



# Affordable Housing

What do local plans and national policies for new affordable housing mean for the west end of Newcastle?

Knowledge Inclusion Project  
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## **Introduction**

This briefing paper is one of a series produced by KIP intended to provide residents, community groups and local organisations with information about plans, problems and issues affecting the inner west of Newcastle. The choice of topics to be covered by these briefing papers is based on concerns raised by local people and groups.

This paper looks at “affordable housing”.

Affordable housing is a big issue at the moment. Locally, plans for new housing developments are being drawn up for several parts of the west end – but who will be able to afford to live in them? The draft Benwell & Scotswood Area Action Plan proposed a split of 25% “affordable housing” and 75% “market”, with only 10% being socially rented. This proposed split was one of the main concerns raised by local residents during the recent consultation.

Nationally, the government has recently announced some new ideas for creating affordable housing. How could the new government Green Paper “*Homes for the Future: More Affordable, More Sustainable*” affect Newcastle?

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## **What is affordable housing?**

The escalating cost of housing in Britain has been much in the news lately. Decent housing is a basic human need, which affects everyone's opportunities for health, education and employment. Locally there is concern that much of the new housing in Newcastle is beyond the means of many local households.

In July 2007 the Government issued a Green Paper entitled "*Homes for the Future: More Affordable, More Sustainable*", which seeks to tackle some of the problems in the supply and cost of new housing.

The Green Paper defines affordable housing as including "social rented, low cost home ownership and intermediate rented housing, provided to specified eligible households whose needs are not met by the market".

Newcastle City Council's Housing Strategy, published in 2006, defines affordable housing as costing less than £120,000 or £625 per month rent. These figures are based on calculations of what families on average wages in Newcastle could reasonably afford.

## **What is the current situation nationally?**

At present there are 223,000 new households being formed every year in England and Wales, but only 185,000 new homes are being built. This has led to house prices increasing to a level that many households, particularly the young and less well-off, cannot afford. In the last ten years the numbers on housing waiting lists have risen to 1.6 million.

There are several other reasons why housing costs have risen more quickly than earnings:

- The amount of council housing has fallen over the years as a result of the right-to-buy, with the result that many low-income households are being pushed into the private rented sector where rents are on average a third higher than for council properties.
- Other factors such as private investment in housing through the buy-to-let market have reduced the amount of lower cost housing available.
- Some developers blame the planning system for delays and failure to provide enough land for housing development in areas where people want to live.
- Interest rates have risen over the past year in order to control inflation, and this has made it harder for households to keep up their mortgage payments.
- The recent financial crisis in housing markets in America is starting to have an impact in this country, where lenders are raising their rates

and reducing the types of deal offered to borrowers whom they view as having a higher risk of defaulting on their payments.

## **What is the government doing to make housing more affordable?**

In July 2007 the Government published its Green Paper for consultation, called "*Homes for the Future: more affordable, more sustainable*". The government forecasts that 3 million new homes will be needed by 2020, and sets out proposals to ensure they are built. For the first time in a generation, housing has become an urgent priority for government.

The Green Paper has three main aims:

- To increase the supply of housing.
- To improve the environmental impact of housing development through good design and better links to transport, schools and healthcare.
- **To provide more affordable homes to buy or rent.**

This briefing paper focuses mainly on the third aim.

The government plans to increase the amount of social rented housing, but also plans to extend various existing methods of enabling first-time buyers to get onto the housing ladder.

There are several methods currently available to help low income households into home ownership. These include

- encouraging private sector developers to provide a proportion of low-cost "starter homes" within estates, sometimes by the use of planning agreements,
- shared ownership schemes are offered by housing associations, whereby households pay part-rent, part-mortgage, with the option to increase the mortgage as their income grows,
- banks and building societies offer shared equity mortgages, using a similar arrangement to shared ownership,
- special subsidies are available for "key workers" and first time buyers to enable them to live in areas where housing costs are high.

All of these methods are already in use, but are likely to be expanded.

It is clear that the government does not want to see a return to big council housing estates, but prefers to see areas of mixed house types and income levels, whether these are provided by councils, housing associations or private developers.

## What does the Green Paper propose?

The government plans to increase its investment in *affordable homes* to buy or rent by 50%, and to increase the proportion of *social housing* (that is, housing to rent from councils or housing associations). At least £8 billion will be invested in housing in the next three years, of which £6.5 billion will be in social housing. The aim is to create 45,000 more homes to rent (an increase of 50%) and 25,000 more shared ownership homes by 2010–11. Thereafter the target is 50,000 new social rented homes as part of a total of 240,000 new homes each year.

