Opening Doors for You: A manifesto

What has - and has not - been achieved by half a century of social housing?

Permanent social rented housing was designed to remove the disfiguring wounds and scars of poverty and disadvantage from our society:

- to relieve housing need,
- to reduce people’s fears and anxieties about security of tenure; and
- to combat homelessness

Social housing has in large measures achieved those important goals the 1970s, but there have been unintended and negative consequences which have arisen partly through a lack of foresight and because the world, particularly the British economy changed in ways that no one could reasonably have forecast. The cost of subsidising social rented housing with capital subsidies and sub-market rents has been an unavoidable constraint on investment and supply in affordable housing since the middle 1970s. Since then it has never been possible to provide the investment to build enough social rented housing to meet all the housing need represented by Councils’ waiting lists and to remove homelessness. The unit cost is simply too high. Because demand has consistently outstripped supply rationing and waiting lists have become a permanent feature of the affordable housing landscape. In order to meet the needs of those in the greatest need, others have had to
wait - in some cases they have had to wait indefinitely beyond the limits of their patience. As we have now entered an era of immigration and globalised labour markets, the success of the British economy will mean that more and more people are drawn to work here but find it impossible to find somewhere to live. They too will call on subsidised affordable housing, increasing demand further beyond the limitations on supply.

In order to meet the most pressing needs first and to make the best use of available scarce resources, little choice has been offered about where someone who has been homeless or in temporary housing might get to live. Rationing has also meant that tenants have had to pay a price through lack of mobility. As the home ownership market has expanded most people, even people on relatively low incomes, have been able to move around in that market within the bounds of their purchasing power as their job or family circumstances changed. Social housing tenants have found it markedly more difficult to move, in pursuit of a job or to be nearer to families. The number of mutual exchanges are tiny as a proportion of the number of tenants. Simply wanting to move has not been a guarantor of being able to move, again because the bulk of the available housing has gone to those in the greatest need; in much greater need than those who simply want to move.

Lastly, because social housing was for many years built on large estates, some housing estates have becomes homogeneous islands of poverty; barracks of exclusion. This has restricted people's ability to get into - and stay in - the labour market as well as the home ownership market. Many housing estates are situated in the areas worst affected by the great turbulence in the labour market that began in the 1980s, closing down many of the
manufacturing industries in which social housing tenants used to earn their living. Concentrations of unemployment and poverty have also produced negative cultural or behavioural 'neighbourhood effects'. The problems of anti-social behaviour, youth disorder and crime, teenage pregnancies, drug and alcohol misuse, poor health, low educational attainment and skills and financial exclusion are all much more extremely marked in communities of concentrated social housing than elsewhere.

In short, the evidence after half a century is that social rented housing has relieved extreme poverty but reinforced long term geographical and social exclusion and thereby reinforced social inequality and restricted social mobility. The challenge now therefore is to turn affordable housing into a product that on the one hand consolidates the gains that have been achieved in relieving homelessness and poverty while on the other hand, and at the same time, promotes social mobility rather than restricting it.

What has - and has not - been achieved by widespread home ownership?

The biggest change in the housing market in the last 25 years is rapid escalation in house prices. Following the deregulation of mortgage lending and a period of low interest rates leading to a boom in the 1980s, the home ownership market went bust in the early 1990s. For the first time more than a million people faced negative equity: they had borrowed more than their house was now worth. This led to a rash of foreclosures on mortgages and
consequent evictions; the largest involuntary removal of people from their homes since the Highland Clearances centuries ago.

But those traumatic events cannot mask the underlying trend. House prices have gone up and up, on average doubling every five years or so. Those who entered the home ownership market many years ago have seen their personal wealth increase exponentially (even if they were poor to begin with) as their houses have risen in value. Many will need to rely on unlocking the value of the equity in their home when they arrive at old age and find their income from their pension and savings inadequate. That trend of equity release has already begun. Those who went into long term rented housing have not enjoyed the benefits of asset appreciation, even though many people in similar economic circumstances have. They have had to live with the consequences of the decision to go into permanent rented housing even though they could not have predicted those negative consequences. If they have also not made adequate pensions provision, they may be facing a poor and gloomy old age, notwithstanding the considerable fact they have somewhere secure to live.

So the lack of an asset that has appreciated and can be liquidated is added to the list of depredations of longstanding residents in social rented housing. They have little choice, little geographical mobility and few assets. Take all that together and it's a poor prospectus for social mobility.

