

Local Government Association Briefing

Debate on the supply of homes and affordable homes to buy

House of Commons

Thursday 13 July 2017



Key Messages

- Local government supports the collective national ambition to build one million new homes by 2020, but housebuilding is currently well below the levels required for an efficient and fully functioning housing market. Last year housing supply increased by 190,000 new homes,¹ but it is generally accepted that the country needs to build 230,000 to 250,000 homes a year to keep up with demand. The last time the country built more than 250,000 homes in a year, in the 1970s, local government built around 40 per cent of them.
- As we have explored in our *Growing Places* report,² the Government can support local government to build additional new homes by providing councils with financial flexibilities and a stable and sustainable long-term framework. This should include removing borrowing for housing investment from contributing towards public sector debt and allowing the Housing Revenue Account borrowing cap to be lifted. A new wave of different affordable housing options should also be built, linked to a new definition of affordable housing as being of a cost that is 30 per cent of household income or less.
- Home-ownership remains the nation's preferred housing tenure and councils want to contribute to the discussion on future policy of interventions that support households to save for home ownership. However, access to home ownership remains limited to many households due the rise in house prices above earnings. It is therefore essential to ensure that renting tenures offer sufficient homes in terms of number, quality and security of tenure at affordable prices.

Housing supply

Local government supports the collective national ambition to build one million new homes by 2020, but housebuilding is currently well below the levels required for an efficient and fully functioning housing market. Last year housing supply increased by 190,000 new homes, but it is generally accepted that the country needs to build 230,000 to 250,000 homes a year to keep up with demand. The last time the country built more than 250,000 homes in a year, in the 1970s, local government built around 40 per cent of them.

¹ National Audit Office report, [Housing in England: overview](#), January 2017

² LGA report, [Growing Places](#), July 2017

Briefing

There is a need to build additional homes, in the right locations, that are affordable, of high quality and the right type. Councils are best placed to deliver this. This means supporting the industry to diversify and deliver, helping equip more local people with the skills to build homes, boosting employment and supporting small and medium-sized builders to grow their business and deliver homes for communities.

The Government can support local government to build additional new homes by:

- Removing borrowing for housing investment from contributing towards public sector debt, allowing the Housing Revenue Account borrowing cap to be lifted and providing financial flexibilities and a stable and sustainable long term framework for councils to build new homes, of all tenures, through delivery vehicles and housing revenue accounts,
- Building a new wave of different affordable housing options linked to a new definition of affordable housing as being of a cost that is 30 per cent of household income or less.
- Devolving housing and infrastructure funds to enable councils to join up investments that more efficiently build homes where there is unmet demand, for instance homes that are attractive to older people looking to 'rightsize'.

Housing affordability

In most areas the rise in house prices above earnings makes housing less affordable for a large and growing proportion of the population. Despite this, the annual cost of repaying a mortgage is well within historic affordable levels thanks to record low mortgage rates. This means those households with a mortgage spend a lower proportion of their income on housing than those renting from a landlord. However, raising a sufficient deposit remains the most significant barrier to first time buyers.

Deposits for first time buyers are now well over 60 per cent of annual household incomes, up from just 1 per cent in the 1990s. Young people today are half as likely to be on the housing ladder than 20 years ago.³ With London house prices at many multiples of income and rising, the repayments on high loan-to-value mortgages are unaffordable for all but the most income rich, equity poor buyers. Many first time buyers across the country, and in particular in high value areas like London, are therefore dependent on help from the 'bank of mum and dad'. Home-ownership for younger generations is increasingly determined by the extent to which their parents benefitted from previous housing market booms.

³ The LGA's Housing Commission Final Report, ['Building our Homes, Communities and Future'](#), December 2016

Housing tenure

Accessing home-ownership remains a significant challenge for many prospective first time buyers due to constrained house-buying affordability and a limited supply of new homes. The majority of people still aspire to own their own home but the share of households owning their home peaked in 2003 at 71 per cent of households, and has been in decline since.⁴ Meanwhile, the private rented sector continues its rapid growth and social renters remain relatively static in their share of housing tenure.

Home-ownership remains the nation's preferred housing tenure and councils want to contribute to the discussion on future policy of interventions that support households to save for home ownership. However, access remains limited to many households due the rise in house prices above earnings. It is therefore essential to ensure that renting tenures offer sufficient homes in terms of number, quality and security of tenure at affordable prices.

Council efforts to stimulate new building could focus on developing a new wave of innovative housing products that support affordability, health and prosperity for all people across places. This could include new rent-to-buy, shared ownership, community land trust and co-housing models, alongside other private and intermediate rent options including build to rent. It could also include new products, such as modular homes, to meet immediate housing need.

⁴ National Statistics, [English Housing Survey 2015 to 2016](#), March 2017