The Green Paper proposes a package of measures to increase the supply of housing and to ensure that more of it is affordable. The most widely reported of these measures is to **sell unused government-owned land**, such as surplus Ministry of Defence or Health Service land, and use the proceeds to pay for new housing. Not all of the new homes would be built on government land, but the money from land sales would be used for house-building.

Among the other measures the government proposes are the establishment of a New Homes Agency to replace the Housing Corporation, which would provide funding for social housing. On the planning side, ten new *eco-towns* are planned, alongside new Growth Points and reviews of the housing targets in regional plans.

Much of the impact of the Green Paper is aimed at those parts of the country which have the highest population increases, especially London and the South East. However, after years of declining population, the North East and Newcastle in particular is showing signs of growth, at least in some areas. The Green Paper does include measures that could affect the North East and Newcastle.

## What opportunities does the Green Paper offer to Local Authorities?

Local authorities are seen as having a strategic role at the heart of achieving the government's ambitions to create more affordable housing in partnership with other providers.

- Firstly, local councils will be offered incentives to permit more housing within their boundaries. Councils that “deliver” more houses and identify a five-year supply of building land and a 15 year plan for housing development will gain by receiving a new Housing and Planning Delivery Grant totalling £500 million nationally.
- There will also be penalties on developers who fail to build on land where they have planning permission.
- There will be a modest return to council house building. Local authorities or ALMOs (Arms Length Management Organisations) like

Your Homes Newcastle, will once again be allowed to build houses, provided they are accredited as being good managers (having been assessed as 2\* or above).

- The Green Paper includes a consultation on whether councils and ALMOs should be allowed to keep the rents and capital receipts from all new housing that they build. This would allow them to fund more new house-building. There has also been a hint that new housing built by councils and Local Housing Companies could be excluded from the right to buy, although this is politically controversial and not part of the formal proposals.
- Another measure mentioned in the Green Paper is a restriction on buy-to-let within developments on public land.

**A small number of pilot local authorities, including Newcastle, are being encouraged to set up Local Housing Companies.**

These companies will be joint ventures between the local authority, the New Homes Agency and English Partnerships, the government development agency, which will help to provide the funding, some of which will come from the sale of government land. The local authority will be expected to supply land as its contribution. The Local Housing Company would be able to commission the building of new homes, at least 50% of which would be social rented housing. They would be expected to create “new mixed communities” with other affordable homes provided through shared ownership or shared equity mortgages.

The implication of these arrangements is that councils could have a much stronger role than at present in dictating the sort of housing and tenure types in their areas.

## **What is Newcastle’s present Housing Strategy?**

Newcastle City Council published its Housing Strategy in 2006. It covers the following 15 years up to 2021, although it will be reviewed and updated over this period. The council sees itself as becoming more active in commissioning new housing on key sites in future.

The current strategy predicts a need for 15,000 new homes over the next 15 years, of which 3,000 will be replacements for demolished housing, and 12,000 will be additional.

At present, about 25% of Newcastle’s housing is council owned, with an additional 6% owned by Housing Associations. The level of home ownership in Newcastle is lower than the national or regional averages, and both private and social renting is higher. The strategy seeks to increase the level of

owner-occupation. However, house prices in Newcastle are higher than the average in the surrounding area for similar types of property, although the majority of Newcastle residents are on low incomes. The average house in Newcastle costs roughly 7 times the average annual household income. The Strategy concedes that **“For most Newcastle residents not already on the housing ladder, the majority of Newcastle property is no longer affordable.”**

Because of the widening gap in affordability, the strategy acknowledges the growing need for affordable housing, including social rented homes. There is a commitment to building new council housing if it becomes possible to do so.

The strategy sets out proposals to build 4,800 affordable homes over the 15 year period, of which 1,800 would be built by developers as part of mixed housing developments, 1,200 by Housing Associations, 1,800 by a mixture of shared ownership, shared equity and using planning agreements with developers of larger housing schemes. However, a further 1,200 new affordable homes would still be needed, which would have to be created by innovative means. In other words, existing mechanisms will not meet the current or future demand.

### **What work is the Market Renewal Pathfinder, *Bridging Newcastle Gateshead*, doing?**

Partnerships such as *Bridging Newcastle Gateshead* (BNG) have been working since 2002 in areas of low demand to improve conditions, to gain a better understanding of what drives local housing markets, and to invest in long-term changes. BNG has a 15 year regeneration programme backed by £64 million and covering 77,000 properties.

The main objectives of the government-funded partnership are to increase home ownership, to improve the choice of housing and to improve the neighbourhoods and services within them so that they are more attractive and provide a better quality of life.

