TOUCH STONE

PAMPHLET#11

Can Housing Work for Workers?

Public and government attitudes to housing in the UK are shot through with assumptions and prejudices. Most prevalent is the strongly held view that certain forms of tenure are better than others. This pamphlet argues that this 'false hierarchy' has led to bad policy-making that fails to acknowledge that many owner-occupiers are trapped in areas with weak labour markets and face excessive liabilities. It looks at how the dream of home ownership may turn sour, entrenching poverty and unemployment, and calls for a new approach. This includes extending advisory and financial support to owner-occupiers and accepting that private renting and social housing have a vital role to play in creating greater mobility for those seeking work and financial security.

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TUC

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Foreword

by Brendan Barber, TUC General Secretary

Housing is one of those intractable British problems that never seems to be fully resolved. For years we have known that a booming property market combined with limited supply and restrictive planning regulations has left home ownership well beyond the means of millions of young people. And in 2008 we discovered quite how destructive the property boom had become when it emerged as one of the primary contributors to the failure of banks in the UK and abroad.

And yet so little has changed since the calamity of 2008. House prices are rising in London, property investors are pouring billions into luxury developments and banks are once again offering very high loan-to-value mortgages. It really is back to business as usual in the housing market.

So this pamphlet is a timely intervention with its hope of restoring some sanity to housing in the UK. But if this was all it aimed to do, it would be far from alone. However, the pamphlet also investigates a much under-researched area: the relationship between housing and work.

In particular, the pamphlet reveals that policy makers' faith in the superiority of owner occupation over other forms of tenure has created many problems. The widely held belief that owning your own home is a sure route to financial and employment stability is shown here to be little more than an assumption devoid of any strong evidence base. It is a view that has led to many people becoming trapped in areas with poor access to buoyant labour markets while facing unsustainable financial liabilities.

This attitude has also meant that the private rented and social housing, which often provide a better context for employment security and advancement, have become Cinderella sectors devoid of the policy support and resources that would allow them to play a full role in the UK economy.

Considerable thanks are therefore due to James Gregory and all at the Fabian Society for producing, on behalf of the TUC, such a refreshing look at this fundamental problem. Hopefully, the analysis and policy proposals made here can make a small contribution to preventing a repeat of the mistakes of the very recent past.

Executive summary

1. Homeowners in poverty

The starting-point for this pamphlet is the recognition that contrary to much public and political opinion, owner-occupation is not necessarily a route to personal financial security and stability.

- In 2008/09, 53 per cent of those in poverty were owner-occupiers.
- Around a third of these poor households own their homes outright.
- Nearly a quarter of poor households are buying their homes with a mortgage.
- After housing costs, there are over three million people of working age in owner-occupied housing in poverty. Over two million of these people have mortgages.

This 'squeezed middle' can find that even a modest loss of earnings or a rise in housing costs can lead to serious difficulties. This will be made worse by recent changes in support for unemployed owners. The level of state support for owner-occupiers is often inadequate and it is simply withheld until households reach the point of crisis.

This pamphlet therefore argues that we need to be more critical of the assumption that the continued extension of home ownership is the necessary basis of a sound housing strategy, as there is a large, neglected group of people for whom ownership is problematic. We also need a recalibration of the way we allocate risk in our society, with a return to some of the solidaristic foundations, based on the principles of mutual insurance, which underpinned the post-war welfare system.

The pamphlet takes a fresh look at the relationship between ownership and labour market mobility, considering potential immobility of the owner-occupied sector, and finding that it is often as immobile as social housing. When we have most needed labour market mobility in the UK, for example during recessions, the owner-occupied sector has acted as a serious economic constraint. We saw this in the phenomenon of negative equity in the early 1990s. The combination of a lack of jobs and an inability to move was mutually reinforcing, creating a vicious circle where immobility stifles the labour market and a weak labour market holds back the economic growth needed to fire up the housing market.

We also look at the politics and ideology of housing in Britain. The politics of housing in Britain segregates tenures, assuming that public housing is for the problematic poor, ownership is for the aspiring many, and private rental for a minority in limbo.

In fact many of the problems facing households in these tenures are very similar.

There are signs that the impact of recent developments in the politics of housing will only make the situation worse, with coalition cuts to housing benefit payments set to reinforce segregation and harden the hierarchy of tenures. Many tenants will be forced out of attractive and economically vibrant areas and pushed further to the margins, both socially and spatially.

2. How housing and work interact

The pamplet sets out an analytical framework to examine the potential barriers to work that can arise with different forms of housing.

Many of the barriers are common to all forms of tenure and are part of a more general failure – the failure of housing policy to join up with labour market policy. There are also specific financial and individual household pressures facing owners. We therefore ask if ownership itself is a source of disadvantage and examine whether these problems exemplify the broader ways housing can act as a barrier to employment opportunities.

We also outline a typology of some features of homeownership and the comparative advantages and disadvantages of ownership in relation to other tenures – ten factors that combine to produce a number of social and economic problems.

Analytically, there is an important distinction to be drawn here between housing as a home and housing as an asset. We also draw a distinction between financial and spatial problems for households. For homeowners in particular there is a set of financial problems associated with the combination of property as both home and asset. Top of the list of financial problems for all households is excessive income stress – a serious problem for private renters as well.

There is another set of spatial problems, having to do with the fact that the owner-occupier's house is a home, with a fixed location (unlike most other assets). These problems reflect the neighbourhood and spatial aspects of housing, and are similar in many respects to the spatial problems associated with much of the poorly planned social housing of the post-war period.

3. The squeezed middle

The pamphlet then looks at some financial problems of home ownership. These difficulties are a source of stress to families and can have a negative impact on the employment opportunities of household members.

An affordability crisis

People's aspirations are changing. In 1975 only 62 per cent of people aspired to own their own home in the following ten years. By 2010 89 per cent saw owner-occupation as the ideal long-term tenure. Yet there is a serious affordability gap, meaning that the pursuit of this aspiration often comes with a heavy price in terms of household finance and wellbeing. This is creating real and new risks for families. For example, prior to 2003, up to 5 per cent of all mortgage holders were repaying only the interest on their loan and lacked an alternative investment plan to pay off the capital. By 2006-08 this had reached 12 per cent.

Opportunity costs of ownership

The pamphlet analyses some of the longer-term risks of ownership for households, beyond immediate income problems which, at their worst, can risk excluding individuals and households from the labour market altogether. There is a clear sense in which ownership can crowd out other opportunities, particularly in the labour market.

We also question the appropriateness of homeownership as a savings strategy and look at the impact that mortgage commitments can have on an individual's ability to make decisions about their employment and development.

Spatial barriers to employment

Families on low incomes may only be able to afford to buy in an area with poor infrastructure and little social capital. This may ultimately threaten the household's income if one of the occupants loses their job and they then struggle to access new job opportunities. Ownership in an unstable market, without connection to job opportunities and social networks, and without the supportive structures of the welfare state, can all too easily become a degraded good.

We therefore argue for the need for continued, active economic intervention to support areas with depressed house prices and stagnating local economies and we need to stand up for regional economic intervention.

4. Policy responses

The pamphlet therefore proposes extending to struggling owners the services that are currently on offer to social tenants including employment support, debt advice, and help in connecting households to social networks, bringing support for young families and retired households alike.

We propose a package of support for owners to help with financial insecurity, including:

- **extending housing support** to help with some of the costs of ownership, reaching more than two million adults in owner-occupied housing living in poverty
- developing a **Housing Cost Credit** to bring all forms of assistance for housing costs into the same system with different streams to meet different needs
- **compulsory insurance** for all new mortgages – in which the risk is shared by government, lender and borrower – with the 'Sustainable Home Ownership Partnership', costing owners around £1.60 per £100 of mortgage payment or around £170 per year on the average mortgage of £140,000 with an interest rate of 5 per cent.

The pamphlet further outlines wider proposals as solutions to the financial and spatial problems homeowners can face. The wider changes that are needed include:

- **Greater supply of social housing.** Alongside lobbying for greater housing supply on the open market, we need to tackle the lack of supply in the social and private rented sector.
- **Greater mobility between tenures.** Moving out of owner-occupation should not be seen as a social failing and the coalition government should pursue policies that manage the transition better.
- **Championing mixed communities.** The government should champion mixed tenure and income communities and not pander to the perceived preference of some consumers not to live next to social housing tenants.
- **Intervening to help local economies.** We should campaign for the restoration of serious economic intervention in local labour markets, explicitly recognising the interaction between housing and labour market policy.
- **Better credit and equity-release markets.** Better regulation of the mortgage market and scrutiny of the financial health of borrowers, a greater emphasis on sustainable debt, and greater provision of long term fixed rate mortgages, offering greater stability to those for who do borrow.

Introduction: the problems with owning a home

Housing can be a barrier to good work prospects. In this report we look at why this is, and we do so primarily through the lens of ownership. We find that owning a home can sometimes act as a brake on life chances and entrench disadvantage in the workplace. We argue for greater support for homeowners and systemic changes to tackle the financial and spatial problems that owners face.

There are many ways in which low pay and poor housing interact. Some people on low incomes buy houses at the lower end of the market that they can only just afford, sometimes in poorly connected areas that do not allow access to high quality labour markets. For some, home ownership creates a degree of financial stress and risk-aversion that prevents them from progressing in the labour market; for example, the risk of mortgage arrears can force recently redundant owners to take the first job available, or tie them into an unfulfilling job with little prospect for financial or professional advancement.