Another group has been disadvantaged and left out by the great rise in house prices: first time buyers. In many parts of the country even the smallest flats are beyond the means of first time buyers. In some places even two incomes won't get you a large enough mortgage to afford to buy a home. As a result,
the children of the middle classes have had to rely on subsidies from their parents when they come to enter the home ownership market. Wealth has passed from one generation to the next earlier than intended. But many potential first time buyers are not the children of parents who can afford to subsidise them. Characterising first time buyers as young professionals with bright financial future is a gross over-simplification. Many are people on low wages with relatively low skills, who may make some progress in their careers and therefore their financial situation, but are unlikely ever to be enormously wealthy. Nevertheless they wish to buy a home, partly in order to become part of the owning classes and enjoy the benefits of asset appreciation already set out. They should not be penalised for those aspirations. On the contrary the aspiration to social mobility, and therefore not wishing to rely on subsidised public services forever, should be encouraged by policy makers, with a view to containing future public spending, if for no more idealistic motive.

Who's suffering?

So the United Kingdom has a housing market which works for many of us, but which does not work for the following groups of people:

- Homeless people, who face a high threshold before being accepted as homeless and therefore entitled to rehousing and potentially long waits for permanent housing. Even when they do receive an offer of permanent housing, they are unlikely to have much choice about the property or its location. If they refuse the offer they are made,
they may very well not receive another. If they accept the offer, but then need to move in a few years time because their circumstances change, they are likely to face another long wait.

- People in temporary housing, who have been accepted for rehousing, but may nevertheless face long stints in unsuitable temporary housing, often far from where they will eventually end up with all the consequent disruption to children's schools and other aspects of their lives that will be affected by yet another move. Similar restrictions on choice and future mobility face them as have already been mentioned in relation to homeless people.

- Existing tenants who want to move, unless they are severely overcrowded or in priority need, can face a long wait for a suitable alternative. In areas of particularly high demand, or where they need a very specific type of re-housing the wait may be indefinite.

- Existing tenants who want to become homeowners but cannot afford to buy outright.

- First time buyers on low incomes in high cost areas

The role that low cost shared equity home ownership could play

Low cost, shared equity home ownership could play a much larger role in addressing all these concerns. Homeless people and people in priority need are not getting much choice, even though in other areas of public services
which are also rationed in different ways such as health and education, the role that greater consumer choice can play in driving up standards has been acknowledged and acted upon. Housing, for no good reason, has largely been exempt from most of that pressure for greater choice.

Although choice-based lettings have been introduced by many landlords in many areas without deleterious effects on their ability to meet housing need or to address homelessness, the majority of local authorities and social landlords still - a decade after the idea was first introduced - do not offer choice in lettings, or in much else either. Nor is it the case that local authorities and landlords cannot offer choice in areas of high demand. On the contrary some of the most successful choice-based lettings schemes have been in some of the highest demand areas, such as the London Boroughs of Camden and Tower Hamlets. Except for reasons of staid, old-fashioned paternalism, it is impossible to explain why many social landlords and local authorities operating in areas of less housing pressure have not introduced more choice for applicants.

The assumption remains that home ownership is not suitable for homeless people or people in priority need. Even low cost, shared equity homes have not been made available for homeless people or people in priority need. An anachronistic assumption states that their straitened circumstances mean they cannot afford to own anything and they could not cope with the responsibilities of ownership. But they are obliged to take increasing social and financial responsibilities in other areas of their life, not least bringing up their children, with which they will only be assisted by the state in fairly extreme circumstances when there is a substantial risk to the child. Against
the backdrop of consumer choice making substantial incursions into the previously command-and-control world of public services, it is perverse to argue that homeless people and people in priority need are absolutely incapable of owning even a small stake in their own home. An even more absurd argument is that lending small amounts of money to homeless people and people in priority need represents a bad risk for the lenders and a moral hazard for the borrowers. Presumably the fear is that they are so feckless that they will just waste the money they borrow on drugs and booze; an exceedingly insulting assumption, perhaps forgiveable in a Victorian clergyman, but not in housing professionals in the 21st century. Existing tenants who want to move also do not get many opportunities to use the shared ownership route into home ownership. The incentives to leave behind a subsidised rent (£16000 to be exact) is not great enough to attract people into a mortgage offered at market interest rates, even though it may be in their best long term interests to acquire a trade-able asset. Low cost, shared equity home ownership is a good proposition for first time buyers, but there are two problems. In high cost areas even two incomes is not enough to afford a fifty per cent share of the equity. In addition, access to some low cost home ownership provision has been restricted to ‘key workers’, broadly defined as public service workers. This has led to many negative and perverse results. A well-paid local authority professional can apply for subsidised low cost home ownership whilst the driver of the school bus, who earns a good deal less but is employed by a private sector contractor, is excluded. In the parallel universe of bureaucratic definitions the driver of a
school bus run by a private company is not a key worker. As New Yorkers say, go figure!