*Bridging Newcastle Gateshead* covers most of the riverside areas of Newcastle, which were identified as suffering collapse of the housing market. In recent years, partly as a result of the work of BNG, housing prices in the area have risen. This may pose problems for BNG, because a rise in prices is seen by the government as a sign of success, which could lead to a reduction in its funding. Nevertheless, the area still needs considerable investment.

If the New Homes Agency comes into existence, BNG will almost certainly come within its remit for funding and oversight.

At present *Bridging Newcastle Gateshead* is gathering evidence about affordability, by studying the impact of some of the affordable housing

schemes built in the area recently. They are studying what products are on offer to make house purchase easier for low income households, how they are being used, what the take-up is and what income levels they are attracting. Very little research has been carried out nationally or locally to establish how effective the existing financial products are.

It is possible that BNG and its partners will also seek to provide an information service to support people in understanding the available products better, and assessing how useful they might be to their personal circumstances. With many of the products currently available, households can end up paying substantial amounts in rent and mortgage which they may have difficulty in sustaining.

If those people who have left areas such as the west end of Newcastle are to be attracted back, the available housing will have to be affordable as well as attractive.

One particularly innovative scheme that BNG is involved with is the development of the first BoKlok housing scheme in Britain in Gateshead. This system-built, low-cost housing has been designed by Ikea, and has attracted considerable public interest, being targeted at households with incomes between £15,000 and £35,000. If successful it could well be used in Newcastle.

## **What does the Green Paper mean for Your Homes Newcastle?**

If the measures in the Green Paper are approved, it should be possible for YHN to build new homes for rent.

In terms of its viability, this would be a great benefit to YHN, whose housing stock has fallen rapidly as a result of demolitions and property sales. It is therefore very likely that YHN will seek to build some new housing stock if the powers become available.

However, there will be political and financial decisions to be made over whether it is desirable or economically efficient for YHN to build and own any significant volume of new housing. It may be that other providers, particularly Registered Social Landlords (Housing Associations) would be considered cheaper and more experienced.

## **What are the existing plans for Scotswood, Benwell and the West End?**

Scotswood falls within the *Bridging Newcastle Gateshead* area for investment in transformation of the housing market. Newcastle's adopted Housing Strategy forecasts 2,000 new homes in Scotswood and Benwell by 2021, of which 200 (10%) would be social rented, 300 subsidised home ownership and 300 low cost home ownership or market rented, making a total of 25% "affordable" new homes.

In addition, the Benwell Scotswood Area Action Plan includes specific targets for new housing development in the area. The overall city target is to increase owner-occupation to 63%, from its current level of 46%. However, the Area Action Plan recognises that this is an unrealistic target for Scotswood, because it would require considerably more clearance of existing council housing than is planned. However, the plan seeks to increase owner occupation within the existing housing stock through "right-to-buy" and affordable ownership schemes. This would lead to diversification of existing council housing estates in the west end.

Much of the affordable housing in the Scotswood area is planned to be achieved through agreements with developers. The intention is to ensure different tenure types are indistinguishable and built to the same high standards. Much of the new housing is aimed at families, will have three bedrooms or more and is expected to meet high environmental standards.

Plans for a large new housing development in Scotswood were recently approved in outline. The proposals include up to 1,800 new homes, most of which will be for owner-occupation, with 25% "affordable".

The council plans to have an "Expo" built on part of the site. Building work is planned to begin in 2009. The Expo will be an international exhibition showing styles of urban living and will include 330 new homes. (For more information about the Expo planning application, see KIP Briefing Paper *Scotswood Expo: Implications of the Outline Planning Application*).

The vision of the City Council is that renewal on a grand scale will, alongside the new Academy, be a driving force for change in Scotswood, and will improve the quality of life and perception of the area, bringing new shops, jobs and parks, as well as attracting people back to live in the area. It is hoped that this could boost the whole economy and housing market in the west end.

## **What changes to these policies could result from the Green Paper?**

A government Green Paper is a consultation document which will not necessarily lead to legislation on all its proposals. However, many of the

proposals are likely to become law and start to be implemented within the next couple of years although the resources available in individual areas will not become clear for some time.

For all those involved in housing, the Green Paper represents a new emphasis on high quality, sustainable, affordable housing that has been missing from public policy for many years. The higher status of housing policy is useful to managers in the public sector in arguing for priority and resources.

### **Local research findings**

In a recent survey, 70% of residents of the Pendower Estate said that there was a need for new *social housing* developments. This was a significantly higher proportion than wanted homes to buy or rent privately. Ten times as many people wished to see new housing provided by a social landlord as by a private landlord.