What we do know is that low-paid workers are likely to be severely stretched by housing costs and mortgage commitments for very long periods of their working lives and the policies of both the last government and the new one exacerbate this: on the one hand, as many people as possible are expected to work in often insecure jobs; on the other hand, these workers are actively encouraged to buy their own home. The low-earner is thus caught in a pincer movement between two potentially unstable markets.

Political parties of all hues continue to pursue home ownership as an ideal with social housing seen as a problem tenure, often associated with high levels of worklessness and alleged 'welfare dependency'. Thus, David Cameron asserts that:

"Generations of families are trapped in social housing, denied the chance to break out or to buy their own property. I don't want a child's life story to be written before they're even born, and a responsible housing policy which helps people up and out of dependency can help rewrite that story"[1].

The Prime Minister is not alone. Many people believe that owning your own home has a positive effect not only on social mobility and career success, but also on an individual's wellbeing. However, this report finds there is no clear evidence that home ownership itself has a positive impact on the psychology and sense of self-efficacy of the individual, over and above the practical financial advantages that it can bring.

This pamphlet therefore argues for a more nuanced policy approach to the relationship between homeownership, work and life-chances. It especially focuses on policy proposals to redress two historic problems: that housing and employment policy have always been treated as if they are separate policy areas; and that housing tenure is too often treated as a hierarchy, with owner-occupation at the top, and social housing at the bottom.

But a key objective is not just to focus on the problems of any one tenure or housing sector. Instead, there is a pressing need to consider the housing needs of all households in a less compartmentalised way. The pressures of excessively high housing costs have an adverse impact across the full range of tenures, with 29 per cent of all households struggling to get by, and a further 14 per cent in real difficulty. Some of their problems arise from the interaction of their housing situation with their position in the world of work. It is the purpose of this pamplet to address the needs of this large group.

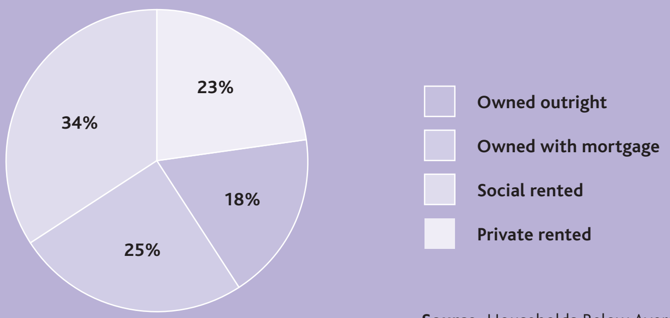
1. Homeowners in poverty

In the following section we look at the phenomenon of poverty in owner-occupied households. Our aim is to draw attention to a neglected constituency of households who deserve greater help from the state. But by highlighting the difficulties faced by owners we also hope to challenge the notion that there is a unique set of problems relating to housing and work that apply exclusively either to social tenants or to private tenants reliant on housing benefit (HB).

When we look at poverty before housing costs (BHC) in 2008/09, 53 per cent of those in poverty are owner-occupiers. Many of these poor households (roughly 31 per cent) own their homes outright, and their situation largely reflects the phenomena of pensioner poverty, with households that may be asset-rich but income-poor. But there is also a very significant number of mortgaged homeowners experiencing poverty. Thus, of the households living in poverty in the UK, 22 per cent are buying their homes with a mortgage. But when we look at poverty after housing costs (AHC) – the key measure in assessing the circumstances of mortgaged owners – a full 25 per cent of those in poverty are in mortgaged owner-occupied households.

We can see this breakdown in the following two charts depicting AHC owner-occupier poverty. It is important to note that the housing cost calculation in this chart does not include capital repayment. As such, the figures can underestimate the financial difficulties of these households. Just as importantly, this also means these figures cannot be used to support any potential claim that the income poverty that the data represents is offset by asset accrual.

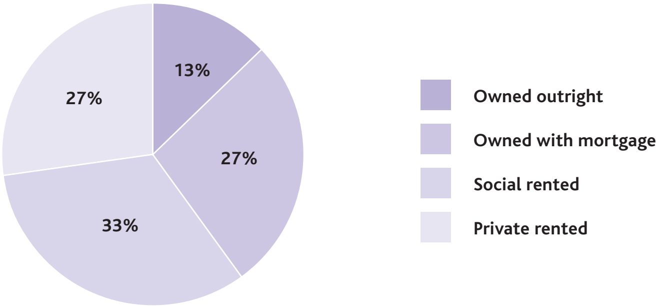
Figure 1: Composition of poverty population by tenure AHC, entire population (13.4 million individuals)



Source: Households Below Average Income, 2008/09, DWP.

The proportions represented in the first chart are for the population in poverty as a whole, and are not restricted to those of working age. This has implications for an analysis of the interaction between tenure and employment, as it will include many retired households. A second chart (see below) represents the same analysis by tenure when applied only to individuals of working age. Both charts represent individuals and so do not include children in poverty. As a result, the following chart and table only represents a proportion of the number of *individuals* in poverty due to living in working-age, owner-occupied households in poverty. Reasonable assumptions about the number of children per household would lead to a significantly higher calculation of the number of individuals experiencing poverty whilst living in owner-occupied housing.

Figure 2: Composition of poverty population by tenure AHC, working age population (7.8 million individuals)



Source: Households Below Average Income, 08/09, DWP.

When we extrapolate the total numbers from these proportions, what we find is that *after housing costs* there are a total of 3.1 million working-age individuals in owner-occupied housing that are experiencing poverty. Of these, 2.1 million (27 per cent of the total number of working-age individuals in poverty) live in an owner-occupied and mortgaged home (see Table 1 below). These are serious numbers, directly comparable with the 2.6 million working-age social tenants living in poverty.

Table 1: Working-age poverty by housing tenure – before and after housing costs

		Total working-age adults in poverty (BHC)		Total working-age adults in poverty (AHC)
		5.8 mill		7.8 mill
	Composition of working-age poverty population by tenure (BHC) (%)	Number in poverty (BHC) by tenure (mill)	Composition of working-age poverty population by tenure (AHC)	Number in poverty (AHC) by tenure
Owned outright	22	1.27	13	1.0
Owned with mortgage	25	1.45	27	2.1
Social rented	33	1.9	33	2.57
Private rented	19	1.1	27	2.1
All	100	5.72	100	7.77

Source: Households Below Average Income, 2008/09, DWP. Analysis by the Resolution Foundation.

Evidence from the Survey of English Housing, which collects data on the status of the head of the household (rather than all working age adults within the household), suggests that a great deal of this poverty cannot be attributed to unemployment. What we in fact find is a very high level of economic activity, with a full 93 per cent of working-age heads of household in work.[2] So much poverty amongst owners buying with a mortgage is a part of the widespread phenomenon of in-work poverty.

This is borne out by the Resolution Foundation's yearly audit of low earners (see Table 2 below). As we can see from the following table, 28 per cent of those defined as low-earners (the Resolution Foundation apply this category to those earning below the median wage) own their home with a mortgage. Mortgagees also comprise 9 per cent of those who are classified as benefit-dependent by the Resolution Foundation (this definition encompasses all households with an income below £11,650). With 7.2 million households classified by the Foundation as low-earner households, this implies that there are just over two million low-earner, owner-occupied households.

Table 2: Housing tenure by income group of household: UK 2007–08

	Benefit-dependent	Low earners	Higher earners
Owners	37%	72%	85%
Owned outright	28%	44%	30%
Owned with mortgage	9%	28%	55%
Social rented sector tenants	49%	17%	5%
Rented from council	29%	10%	2%
Rented from housing association	20%	7%	2%
Rented privately	14%	11%	10%
Rented privately – unfurnished	11%	8%	8%
Rented privately – furnished	3%	3%	3%
All households	100%	100%	100%

Source: DWP, Family Resources Survey, 2007-08. Reproduced from the Resolution Foundation's Low Earners Audit March 2010 Update

Giving proper recognition to the phenomenon of low-earning mortgaged owner-occupiers therefore adds a crucial dimension to our analysis of the interaction of housing and the labour market, because it identifies a very sizable group of struggling individuals for whom ownership has not necessarily been a significant advantage.

In fact, this is just one dimension in which the 'squeezed middle' can find themselves in a situation that compounds rather than eases disadvantage. For example, we know that low-paid work tends to be self-perpetuating: it is hard to move to a better paid job from a poorly paid position.[3] A report by the Institute for Public Policy Research has recently highlighted this problem.[4] Not only are low-paid workers vulnerable to job insecurity, they are also less likely to progress in work.

Yet for the last decade it has been government policy to encourage as many households as possible into owner occupation whilst simultaneously pursuing employment and economic strategies that increase the risks of ownership; so many of the jobs available to low to middle income earners tend to be insecure because of the economic priority given to 'flexibility'. And in order to get on the housing ladder many of these workers will have bought their home at the very margins of affordability. In this context, even a modest loss of earnings or rise in housing costs can lead to serious difficulties. Indeed, there are already a number of warning signs that suggest further difficulties for struggling owners. In September 2010 a leading credit rating agency, Standard and Poor, warned that the forthcoming government cuts and tax rises could lead to a new wave of repossessions in the UK.[5] The Council of Mortgage Lenders have also expressed the same fear that owners will be stretched to breaking point by the possibility of higher interest rates and rising unemployment – both coupled with the likely winding down of protective measures such as the mortgage rescue scheme, as well as cuts to funding for debt advisory services.[6]

The immediate situation for struggling owners will also be made worse by changes in support for unemployed owners. As a result of recent changes, unemployed owners now receive support for mortgage payments at a significantly lower rate, amounting to a 40 per cent cut. It is also highly likely that such owners will have to wait far longer until they receive this benefit (at present available after 13 weeks but likely to be held back in future until 39 weeks). This is an issue we shall return in more detail in Chapter Four, where we seek to develop appropriate policy responses.

