they have a home**
  - 50
  - 72
  - 35
  - 45
  - 43
  - 64
  - 51
  - 49
  - 29
  - 47
  - 51
  - 65

- **Don’t know**
  - 16
  - 12
  - 15
  - 16
  - 14
  - 12
  - 14
  - 17
  - 17
  - 19
  - 13
  - 10
Which of the following views comes closest to your own?

Ultimately it is the responsibility of government to ensure that everyone has a home

Ultimately it is the responsibility of the individual to ensure that they have a home

Don't know

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