Only 15% were interested in buying a home in the area. Four fifths of these said they would not be able to pay more than £60,000. Not a single respondent answered that they would be willing to pay more than £100,000, which is significantly less than the price level usually taken as defining “affordable housing”.

This survey also identified significant numbers of older people who were occupying larger family homes that they had outgrown. The lack of bungalows in the neighbourhood was preventing older tenants moving on so as to vacate their homes for families.

(*Pendower Estate: A Better Future* – report by Pendower Tenants and Residents Association, 2007 )

Income levels in Newcastle as a whole are low and not rising significantly, so the local housing market does not seem to be answering the needs of many of its residents. There is particular concern in the west end that the homes planned for the Expo site will not be affordable by local people.

However, the housing market area for Newcastle stretches well beyond its administrative boundaries, so it may not be so important *where* affordable housing is located if it is accessible. Much of the housing that has been built in Newcastle recently is not suitable or affordable by local families. In contrast much of the new housing in Gateshead and North Tyneside is cheaper and larger.

## Local responses to the Green Paper

KIP held a meeting in the west end to inform local residents and community organisations about the Green Paper's proposals and to discuss the implications for the area. This was attended by residents from different parts of the area as well as people from the council and other agencies with an interest in the topic.

Generally residents felt positive about the commitment to regenerate the area and about the major opportunities offered by the Green Paper. There were concerns expressed about some particular issues.

There was consensus that the Green Paper offers a huge opportunity to Newcastle City Council. However, there was also concern that the council may be too slow to grasp the opportunity of setting up a Local Housing Company within the period of a year that the Government is offering.

The definition of affordability in Newcastle's Housing Strategy remains controversial. It is clear that many households in the West End have incomes well below £20,000, with an average of perhaps £13,000 - £15,000, and would find it difficult to take advantage of the "affordable" prices envisaged.

A number of residents argued that it is important to look closely at the question of affordable housing in relation to current regeneration plans for the west end. There was felt to be a need to move quickly or opportunities would be missed. There was some support for having a Housing Company, which would shift the proportion of affordable housing in the Expo plans to 50%

Concern was expressed that local people will not be able to afford the new houses to be built on the Scotswood and Benwell Expo site.

Several residents stressed the importance of providing *social rented* housing as opposed to options to purchase homes at low cost. One argument put forward was that, once a house is sold, it becomes part of the private market, and would then be sold on or rented out for a price that was no longer affordable.

Local residents also suggested that Newcastle City Council is not making use of legislation that allows it to act in respect of empty homes.

(Summary of key discussion points from KIP *Space for Debate* meeting held on October 4<sup>th</sup> 2007)

The Green Paper still suggests that the greatest efforts will be made in the south and midlands rather than in the north, and there is a risk that the

political desire to increase the house-building programme could be achieved at the expense of an emphasis on affordability.

Newcastle has been proposed in the Green Paper as a pilot area for the establishment of a Local Housing Company, which could result in a significant new emphasis on building affordable housing, although the details of the structure and resources are still very vague. The Government's Comprehensive Spending Review has resulted in a cash boost to the North East of £283 million during the period 2008 –2011 in order to increase the number of social and affordable homes. Newcastle's share of the new funding is not yet decided, but there will be important political choices to be made over whether to build social housing for rent or to put greater emphasis on low-cost home ownership schemes.

It appears that one of the intentions in establishing such Companies would be to put pressure on Housing Associations (Registered Social Landlords) to use their reserves and ability to raise money from the financial market to create more shared ownership property.

Social housing agencies are likely to need people with more expertise in helping people to understand and access the different housing finance options, and also to help people move on from social renting into private ownership where possible. Your Homes Newcastle will probably have to offer new services beyond the current housing allocation process, to enable people to make a wider range of choices.

Although the proposals are at an early stage, Newcastle has started to put together a list of sites in its ownership where new social housing could be built. Newcastle is fortunate in that it owns a number of significant sites suitable for regeneration.

Assuming that Newcastle establishes a Local Housing Company, the large tract of land in Scotswood that is owned by the council could become part of the company's estate. However, once the council has reached agreement with private developers on the sale or lease of the land it may be too late. As yet no agreement has been reached, but the process for selecting a development partner is advancing. A Local Housing Company would be tasked with providing a much higher proportion of social housing than the 10% proposed in the present outline planning consent.

## **What is the overall political context?**

The government agenda remains a little confused. There is a clear recognition of the problems people on low incomes, especially the young, are facing in affording a home. However, in Britain, as distinct from most of Europe, there is a strong preference among all political parties and most of the public for home ownership as opposed to renting. Many of the measures adopted by successive governments have been aimed at raising the

proportion of people who own their own homes. Social rented “council” homes are often regarded as the “housing of last resort”, rather than a necessary service for a mobile workforce in a modern economy. It remains to be seen whether the renewed priority given to housing will focus on social renting or on low-cost ownership schemes.