But there is also a more general phenomenon to address. It is not just that the level of state support for owner-occupiers is often inadequate; it is that it is not provided at all until households reach the point of crisis. We see the impact of this policy for owners and low-earners in two crucial areas, both of which highlight the sense that our current policy framework does not give sufficient consideration to the interaction of housing and employment policy.

Firstly, by moving into ownership, owner-occupiers are denied a key benefit: housing benefit. This can mean that for some low-income owners taking a step on the housing ladder can exclude them from the help that could provide much-needed financial support. As we will argue in the following chapter, for low-earners – either in or on the margins of poverty – this potential exclusion from financial support or protection is likely to reinforce any risk aversity in the labour market, with workers less likely to take productive risks that should enhance their career but also bring a risk of loss of income.

Secondly, many of these owner-occupiers will fall into the category of low-earners excluded from a variety of other welfare goods. Most notably, these low to middle income households will not be entitled to support from the state in seeking training geared towards progression in work. Typically such support is targeted on those with no qualifications, whereas low to middle earners often have mid-range qualifications[7]. Low to middle income earners are therefore encouraged to enter ownership as an apparent vehicle of independence and social and economic mobility, but are then denied the kind of in-work financial and institutional support (including training) that might begin to make that vision a reality.

Thus, a key message of this pamphlet is that we need to be far more critical of the assumption that the continued extension of home-ownership is the necessary basis of a sound housing strategy. There are cases where it is neither the social nor the economic good it is assumed to be, and in some cases it can interact negatively with labour market outcomes. But there is also an important moral and political lesson that we should learn from this analysis: the experiences and needs of households across all tenures do not support the tacit assumption that there is a superior tenure that cultivates the virtues of citizenship and independence. Both the policy and politics of British housing need to recognise this if we are to really meet the housing needs of different segments of the country in a fair and sustainable way. As the pamphlet goes onto discuss, a key means to do so is to recalibrate the way in which we allocate risk in our society, with a return to some of the solidaristic foundations, based on the principles of mutual insurance, which underpinned the post-war welfare system.

Ownership as a 'problem' tenure?

Only two months into the new coalition government, Iain Duncan Smith, the Secretary of State for Work and Pensions, was highlighting the apparent failure of social housing to offer the same mobility in the labour market that he thought was to be found in the owner-occupied sector. His claim was that an owned home is a 'portable asset' which can move with the household in order to access new labour markets or take up new jobs. The explicit contrast is with the social rental sector, which, as it is currently configured, is notoriously immobile. Of course, the ownership claim is not that the house literally moves, but that the asset can be realised to allow mobility. It is still, however, a deeply problematic assertion, and in many cases it is manifestly false.

Indeed, when we have most needed labour market mobility in the UK it has been the owner-occupied sector that has acted as a serious economic constraint. We saw this in the phenomenon of negative equity in the first half of the 1990s, when many owners found that the value of their property was too low to sell up and move, either to lessen their financial commitment or to pursue new opportunities in the labour market. This general phenomenon – the relative lack of labour market mobility – is almost certainly not unique to the UK. Considerable attention has now been paid to the relationship between home ownership and employment rates in advanced economies, with some concluding that the transaction costs of buying and selling can inhibit mobility.[8]

This is a complex issue (we shall return to it later) and we should not mistake this correlation with a cause; it is too simplistic to say that high ownership rates are the cause of relatively higher unemployment. Obviously, housing mobility would only have been a social and economic advantage in this context if there were any jobs to move to. The combination of a lack of jobs to move to and an inability to move can clearly be mutually reinforcing, creating a vicious circle where immobility stifles the labour market and a weak labour market holds back the economic growth needed to fire up the housing market. Indeed, this was a crucial factor in the slow economic recovery following the recession of the early 1990s.[9]

This dynamic becomes even more important in an unbalanced economy, such as our own, where growth is often driven by consumption rather than production, and in which housing wealth is used to sustain consumption. As housing values headed downwards in 1989, households were less able to use their housing equity to finance the consumption that had largely driven the economy, and this in turn meant that unemployment continued to rise – and so the vicious circle continued.[10]

The flipside to this phenomenon of simultaneously depressed housing and labour markets is the extraordinary house price inflation we have seen across the nation as a whole, a phenomenon that can lock large swathes of the population out of the most vibrant labour markets, or else force tortuous and expensive commutes upon many. Anyone who has ever travelled across London in a bus around 5a.m. will have seen this: double-deckers packed with workers travelling the breadth of London to keep our airports and hospitals running, typically for the minimum wage.

In Britain the average house price trebled between 1991 and 2009.[11] High housing costs (including high costs in the private rental sector) – particularly in London and the South East – and lack of supply also lock people out of certain job markets. At the same time, there has been a tendency during the boom years for developers to buy up development sites only to then hold the land (without any development) whilst land prices rose ever higher, thereby intentionally restraining supply in order to push up prices and profits. With a continued lack of supply in the social sector, this places an enormous burden on the private rental sector which is consequently over-stretched and extremely expensive in London and the South East.

Yet the demand pushing the prices up does not manifest itself by bringing a sufficient amount of labour into the region. The extent of the problem is such that the Confederation of British Industry reported that 71 per cent of businesses in London found that high housing costs were a serious obstacle for recruitment and retention.[12] On the other hand, whilst high housing costs (particularly high ownership costs) lock large numbers of people *out* of certain labour markets, a depressed housing market can lock households *into* other, perhaps more undesirable, labour markets. We see this most clearly in some parts of the Midlands and North of England which have borne the brunt of economic restructuring since the 1980s (see Chapter Three). In this scenario, those who can do so, exit the market, which leads to depressed demand for housing, which in turn means that the value of an owner's home is not great enough to allow them to sell up and move to a more active labour market.

All in it together?

Along with the rhetoric of a broken Britain, the other constant refrain we hear from politicians is that 'we're all in it together'. However, at the beginning of this chapter we identified a second key concern that suggests that this is not really the settled view of political elites when it comes to housing policy. This is the tendency to treat the problems of different tenures as if they are unique to that sector. As we have seen, one of the most remarkable features of the politics of housing in Britain is the sense of segregation that comes with it: public housing for the problematic poor, ownership for the aspiring many, and private rental for a minority in limbo.

The Table below presents the breakdown of tenure in England and Wales in 2008, the last year for which figures are available.

Table 3: Percentage of households in different tenures

Type of dwelling	Percentage of all households
Owned outright	31.1
Owned with mortgage	37.3
Social rented	17.7
Private rented	13.9

Source: Trends in Tenure, S101, DCLG

Yet the fact is that many of the problems facing households in these tenures are very similar, especially for the two-thirds that are of working age.

These problems have received considerable attention in the case of social housing. For example, much has been made of the immobility of social tenants who are unable to move easily in order to take up new jobs. And a great deal has been made of the failings of so-called 'sink-estates'. A key problem has been that too much social housing is disconnected from labour markets and services. In particular, there is a well-documented connection between worklessness and social housing: as John Hills wrote in his landmark report on the future of social housing, "even controlling for a very wide range of personal characteristics, the likelihood of someone in public housing being employed appears significantly lower than those in other tenures".[13]

There is also evidence to suggest that the concentration of poor households can act as a cause of poverty, rather than just being a symptom. Evidence from Sweden has found that, even when a range of other factors are taken into account, "the risk that a person unemployed in 1991 would still be unemployed in 1995 and 1999 is only 16 per cent if that person lives in an environment with only 0–2 per cent unemployed people, whereas that percentage would double to 32 per cent if he or she lives in an environment with 14–16 per cent unemployed".[14] One of the key conclusions that the study draws from this finding is that high concentrations of low income households have a detrimental impact on the employment prospects of these areas, regardless of the physical distance to labour markets. Similar evidence has emerged from a study of concentrated public housing and unemployment in France.[15]

But, as explained above, the problems discussed here are by no means restricted to social tenants. It is not unusual for owners to face the same kind of problems, especially in depressed local economies: disconnection from the world of work coupled with the broader disadvantages of deprived neighbourhoods.

Similar dynamics can also develop where there are high levels of private rental housing in deprived areas. The issue, once again, is the way in which the concentration of unemployment can lead to social as well as physical detachment from labour markets.

Indeed, this kind of situation in the private rental sector is likely to get far worse under the new housing benefit regime being introduced by the coalition government. With plans to cut and restrict HB in a number of ways we will see more and more tenants moving out of attractive and economically vibrant areas and pushed further to the margins, both socially and spatially. Any sense that we are to encourage genuinely mixed communities seems to be vanishing before eyes. Since April 2011 housing benefit and the Local Housing Allowance (LHA – paid directly to some private tenants rather than being paid straight to the landlord) has been capped at £280 and £400 a week, depending on household size. There has also been a change in the way in which the LHA is uprated. Whereas previously it was linked to the Retail Price Index (PRI), which includes housing costs, it will in future be linked to Consumer Price Index (CPI), which isn't linked to housing costs and which almost always rises at slower rate than RPI.