The greater role that shared ownership could play depends on access being possible at a much lower level than 50 per cent equity. There is no theoretical reason why people should not enter the shared equity low cost home ownership market at a ten per cent stake. Below that level the transaction costs would almost certainly be too high. They would need to be able to secure a loan to borrow to the value of ten per cent of their property's value in the first instance. Mortgage providers could perhaps be persuaded to lend at that value; after all they offer unsecured loans for equivalent sums of money where the risk of non-repayment and no security in the event of non-repayment are even greater. Indeed, social landlords, subject to regulatory clearance, could lend the money themselves. They would have the security of the remainder of the equity in the property so their risk would be very low.

Financial inclusion as a stepping stone to social mobility

This possibility of homeless people, people in priority need and existing tenants borrowing money to acquire small equity stakes raises another set of important policy objectives, traditionally seen as outside the debate about affordable housing: financial inclusion. Nearly two million people in the UK do not have bank accounts. As a consequence they face cost and inconvenience in basic financial transactions and in cashing benefits and
wages. Without a bank account, they are also outside the financial mainstream that would give them access to efficient vehicles for their savings from which they would earn interest. It is a myth that poor people in this or any other country do not save. Almost everyone saves or tries to save, but poor people tend to do it less efficiently and without the benefits of financial services.

People without a bank account are also shut off from borrowing money from mainstream financial institutions, having to rely instead on doorstep lenders and, in extremis, loan sharks. So financial inclusion is about access to the key basic financial products of transactional bank accounts, efficient savings products and responsible, reasonably priced credit. Moving into home ownership also requires moving into financial inclusion and achieving both those goals means being economically active in the labour market. Owning assets, including equity in a home, access to financial services and economic activity in the labour market is a definition of social mobility.

In order to achieve these goals there would need to be a much less rigid ‘.allocations’ system for people moving into affordable housing; moving within different types of social housing and moving out of affordable housing into the wider home ownership market. At the moment the mechanisms are restrictive and bureaucratic, denying choice and failing to meet aspirations in the pursuit of rationing to meet the greatest needs. The best way of removing these rigidities and inelasticities is to create a market. It is the only really efficient means so far invented of distributing goods to those that want them the most and can afford to pay for them. But from a social perspective markets contain and reinforce a big problem. They are not equitable. They do nothing to
assist the worst off get up the ladder. On the contrary they tend to reinforce stratification of wealth and opportunity. All markets need to be regulated to work efficiently. There is no such thing as a wholly free market. As economists will tell you perfect competition is impossible to achieve. But more than regulation is needed to make a market work equitably as well as efficiently. Two other things are necessary. Firstly, if the goods in the market are subsidised it is legitimate to restrict access to those goods to those in need. Secondly, subsidising the participation of the worst off in that market can also counteract the inevitable, inequitable consequences of markets.

A national online auction for affordable housing

So the Opening Doors for You manifesto is that a national marketplace of all the available affordable housing is created online. The groups already mentioned as being adversely affected by the existing housing market would be the only groups allowed to participate: homeless people, people in priority housing need, existing tenants who want to move and first time buyers on low incomes in high cost areas. They would be given some virtual bargaining chips in this new market. For these purposes let's call them UVs (standing for utility value). These would be allocated, as in the current points system, according to need, so homeless people and people in priority need would be given the most UVs, existing tenants would be given fewer and first time buyers fewer still.
In bidding for an available property online they could bid with these UVs (similar to current choice-based lettings scheme, but on a national basis) or, if they wanted a more expensive property than their UVs would allow them to buy, they could top up their UVs with real money, either from their savings, by taking a loan or a mortgage or by agreeing to pay a higher rent than that quoted. This last method of paying a surplus on the rent would mean that those who could not afford to borrow more but were willing to make sacrifices in disposable income would be able to get the home they wanted. The surplus generated from their extra payments could be saved and earn interest on their behalf and returned to them at an appropriate time. That element they paid for in real cash would then be consolidated in an equity stake in the property which could be set at any level above 10 per cent depending on what they could afford. The equity for the element that is notionally ‘paid’ for in UVs would continue to be held by the social landlord.