Choice is another key concept in government policy, and the market is seen as the preferred method of achieving a wide range of options. However, management of the market has become a necessary tool, and the Green Paper is an attempt to introduce more public intervention while at the same time increasing choice.

The government undoubtedly wants to see a lot more houses being built than at present, but many of these will be in parts of the country where the demand is greatest. There is a tension between encouraging local authorities to release more land for housing in order to achieve the desired volume, and ensuring that a fair proportion of those houses remain affordable.

*The Northern Way* (a collaboration between the three Regional Development Agencies, One NorthEast, Yorkshire Forward and the Northwest Development Agency to transform the economy of the North) has undertaken some research on whether house prices in the north east are holding back economic growth. It has concluded that this is not the case at present. However, the situation may change if growth accelerates in the region, or house prices rise further.

Currently the Regional Spatial Strategy puts a limit on housing growth in each local authority area in the north east. Newcastle has never been happy with the current restrictions, and has always argued that its role as regional capital requires it to provide more housing in order to assist economic growth. It seems most likely that the current restrictions will be lifted to some degree, in view of the evidence that the population is now growing, and that house prices are relatively high.

### **What effect will the recent crisis in the banking system have on affordable housing?**

Problems in the banking system arose originally as a result of American lenders providing finance for house purchases to people who could not afford the repayments.

This led to a crisis of confidence in a system where it was revealed that lenders have to borrow at high rates of interest from other financial institutions in order to increase their lending for house purchase and property development. Underlying the immediate problem is the continuing inflation in house prices, which leads to greater borrowing.

Northern Rock, which experienced the greatest problems as a result of a sudden loss of confidence by its investors, is the largest mortgage lender in the north east. Many households depend on the stability of the bank, both as borrowers and as investors. However, all other lending institutions are affected by the same pressures.

In the longer term, the crisis may result in a fall, or at least a slowing, in the increase in house prices. One group particularly affected will be buy-to-let investors who borrow from specialist lenders which raise finance from the money markets, and will consequently need to raise their interest rates to both existing and new borrowers. This could lead to a squeeze on buy-to-let properties, and possibly some return of cheaper properties to the open market.

However, the greatest impact will be on those borrowers who are seen as higher risk. They are already facing much higher interest rates, and consequently are more likely to be unable to afford the cost of a mortgage. This could undermine the efforts to increase low-cost home ownership, and place even higher demand on social rented housing.

## What is KIP?

KIP is the Knowledge Inclusion Project. It is part of WECDL (see below).

KIP's job is to link with local organisations and residents to do community research and pass on information about changes affecting people's lives. There are four main areas of work:

**Research:** doing research on issues of concern to local residents and community groups in the west end. The choice of issues to be investigated depends on what's identified locally. If you want to suggest a topic that might be useful to research, let us know.

**Information:** disseminating information and knowledge to local residents and organisations. KIP produces a series of briefing papers and information sheets on topics of local relevance, and organises *Space for debate* discussion meetings to promote discussion and debate about current changes affecting the area.

**Training and support:** providing research training and support to local residents, volunteers and workers. KIP has developed an accredited training course in research skills and can also offer bespoke training and advice to local groups and organisations. Contact us if you are interested in this.

**Consultation:** carrying out and supporting consultation with local residents. KIP carried out consultation on current issues in order to ensure that residents' views are fed into planning and decision-making processes. We can also help other agencies to contact local people, but our policy is that consultation should be of benefit to participants.

### Get in touch

If you want to receive copies of our reports and briefing papers, all you have to do is register with KIP by emailing us at [kip@thestrategy.org](mailto:kip@thestrategy.org).

If you are interested in research training or help, or want to discuss any aspects of KIP's work, email us at [judith.green@unn.ac.uk](mailto:judith.green@unn.ac.uk) or write to us c/o West End Health Resource Centre, Adelaide Terrace, Benwell, NE4 8BE.

## West End Community Development Consortium

The West End Community Development Consortium is funded by the Neighbourhood Renewal Fund to support community participation in regeneration activities in the west end. WECDL's role is to:

- Facilitate networking among community groups and voluntary organisations
- Offer support and training advice and resources to existing community and voluntary organisations and support the development of new community groups and organisations
- Build the capacity of local groups and activists to participate in consultation, campaigning and decision-making bodies
- Provide an independent source of information and research about issues of concern to the local community