A natural consequence of these changes will be that some areas are simply too expensive for social renters. It is estimated, for example, that over 4,000 families in the City of Westminster will have to leave the area.[16] The Chartered Institute of Housing has also estimated that the switch to CPI from RPI could mean that, by 2020, there will be no private rental property that is cheap enough to be covered by the LHA.[17]

This is not to say that there are no problems with HB and the Local Housing Allowance as they are currently constituted. On the contrary, they are in need of reform to remove the notorious work disincentive that arises from the steep withdrawal rate of HB. In the current system those who do move into work typically lose 65 pence of every extra pound that they earn (which can rise to 90 pence when we take into account the interaction of HB with other benefits). Another work disincentive is the threat of being left without support in the instance of losing a job – a potentially serious barrier to employment when one considers the uncertain nature of much short-term and part-time work. But pushing private renters to the margins of cities – away from jobs and services – is simply not the way to address the problem of benefit-related work disincentives.

Moreover, other aspects of the coalition government's proposed reforms are likely to exacerbate the problem and even create new work disincentives. In August David Cameron floated the idea that when tenants had found work they would, after a suitable but unspecified period of time, lose their council home, thereby bringing to an end the right to security of tenure for council tenants. Thus, on top of work disincentives arising from the benefits system, we are now likely to see perhaps the greatest work distinctive of all: work and you lose your home. Once again, however, it is important to note the sense in which the problem of benefits and incentives is not unique to any one tenure. A similar benefits 'trap' exists for struggling owners in receipt of Support with Mortgage Interest (SMI). Before the recession, this support was only available after 39 weeks of unemployment (the Labour Government subsequently reduced this to 13 weeks). The employment disincentive here couldn't be clearer: take an insecure job and you could risk a period of serious hardship, debt and anxiety. The likelihood of the current government reverting to the 39 week waiting time in 2013 is therefore a serious concern not just for individual owners struggling in a slow economy, but also for those seeking a consistent and coherent approach to the potential work disincentives of any benefit system.

In summary, most of the problems of social housing are not unique. Many in the private rental sector (and some owner-occupiers) get stuck in a benefits trap that can discourage activity in the labour market, and owners can be stuck in poor housing that is physically disconnected from labour markets. Nor are owner-occupiers covered by a number of recent initiatives designed to bring housing and employment policy together for social housing tenants. For example, there are currently a number of Housing Options trials in which local authorities offer wider advisory services to individuals in housing need. This will include advice concerning employment needs and how best to secure accommodation that is well connected to local labour markets. Likewise, many good housing associations are extending their management remit to include employment advisory services for their tenants. But Housing Options, or a similar offer, is not available to those who are trying to buy their home, and only a minority of housing associations offering advisory services to tenants extends this to owners in the neighbourhoods they manage.

This is not to say that tailored responses are not needed to meet these problems in different tenures: the picture is too complex to directly attribute the problems of ownership to exactly the same causes of poverty we see in social housing. But it is hard to resist the conclusion that struggling owners are in part a victim of the ideology of ownership – which is to regard them as not in need of state support. For the sake of both fairness and economic efficiency, what is desperately needed is an approach to housing that recognises this. This pamphlet aims to help start that process.

2. How housing and work interact

In this section we set out an analytical framework with which to examine the potential barriers to work that can arise with different forms of housing. The framework is largely structured around the issues facing the group of low-income owner-occupiers that we have discussed. We do so because, in policy terms, this is one of the most neglected groups of those that are struggling with housing and also vulnerable to labour market instability. This emphasis is also motivated by the aim of blurring the tacit moral hierarchy of tenures.

Analytically, we start by distinguishing between two sets of phenomena that can be problematic: direct financial stress within households and spatial disconnection from the services and job opportunities that bring important benefits in the longer term. A crucial point is that many of these barriers are common to all forms of tenure and are part of a more general failure of housing provision in the UK – the failure of housing policy to join up with labour market policy. Nevertheless, there are also specific financial and individual household pressures facing owners. Taken together, these two types of pressure can erect a number of barriers to work and progression in work.

There can be no doubt that, in the right circumstances, homeownership is a great good. Ownership can allow more choice and more control over one's surroundings. In particular, relatively wealthy households can choose desirable areas – with good schools, services and labour markets – in which to live. And, for all the problems of illiquidity, it can act as a relatively safe store of wealth for those that do not need to realise their asset. While it does not follow that it is necessarily better than other tenures, let us take for granted that, with sufficient income from other sources (and absence of some of the other problems discussed below) homeownership is a positive good.

But there is a bigger question that needs asking. What if, in the wrong circumstances, ownership itself is a source of disadvantage? What if it can act as a barrier to a range of other opportunities, such as progression in work, or simply the opportunity to maintain a sensible balance between work and family life? In the following section we see how the potential problems of home ownership exemplify the broader ways in which housing can act as a barrier to employment opportunities.

An analytical framework: labour markets, housing and ownership

With regard to ownership, the single most important analytical distinction to be drawn throughout this pamphlet is between housing as an amenity and *housing as an asset*. Unlike any other assets, the home is unique in that possession of the asset usually ties the owner to a particular location; as one's home, it is also intimately tied up with the non-economic issues of identity and family life. These aspects of housing, while often positive, can in some circumstances generate a form of 'lock-in' – for example, serving as a barrier to labour market mobility and progression.

The current degree of emphasis on homeownership as an asset, we should note, is a relatively recent phenomenon. But while asset ownership can be a huge benefit, it is not necessarily an intrinsic good if it brings with it the range of potential disadvantages we describe here. Chief amongst these disadvantages are the economic consequences of the inherent inflexibility of ownership as a tenure, which locks large numbers of the workforce in or out of local labour markets. Such inflexibility can be an impediment both to economic growth and the life-chances of individuals. Homeownership in the UK has also at times been a barrier to job creation simply because of the disproportionate amount of capital tied up in housing rather than being put to more creative use. Some £2 trillion pounds of wealth is tied up in housing in the UK, rather than being invested in industry or innovation.

And of course it is impossible to ignore the destabilising effect that an overheated housing market has had on the British economy over the last decade, leading up to and partly causing the recent recession. The clamour to own led to both homeowners and banks being over-indebted and ultimately unable to sustain a debt and consumer driven boom.[18] In 2007, before the crash, the Financial Services Authority conducted a review of the practices of lenders and intermediaries in the UK's subprime mortgage market (which serves customers with impaired credit ratings). The results are disturbing. In a third of cases there was no adequate assessment of the borrower's ability to repay; in nearly half of cases there was inadequate assessment of the type of mortgage that best suited the borrower; and in over half the cases borrowers were advised to self-certify their income (the notorious 'liar loans'). The report also found that lenders themselves were often at fault, with ambiguous guidelines on affordability assessments and often a failure in practice of lenders to follow their own guidelines.[19] As we all know, these irresponsible practices were more extreme in the USA. We also know that, ultimately, the lender's aggregate exposure to the risk of default was simply too great, despite attempts to spread this risk through elaborate financial instruments that ultimately undermined the integrity of global debt markets – leading to the global recession.

Below is a typology of some features of homeownership and the comparative advantages and disadvantages of ownership in relation to other tenures.

For the great majority who have to debt-finance their purchase we find the following four features, common to all comparable economies.

1) Compared to most other assets the financial outlays will be significant, with large deposits often required in advance, contributing to high transaction costs.

2) 'Realising' the asset requires long-term commitment and therefore provides an incentive to 'stay put', both when the market is in decline and when an overheated market increases the expense and stress of transactions.

3) The repayment of debt will often take a very long period of time, representing a significant legal and financial commitment, potentially locking the buyer in and exposing them to significant risk.

4) Housing is intimately bound up with one's livelihood and identity – it is 'social' as well as 'economic', thereby creating a type of social or psychological 'lock-in'.

The first three of these features contrast with rental accommodation in the UK and can therefore represent a comparative disadvantage for owners, especially when it comes to labour market mobility. This conclusion is, however, complicated by the structure of the social housing sector in the UK, which also seriously hinders labour market mobility.

The last feature on this list (the social lock-in) is not of course unique to ownership. Psychological attachment to place and social networks is a human characteristic, and not a unique consequence of ownership. Nevertheless, the analysis developed in the following chapter does conclude that ownership adds an extra dimension to this attachment to place, which can in some circumstances be a source of disadvantage.

These aspects of homeownership – and the problems they can create – are of course common to every housing market in the developed world. The burden of risk taken on by the owner, however, is contingent and a reflection of both national circumstances and national policy (including prevailing political views about the appropriate relationship between the state and the individual). There are some specific features and problems with the housing stock and housing market in the UK that are not inevitable, but which arise from the way housing and housing policy have historically evolved, and which make the interaction of ownership and labour markets particularly problematic. Unsurprisingly, many of these problems boil down to an acute lack of adequate supply across all tenures.

The good news is that these features are contingent and potentially responsive to firm policy interventions. They include:

5) the unaffordability of housing in Britain, with a long-term growth of average prices outstripping growth in average earnings resulting in serious income stress for owners and potentially risk-averse behaviour

6) the volatility of house prices in the UK, with a tendency towards boom and bust, often forcing owners into negative equity and with it the inability to sell up and move or to reduce their exposure to risk

7) the nature of the debt and mortgage market: cheap credit that is nevertheless subject to interest-rate variability and hence financial uncertainty, again potentially leading to risk-averse behaviour

8) the particular illiquidity of housing wealth in Britain (with a poor equity release market and relatively few suitable options for retiring households to 'downsize'), creating barriers to mobility and presenting significant transaction and opportunity costs

9) the lack of diversity and choice in the UK's housing stock (in particular the lack of suitable stock for retired households to 'downsize' to) and a chronic lack of supply, especially of social housing and other affordable housing.