In addition existing tenants could buy small stakes in their own home, increasing their equity stake as funds permitted. If they wanted to move, any tenant or shared owner, whatever their level of equity, could re-enter the market by placing the details of their property on line. The effect of this approach would be that all affordable homes, existing and new, would be available for shared ownership depending on the means of the purchaser. As it were, all current and potential tenants of social housing would be potential homeowners, it’s just that some of them have not yet bought any equity.

This leaves one further problem: If there were several people who wanted the same property and had the same amount of UVs+cash, who would get the property? We propose that the online marketplace should operate as an
auction. People could bid above the reserve price, payable in a combination of UVs, cash or rent, and the property would go to the highest bidder, following the same principles as Ebay and other online auctions in which social housing tenants are active participants (thus contradicting both the view that social housing tenants have low disposable income and that they cannot cope with the Internet. Again, these are distinctly patronising assumptions.)

**Opening Doors for You: A national strategy for social mobility**

To achieve what has been set out above the following policy changes would be needed to promote social mobility through home ownership and financial inclusion.

1. Social landlords should have their purpose changed. Their purpose should not just be meeting housing need. Instead it should be meeting housing need and promoting social mobility. The new Communities England, inspection by the Audit Commission and whatever arrangements are to be made for the regulation of affordable housing should build in the explicit goal of promoting social mobility into their approaches for investment, regulation and inspection.

2. Social landlords should be encouraged to become financial inclusion agencies, both through direct service provision and by working in partnership with financial services companies to bank the
unbanked, give their tenants access to responsible credit, debt advice and interest-bearing savings products. Social landlords should be encouraged to apply to the Government’s financial inclusion fund to run pilots of financial inclusion services. Lessons could then be learnt from the pilots, good practice shared and national coverage of new financial inclusion services be achieved over a period of time.

3. All social rented and shared equity tenancies should be converted in a new Housing Act into a single flexible tenure with varying levels of equity to be set by what the tenant decides they can afford, not by the landlord or by the Government.

4. All vacant affordable housing, new and existing, rented or part owned, should be available in a national online auction. The currency used to bid in the auction would be a combination of real money from savings or loans and a new national virtual currency, UVs, which would replace the existing locally organised points system. Access to the auction would be restricted to homeless people, people in priority need (who would receive UVs in proportion with their needs) existing tenants (who would only receive UVs if they are overcrowded or in priority need to move, but could bid using the UVs in their existing property which they could top up with cash or surplus rents) and first time buyers on low incomes (who would receive no UVs and would have to buy with cash and mortgages.)
5. Access to equity ownership should start at a ten per cent threshold. The Government should encourage mortgage lenders to enter the market for mortgages for smaller equity shares and housing associations should be encouraged to consider registering with the Financial Services Authority (FSA) as lenders themselves.

6. First time buyers on low incomes in high cost areas should be allowed to bid for shared ownership properties, but not for 100 per cent social rented properties which should only be available for homeless people and people in priority need.

7. Rents for social housing should progressively move to economic (i.e. cost) levels to remove the disincentive of subsidy discouraging those no longer in need with a reasonable income from moving out of social rented housing. People bidding for properties in the online auction would be able to agree to pay above the quoted economic rents to win the auction. The money they paid above the economic rent could be saved and invested on their behalf and returned to them in cash or equity at an appropriate time. This would be a double incentive, both to get the best house they can afford and to save money.

8. Existing tenants should be given substantial financial incentives to leave social housing altogether. If the incentives were even up to 25 per cent of their value of their property, the effect would still be that a unit of housing was made available to someone in need at a quarter of the cost of building a similar unit.
Aspirations, identity and pride

All of these changes are not just seeking to produce a more efficient and equitable housing market, though those are enormously important goals. These changes could bring about a much more fundamental and welcome social change: a change to the way that poor people see themselves. The current system, with all the shortcomings already mentioned, can make people feel pushed around and dependent, sapping self-esteem and dynamism, inadvertently encouraging self-destructive and socially destructive behaviour. The arrangements proposed here, with the emphasis on owning assets, making choices and planning for your own future, will make a big contribution to the identities of poor people. They will start to behave in the motivated and optimistic ways of people with plenty to look forward to, for themselves and for their children; people with a future as bright as anyone else. They will see themselves as people who can hold their heads high in a dynamic world in which they too will be success stories to make themselves and others proud - and the sooner the better.