10) poor planning leading to (and continuing to lead to) segregated communities, disconnected from labour markets and social networks.

The ten factors listed above combine in various ways to produce several social and economic problems. The last two features (9 and 10) are also acutely problematic for social and private renters in the UK. They have long been the focus of campaigns by trade unions and other organisations and, along with the broader goal of increasing supply, and they must continue to be so. Our direct concern here, however, is with the plight of the neglected constituency of struggling owner-occupiers.

One set of problems for homeowners (henceforth the 'financial problems of homeownership') is specifically financial, having to do with housing as an asset. Top of the list is the excessive income stress for households. Clearly this can create psychological and emotional stress for families. But it also brings with it another set of financial implications in the long-run, because the proportion of income used to pay down or just service a mortgage can be so great that other consumption (such as necessary household expenditure on goods and services) and other investments (notably pensions and savings) are crowded out. We shall refer to this phenomenon as the 'opportunity-cost' of ownership.

Closely related to this opportunity cost is the phenomenon of having your assets tied up in an illiquid asset – when the house is used as both an asset and a home. This, in turn, can lead to a lack of labour market mobility, both when the UK housing market is overheated and sales completions can be unreliable, and when the market is in a downturn and the household is reluctant to move for fear of making a loss on the property. When this happens, homeownership is not the 'portable asset' that Iain Duncan Smith claimed it to be.

A further core set of issues concern the level of risk faced by low-income households buying their home. There is little evidence that large numbers of households bought their home at a stage in their lives when they were already struggling financially. The more widespread issue is the phenomenon of struggling owners entering poverty or hardship because of an external income shock caused, most often, by illness or unemployment.[20] As we have seen in Chapter One, there is also a far larger group of low-earner households for whom ownership is persistently associated with the risk of poverty.

Given the instability and uncertainty in the modern labour market for those on low incomes, one of the key concerns of this report is the sustainability of current patterns of homeownership. Indeed, the interaction of two long-term trends in the housing and labour market – growing ownership and declining job stability – are of crucial importance in any assessment of the interaction between work and housing. (Once again, these concerns apply not just to owners that are made more vulnerable to financial risk, but also to many HB claimants, for whom the uncertainty of employment can be a real disincentive to move into the world of work. Far too often jobs have been lost only shortly after the withdrawal of benefit, leaving the claimant financially vulnerable before HB kicks back in again.)

The key message to take away in the context of ownership is that we will need to rethink the appropriate balance of risk between household and state.

A second set of problems (henceforth the 'spatial problems of homeownership') comes out of the fact that a house is a home; these problems reflect the neighbourhood and spatial aspects of housing. One issue is when households move to badly planned areas in order to get on the housing ladder, only to find they are poorly connected to labour markets and key public and commercial services. At worst, the homes and infrastructure are of such poor quality that they become a 'toxic' asset. But it is also the quality of the *social* relations and infrastructure that matter for life-chances and employment prospects. Here, a lack of social capital can adversely affect opportunities for owners in much the same way that it adversely affects those of social housing tenants on poorly designed and isolated 'sink estates'.

In fact, the categories of individual and spatial circumstance clearly overlap and intersect in some ways: tight household finances, for example, are likely to be a key part of any explanation of why a household would choose to buy in a poorly planned and disconnected neighbourhood.

3. *Financial pressures and home ownership*

In this chapter, we look at some financial problems of homeownership, regardless of where that household is located. As we shall see, these financial problems are not only a source of stress; they potentially have a negative impact on the employment opportunities of household members.

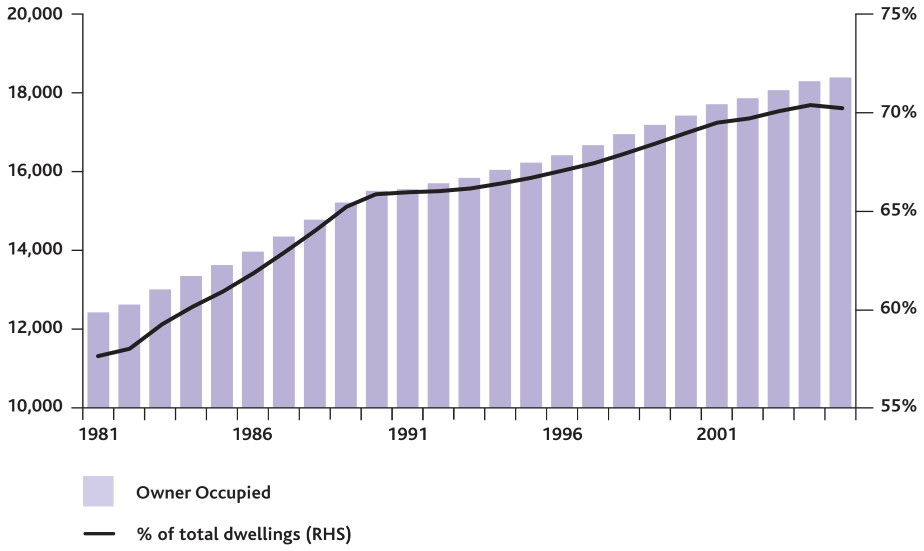
An affordability crisis

In a sense, housing affordability is perhaps only a 'crisis' in Britain because of the very high social premium placed on ownership in this country. Much of the pent up demand for property is also driven by the lack of attractive alternatives, and any serious response to an affordability crisis must recognise the need for an expanded social sector, as well as a quality private rental sector.

Nevertheless, the trend over the last thirty years has been steadily rising. In 1975 only 62 per cent of people aspired to own their own home in the next ten years.[21] In 2010 a You Gov poll found that 89 percent of the population saw owner-occupation as the ideal long-term tenure.[22]

When we look at the numbers who actually did own their own homes in this period (1975 to 2010) we find a growing gap between aspiration and reality. In 1976 just over 55 per cent of households in England were owner-occupied,[23] rising to 68 percent in 2008.[24] This general trend is shown in Figure 3 below (which starts from 1981).[25]

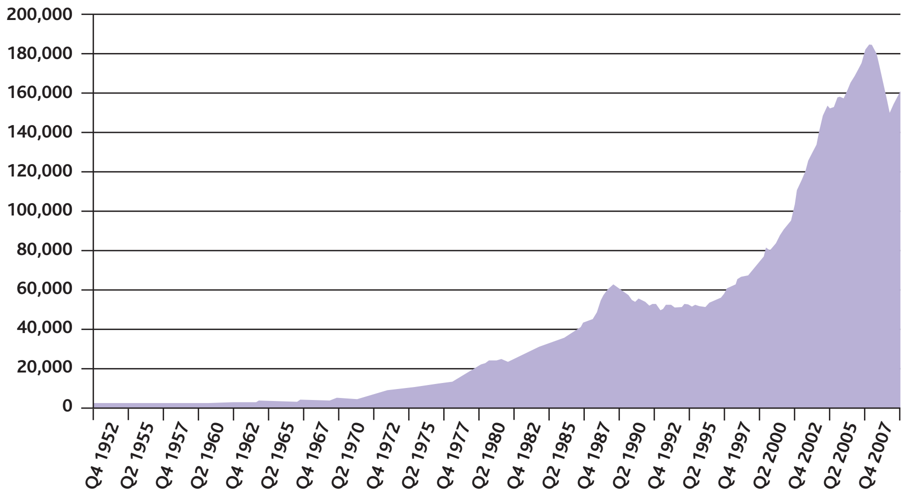
Figure 3: Home ownership in the UK, 1981-2005 [26]



Source: Williams 2007

At the same time there has been an extraordinary growth in the cost of buying a home during the past decade. (See Figure 4 below).[27]

Figure 4: UK average house prices 1952-2009

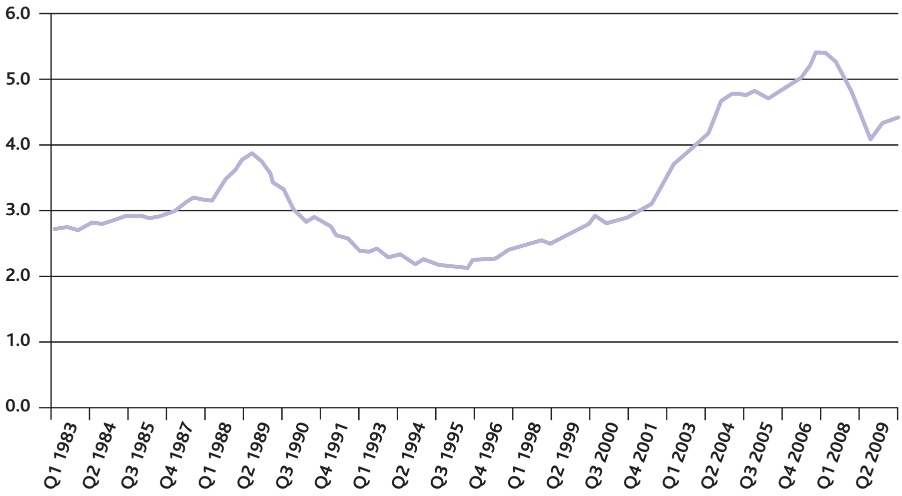


Source: Nationwide, 2009

So ownership has become the norm – the tenure of all aspiring individuals and families. Yet that 'norm' is now hopelessly out of reach for the average household unless they make financial sacrifices that could have serious negative implications for their long-term prospects – or unless they are lucky enough to be able to rely on the wealth of their parents.

Figure 5 below tracks the widening ratio of average house prices to earnings over the last three decades, from a ratio of 2.7 in 1983 to 4.4 in 2009, peaking at 5.5 in 2007/08. The result, as we have seen over the last decade (and with the phenomenon of sub prime debt) is that lenders and borrowers have been stretching the limits of sustainable borrowing more and more, with house prices outstripping the growth in earnings for most of the decade.[28] The ratio has still not returned to a sustainable level and has recently begun to rise again.

Figure 5: First-time buyer house price earnings ratios in UK



Source: Nationwide, 2009

In this context it is unsurprising that we have seen the advent of loan values that are up to six times the annual income of borrowers – nearly double the long-term, sustainable, ratio of 3 to 3.5 times annual income – along with 125 per cent mortgages (loans which by definition exceed the actual market value of the home). Ultimately the economic consequences of this kind of irresponsible lending have been near catastrophic. Indeed, this kind of product accounted for roughly 30 per cent of Northern Rock's loan-book at the time of its nationalisation, and was largely responsible for its near collapse. The collapse came, in part, because so much lending (not just at Northern Rock) was to individuals that realistically had no prospect of keeping up their repayments. Because of the nature of self-certified mortgages, in which individuals are trusted to declare their income accurately, it is hard to gauge the full extent of irresponsible lending. Nevertheless, some extreme examples have come to light through the Citizens Advice Bureaux casework, with a number of cases of loans being sold to individuals whose only income came through benefit payments.[29] Certainly, this kind of example is extreme. But the wider phenomenon of excessively high debt-to-earnings ratios is not.

Inevitably, this situation has a direct impact on the emotional as well financial wellbeing of households.

Housing and wellbeing

In March 2010 the housing charity Shelter conducted extensive, cross-tenure polling. The results highlight two key points. Firstly, owner-occupiers are regularly experiencing high levels of emotional and psychological stress as a result of high housing costs; and, secondly, these worries highlight the common experiences of individuals across all tenures:

- Nine per cent of outright owners and 27 per cent of mortgagees reported household stress and depression because of housing costs. This compares 34 per cent of private renters and 29 per cent of social renters.
- Seven per cent of outright owners and 22 per cent of mortgagees reported that stress kept them awake at night, compared to 29 per cent of private renters and 24 per cent of social renters.[30]

These results back up academic evidence from the late 1990s – before the last housing boom took off. Uncertainty and the risk of not being able to meet monthly mortgage payments have been associated with declining physical health and increasing health costs.[31] More recent survey evidence from the Consumer Credit Counselling Service also found that (non-housing) debt was the source of significant anxiety and poor health. Crucially, they also found that a full two thirds of respondents reported that these health problems had a negative impact on their ability to do their job. *Personal debt has an impact on productivity; and it is reasonable to assume that housing debt does too*.[32]

When we turn directly to the relationship between productivity and housing costs, polling for the TUC yields similar results: one in four people said that the stress of keeping up with mortgage or rent payments has affected their performance at work. Roughly a quarter of both social renters and mortgagees felt their performance at work sometimes suffered, a figure that rises very significantly for private renters, at 39 per cent.

An obvious response to this would be to highlight the longer-term benefits of ownership for the household. When we look at the bigger picture it is only from 2003/04 that the costs of ownership (when measured relative to income) really started to get out of control. Prior to this many households would have been able to benefit from the historically low interest rates – with cheap borrowing rates – that have characterised the last decade.

But whilst this is true, it does not tell the whole story for a large number of households. Prior to 2003, up to 5 per cent of all mortgage holders were repaying only the interest on their loan and lacked an alternative investment plan to pay off the capital. By 2006–08 this had reached 12 per cent.[33] In recognition of the risks associated with such mortgages, the Financial Services Authority has recently proposed that interest only mortgages should be banned, along with the practice of self-certified mortgages.[34]

Opportunity costs of ownership

In the previous chapter we identified an 'opportunity cost' associated with ownership – where the costs of ownership can crowd out other opportunities, not just financial, but social as well. In this section we use this concept to analyse some of the longer-term risks of ownership for households, beyond immediate income problems. At their worst, the opportunity costs we describe here can risk excluding individuals and households from the labour market altogether.

In order to get a grip on the affordability of mortgages for low and medium income households, the government's National Housing and Planning Advice Unit (NHPAU) has constructed a model based on a 'typical' household servicing a mortgage on the 15th percentile house price. This means that the type of house they are looking at is less expensive than 85 per cent of homes on the open market, and this serves as a 'proxy' for a typical entry level home. This analysis found that the proportion of income taken up by mortgage payments in a typical London household at the peak of the housing bubble in 2008 was 31 per cent of take-home pay.[35] In 2000 the percentage was just 18. A similar pattern holds in the North East (8 per cent of take home pay in 2000 and 17 per cent in 2008). Over the decade, this is likely to mean that for many households a number of other opportunities were (and are) 'crowded out'. In particular, the need to bring in a fixed income is likely to make many individuals both more risk-averse and unable to pursue opportunities that threaten that income stream. Indeed, this is at least partially borne out by TUC polling, which found that one in six mortgagees (16 per cent) have turned down a job because of the pressure to keep up with their housing costs.

One important issue is the effect on other consumption and also on saving, especially when mortgage payments potentially crowd out pension contributions. This is a phenomenon that has been underexplored, and we need to know more before making any precise claims. Nevertheless, we do know that around 40 per cent of low earners have no pensions plan at all.[36] As a large number of low earners are also homeowners, this is an area that urgently requires some serious research.

Of course, in terms of accumulating wealth, homeownership has provided enormous returns for many homeowners over the last few decades. But it is still important to question the appropriateness of homeownership as a savings strategy. One consideration is the degree of risk involved; in a volatile market, housing wealth can be subject to large fluctuations. Another is the ability of homeowners to unlock that wealth later in life: if the individual is unwilling to or unable to release some of the equity then the result will be an asset-rich but income-poor household. More traditional pension vehicles may be much more effective at 'smoothing consumption' as an individual moves from working age to retirement.

Another important issue is the impact that mortgage commitments can have on an individual's ability to make decisions about their employment and development. The pressures of maintaining mortgage payments may discourage the pursuit of education or training, or might prevent an individual from taking up a job with better long-term prospects but a lower salary. Evidence of this phenomenon has been systematically documented in the US, where it has been found that homeownership reduced the job search process and made individuals more likely to take the first job that comes along in order to earn and meet monthly mortgage costs.[37] This problem is likely to be just as acute in the British market, as it takes at least 13 weeks for government support for mortgages to kick-in should the mortgagee become unemployed. Moreover, an international study has found that even the aspiration or *anticipation* of owning modifies households' labour market activity – taking on an extra job or hours, and even cutting food expenditure– before they even face the realities of ownership.[38]

There is therefore a clear sense in which ownership can crowd out other opportunities, particularly in the labour market.

There is also an important sense in which ownership brings with it a unique risk profile not associated with other tenures. Owners face potentially greater fluctuations in housing costs (through variable interest rates) and stand to lose an asset as well as their home if they experience serious financial difficulties. This goes some way to explaining one of the crucial differences between renting and owning: many renters will face the same predicament of not being able to finance either current welfare needs, pension savings or self-development activities, but the overall amount of risk they face is far less. So there is an important shift in the *balance of risk* when one moves from renting to owning.

One consequence of this is that owners may be much more risk-averse. This potential risk aversity and psychological lock-in is also naturally intensified by owners' emotional attachments to their home. This is not, of course, a bad thing: it is how we naturally view the importance of the house as a home, and it is why many advocates for homeownership think it is always a positive good. Of course, this is not to say that emotional attachment is unique to owner-occupation. The problem, however, lies in the dual function of homeownership as a home *and* an investment. As anyone who has ever gambled knows, emotions should have as little influence as possible on a serious investment. In housing, emotional attachment can lead to households chasing their losses, getting further and further into debt in order to sustain a mortgage that is ultimately untenable. We see this in survey evidence from Shelter, who have found that 18 per cent of mortgagees have borrowed on their credit cards in order to pay their housing costs, compared to 15 per cent of renters who have done so.[39] It is also seen in the fact that 28 per cent of owners buying with an interest-only mortgage expect to ultimately buy their home by cashing in on its rising value.[40]

The political culture and ideology that encourages households into ownership as a route to independence also brings another important 'opportunity cost' – this time in relation to the supportive institutions of the welfare state. For once a household has left the rental sector they are locked *out* of some of the institutional structures that support other tenures. And because the political expectation is that ownership is the desired and final destination, there is little provision for gently easing households out of ownership if this is the better option for them.

In ideological terms, ownership is meant to bring with it the virtue of independence. In reality this means that owners are, for example, excluded from HB. Perhaps unsurprisingly, polling for the TUC found that 60 per cent of all respondents felt that the government should provide a stronger safety net for home owners – a figure that rises to 67 per cent of respondents with a mortgage.[41] The ideology of ownership as independence is clearly lost on these respondents.

Moreover, our sharp tenure distinctions also means that owners are typically excluded from the kind of holistic housing management services, offering employment advice and support that are increasingly being offered to social tenants.

Spatial barriers to employment

We are all familiar with the ways in which social housing can be physically separated from other tenures and from the services and infrastructure that make neighbourhoods viable, attractive places in which to live. We see this most graphically in the large mono-tenure social housing estates of the post-war period, disconnected from crucial services and viable labour markets. We can also see it some large concentrations of low-income private rental households (in some of the cities of the North East, for example). This kind of disadvantage in the private rental sector will almost certainly become more prevalent, and more acute, as the government presses ahead with its HB cuts. Many young families, particularly single mothers, will be forced to move to poorer areas that invariably have fewer job opportunities. They will often face the double impact of having to move away from the family and social networks that may have provided them with the affordable childcare needed if they are to have any realistic prospect of sustainable employment.

Here, however, we are concerned with the relatively neglected phenomenon of owner-occupiers facing spatial barriers to employment.

As already discussed, the distinction between financial and spatial factors is not always sharp, and the two can be part of a causal, circular process. For example, a family on a low income may only be able to afford to buy in an area with poor infrastructure and little social capital. This may ultimately threaten the household's income if one of the occupants loses their job and they then struggle to access new job opportunities. Indeed, a number of studies have suggested that in many disadvantaged areas such problems are likely to outweigh the positive benefits of ownership,[42] especially where it leads to concentrations of unemployment that then tend to become self-perpetuating.

A related worry is that these area effects have such an adverse impact that the 'asset' declines in value, even whilst national or regional housing markets are rising. This clearly constitutes a failure of planning policy. But developers must also bear their share of responsibility in such cases. Thus, a recent report for the Commission for Architecture and the Built Environment reported that 29 per cent of new estates built in the housing boom were 'so poor that they should never have received planning permission' – in large part because they are located in neighbourhoods that are poorly connected to labour markets, services and transport links.[43]

Beyond these impacts on individual wellbeing and life chances, there are also ways in which particular patterns of ownership may have a general negative impact on labour markets across different local economies. The basic thesis, most closely associated with the British economist Andrew Oswald, is that ownership is a barrier to mobility and thus freezes up local and national labour markets.[44] Oswald's finding is that high ownership levels in the UK and the US are correlated with higher levels of unemployment, with a 10 per cent increase in ownership apparently linked to a 2 per cent decrease in employment. Similarly, another study, in Finland, found that a 10 per cent increase in ownership was associated with a 1 per cent decrease in employment.[45] Turning to the UK, analysis of the British Household Panel Survey by the Institute for Social and Economic Research found that, relative to other tenures, owner-occupation was indeed associated with labour market immobility in the 1990s. This may in part be a reflection of the recession of that period – but, if so, it only serves to reinforce the point that owner occupation can be an impediment in some circumstances.

Looking at data from the Survey of English Housing (2007-08) in Table 4 one can see a striking similarity in the residential mobility rates of mortgaged owner-occupiers and social tenants. What most stands out is the relative mobility of the private rental sector. Of course, this data does not tell us *why* one group is static and the other mobile, though we have suggested a number of potential explanations. But it does contradict the standard assumption that, in contrast to the social sector, ownership is a mobile tenure. Polling for the TUC in fact suggests that such immobility for owners is a real concern: of those polled, one in eight (12 per cent) of mortgagees said that they had actually turned down a new job opportunity because of the 'hassle' of selling their home and moving.

Table 4: Length of residence by tenure 2007/08 as a percentage of all households

Length of residence	< 1 year	1 year to <3 years	3 years to <10 years	10 years to <20 years	20 years or more
Owned outright	3	5	15	19	58
Buying with mortgage	10	17	37	23	13
All owner occupied	7	12	27	21	33
All social rented	9	16	34	21	20
All private rented	40	30	19	5	6

Source: Table 14, page 23, Survey of English Housing Preliminary Report: 2007-08, Housing Statistics Summary, Number 28, 2009

Part of the explanation lies in the various forms of 'lock-in' that we have described in this report. This is corroborated by economic studies which suggest that the transaction costs and stress associated with a move can act as a barrier to labour market mobility.[46] Such barriers are likely to be particularly strong in times of national recession.

There is also a significant regional dimension to the interaction of housing and labour markets. Analysis of the relationship between house prices and employment levels shows there is a positive relationship between house price growth and employment growth in local markets.[47] This is perhaps not surprising; after all, in areas with low employment and low income there will be less money and demand to drive the growth of house prices. This suggests that there will need to be active economic intervention to support areas with depressed house prices and stagnating local economies.

Note that the end objective of this kind of policy is not house price growth as a good in itself. Rather, the concern is that depressed house prices can be part of a vicious circle: local low employment keeps prices down, and this makes it far harder for owner-occupiers to sell up and move to jobs elsewhere for positive reasons such as a new job opportunity.[48] Depressed housing markets also have a negative impact on those who choose to remain or unable to move. Thus, when the process comes full circle, the likelihood is that low house prices and the declining desirability of the area will depress the local economy still further, hence creating a series of negative reasons motivating a desire to move. So, just as we see in concentrated areas of social housing, a series of mutually reinforcing factors can lead to spatial and personal disconnection from labour markets and a decline in the desirability and sustainability of certain neighbourhoods. Dealing with this problem will often require the kind of active government intervention that was driven by the now disbanded Regional Development Agencies.

Recognition of this phenomenon led the previous Labour Government to set up a series of Housing Market Renewal (HMR) pathfinders in the north of England. As the name suggests, the core objective of this programme was to reverse the collapse of some local housing markets, where housing values had fallen so far that media led tales of homes exchanging hands for peppercorn amounts – or even literally being abandoned – had become common. As discussed, this kind of housing collapse is part and parcel of a broader economic collapse, with labour and housing market decline potentially reinforcing one another. The HMR programme tended to attract controversy because of some of the more extreme measures such as the demolition of period terraced houses. An important element of the more successful HMR programmes was their holistic nature, working with other agencies to regenerate the local economy and to reconnect households with job opportunities. One crucial component of this process over the last decade has been the Regional Development Agencies, now being replaced with an as yet unclear regional strategy based on Local Enterprise Partnerships.[49] The Coalition has announced that the HMR funding will be rolled into the new Regional Growth Fund as part of this change. Ministers have said that the pathfinder schemes underway will be completed but the project will then end – and a number of the local authorities involved have expressed concerns that there will not be sufficient funding to conclude the projects[50].

There are two crucial conclusions to draw from this. The first is that we need to stand up for regional economic intervention, rather than simply giving way to a re-branded variant of Norman Tebbit's notorious 'on yer bike' approach of the 1980s. As we have seen, with government plans for mobility within the social rented sector, we are hearing very similar calls today. Only last year David Cameron had to distance himself from a right wing think-tank that was calling for us to effectively abandon a number of northern cities, arguing that seeking their economic regeneration was simply sending good money after bad.[51] The conclusion here is simple: where housing prevents individuals from moving as a positive choice, we need to find ways of helping them do so. But it does not follow from this that there should be a duty to move. Rather, efforts should be made to help reinvigorate communities that are in economic decline.

But the other conclusion is more positive. One of the relatively unremarked but most significant features of the HMR pathfinders is the implicit recognition that sharp tenure distinctions have no place in a policy framework that takes seriously the interaction of housing and labour markets. The average rate of owner occupation across the nine Pathfinder areas in the initial phase was 48 per cent, leaving a small majority of social and private rental households.[52] Rates of unemployment in these areas were roughly twice the national average at the time that the pathfinders were launched in 2002. But the key point is that all tenures are in it together, and that the policy provided a crucial recognition that *ownership* can in the wrong circumstances be a 'trap' and a source of disadvantage.

Yet despite this recognition, the policy of all of the main parties has seemed to be a pursuit of greater owner-occupation as an end in itself. To criticise this is not to deny the value of ownership per se. Rather, the lesson we should draw from the argument of this report is that ownership in an unstable market, without connection to job opportunities and social networks, and without the supportive structures of the welfare state can all too easily become a degraded good, with too many owners the victim of a misguided ideology that associates ownership with virtuous independence.

4. Policy responses

Throughout this pamphlet we have highlighted two important problems with employment and housing policy in the UK. First, we have been concerned with the sense that housing and employment policy have historically been treated as two separate policy 'silos'. Second, we have been concerned with the ever-growing tendency to treat housing tenure as a hierarchy, with owner-occupation at the top, and with sharp (and sometimes moralised) distinctions drawn between households in different tenures and the problems they face. Later in this chapter, we make some policy recommendations that could form part of a strategy to redress both of these problems – seeking to bring housing and employment policy closer together, and seeking to reconnect struggling homeowners with the support of the welfare state.

Before this, however, we wish to outline some broader policy responses that will be needed, not only to support these agendas but to tackle some of the causes of the financial and spatial problems homeowners can face that were discussed in the previous chapter.

Tackling financial and spatial problems

Greater supply of social and affordable housing

At the root of the majority of problems we have addressed here is the chronic lack of housing supply, across all tenures, in the UK. One response to the problems of ownership raised in this paper is to lobby for greater supply on the open market, meeting demand for ownership and therefore driving down prices. But a wider approach must take account of the broader lack of supply in the social and private rented sector. The shortage of social and affordable housing is an ongoing, acute problem, which denies many households the opportunity to live in social housing as an active tenure of choice. Lack of private rental supply also drives up prices in hotspots and thus prevents many individuals from being able to live in proximity to either their jobs or to job opportunities. There is therefore a dual role for government here. On the one hand it needs to fulfil the social function of providing public housing at below market rate, even if that role is a commissioning or strategic one. On the other hand, governments should also take more responsibility for housing market stability, leading us away (as far as possible) from the boom and bust of the British housing market. Discharging this latter responsibility will involve a range of economic tools. A common suggestion has been to require the Bank of England to specifically target house price inflation, though this runs the risk of distorting other inflation objectives. Managing housing market instability through the tax system is likely to be a better policy approach. For example, a new tax structure for buy to let properties (responsible for much of the 'froth' towards the end of the last boom) could dampen speculative behaviour whilst also increasing the number of properties available for first-time owner occupiers.

But managing housing market stability is not all about the open market. A more systemic approach, dealing with all sectors, is needed. Lack of supply in the private and social rental sector also has an impact on demand and prices for property in the open market, driven by the perceived lack of an attractive alternative to owner-occupation, thereby pushing up prices for those who do want to buy (and who can realistically do so without excessive financial stress). What we therefore need most of all is a truly mixed economy in housing, with a quality and properly regulated private rental sector as well as far greater supply of social housing – as opposed to the cuts we are likely to see. This is likely to once again include a significant role for local authorities – if and when a sustainable funding regime is developed. A step towards this has come with the recent confirmation that councils will be allowed to keep the rent and sales profit of their housing stock in order to invest in new homes. This freedom, however, must not lead to the mistakes of the past, with poorly connected mono-tenure estates detached from services and labour markets

Creating greater mobility between tenures

In the same way that moving towards ownership might be a good option for some social tenants, for some struggling owners the best option may actually be to exit the tenure. In such cases, we need to allow them to do this in a controlled way. There is a sense that this is a controversial claim, in large part because of the deep personal trauma associated with repossession. But the point here is that a lot of this trauma is unnecessary, and that we need to find ways of avoiding it. A long-term aspiration must be to change the cultural perception that moving out of owner-occupation is a social failing. In the shorter term we need to pursue policies that manage the transition better. The ideal would be to sell all or part of the property to a local authority or housing association, perhaps with an option to buy back at a later stage, whilst remaining in the same home (if that is what the household wants). At present this is only an option in extreme circumstances (through a time-limited measure introduced by the last government, and since scaled back by the coalition government). But in many respects it could help create precisely the kind of labour market mobility that the coalition government claims to champion. Mobility between *tenures* could have important social and economic benefits. In pursuing this kind of pragmatic policy, moreover, we may be able to advance the more normative aim of blurring the often moralised distinctions that are drawn between tenures.

Another dimension of these types of policy changes would be to blur the distinctions between tenures themselves, making issues like 'ownership' or 'renting' less of an 'either-or'. What is needed is an approach to housing that takes seriously the principles of 'flexible tenure'. The last Labour government did, in fact, make significant moves towards this. It did so primarily through the development of shared ownership schemes, in which an individual buys a stake in their property and pays rent on the rest, with the option of increasing their stake in the future. Equally, we must offer the option of what is known as 'reverse stair-casing' – the option of reducing the equity in one's property whilst it still remains one's home. Sometimes the process may have to be total, with the equity stake reduced to zero and the property becoming part of either the private or social rented sector. At present, there is a very limited scheme (the mortgage rescue scheme) that does just that. But one of the most salient characteristics of this scheme is that it is a crisis response, only for those in the greatest difficulty and need; for anyone else wishing to take this option they must rely on an often unscrupulous (and only recently regulated) buy-and-lease-back market.

Creating and maintaining mixed communities

As we have seen, the greatest single current threat to socially mixed communities is the recently introduced cuts to housing benefit, which will force many households into low income enclaves. However, there are also many problems caused by the supply and planning of social housing.

Much good progress was made towards the ideal of mixed tenure (and mixed income) communities over the last decade. Nevertheless, there were some serious flaws in the model that drove the mix and there are now significant obstacles to further progress. One of the flaws was the way in which a great deal of social housing relied on cross-subsidy from private developers (under 'section 106' agreements in which local authorities granted planning permission to developer only if they provided a proportion of social housing). This model sometimes worked well and created good, mixed developments. Nevertheless, too many local authorities struck poor deals with developers, some of whom insisted upon a very narrow version of mix, in which the social housing was in effect segregated from the other tenures. In large part this was justified by the claims of some developers that genuinely mixed developments are not financially viable.[53] Justification of this claim typically involved reference to the presumed preferences of consumers not to live next to social housing tenants - a prejudice that should never have been pandered to.

More fundamentally, this model of social mixed housing provision relied upon a rising property market, in which developers could make sustainable profits. Yet this can no longer be viewed as a responsible planning strategy when we face periodic crises in the housing market.

A chronic lack of supply has become much more acute over the last three years, and is set to become even more acute with a new planning policy that guarantees neither overall supply nor social mix. The current government policy is to scrap regional housing targets. The apparent justification is the political desire for greater localism. The reality is that in July 2010 local authorities dropped plans for over 80,000 new homes, and the National Housing Federation estimates that in total the current planning policy will lead to 300 000 planned new homes being scrapped across the country.[54] There is a serious worry that this localism will not just lead to even less supply, but that it will also lead to social segregation in some areas, as some argue it has in the London Borough of Hammersmith and Fulham, where all social housing was removed from the planned redevelopment of White City after the election of a Conservative council with an increasingly controversial approach to social housing.[55]

We therefore face a serious challenge in developing new models of housing finance for social housing that do not rely excessively on private cross-subsidy and an ever rising housing market. This is beyond the scope of this pamphlet. But there is one crucial mistake of the past that should not be forgotten: when house building levels pick up again we must resist a race for volume at the expense of quality and social mix.

Active intervention to help local economies

In recent months, we have seen a worrying lack of commitment to a serious economic regeneration agenda from both the coalition government and from many commentators on the right. Some have proposed that supposedly 'failing' areas are to be effectively abandoned by the state. Economic regeneration is increasingly being seen as a case of throwing good money after bad.[56] The reality of this is beginning to be seen in government policy. In July 2010, the coalition government set about dismantling the UK's Regional Development Agencies, just after a National Audit Office report confirmed that they had a positive effect on local economies. At present there is a widespread worry that their replacement (Local Enterprise Partnerships) will not have the scope and resources needed if a robust regional strategy is to achieve real, measurable outcomes for local economies.

Where government policy does address the interaction between housing and labour markets, the overwhelming emphasis is on the lack of geographical mobility within the social housing sector, with no recognition of immobility amongst owner-occupiers, and with the strong presumption that the individual is obliged to move to look for work. Sometimes households will in fact have positive reasons to move to a new job in a different area, and sometimes homeownership can be a barrier to this aspiration. Where this is the case we clearly need an effective policy response. But this is not the same as placing a duty to move on all households. That is an effective abnegation of the duties of the state to consider the needs of all regions and all areas. A campaign priority should therefore be the restoration of serious economic intervention in local labour markets, with an explicit recognition of the interaction between housing and labour market policy.

Developing better credit and equity-release markets

The irresponsible lending of the last ten years has had serious social and economic consequences. Whilst a detailed exploration of the mortgage market is beyond the scope of this paper, it is clear that reform is urgently needed. The Financial Services Authority is pushing for better regulation of the mortgage market, with far greater scrutiny of the financial health of borrowers and a greater emphasis on sustainable debt. This is the right direction of travel, though we should also recognise that there will be cases where *switching* to an interest only mortgage will be an important and valuable opportunity for vulnerable owner occupiers struggling to meet capital repayments. Reform of such products therefore needs to be fine-tuned, and perhaps restricted to new mortgages. It should also be accompanied by reforms in the mortgage market that lead to greater provision of long term fixed rate mortgages, offering greater stability to those who do borrow. At the same time we should also continue to pursue fairer and more sophisticated equity release options for those that do need to access their housing wealth (typically to finance their retirement).[57]

It has not been the purpose of this pamphlet to question the legitimacy of the aspiration to own one's home. Rather, one of the central messages is that there should be a great deal more circumspection about the merits of a policy framework that assumes ownership to be the natural tenure of choice for everyone. Yet we still have a duty to help those who have actually exercised this choice and who are subsequently experiencing difficulties. At the same time, we must take care to ensure that a reformed policy framework does not repeat some of the systemic failings of the current framework. Most importantly, we must not reinforce the false distinctions – with a tacit moral hierarchy – drawn between the different tenures.

Extending support to owners

We have already seen, at the outset of this chapter, one way in which we could reconnect struggling owners with the protective role of the state – by allowing for softer exits from ownership for those who want to. In the final sections of this chapter, we consider some further ways in which we could reconnect struggling owner-occupiers with the support of the welfare state – especially in the context of housing and work.

The higher incidence of unemployment among owners in deprived areas means that we need a common response to common, shared problems, rather than relying on separate institutions that are artificially tied to tenure. Reform of housing policy and employment services must reflect this need for a cross tenure framework.

This means extending to struggling owners the services that are currently on offer to social tenants, as a small number of innovative housing associations are already doing (see box below). The services that are being provided to social tenants include employment support, debt advice, and help in connecting households to social networks, bringing support for young families and retired households alike.

A key constraint, of course, is cost. Even when they are offering services only to their own tenants, housing associations typically have to cross-subsidise the offer from either rental streams or from sales on the open market. The lack of central funding is a clear signal that, for all the apparent political consensus on the need for 'holistic' housing management, the message has not really sunk in. If this agenda is to be taken seriously there should be an obligation on social landlords to provide these services, and they should be given the funding and resources needed to deliver them well. The central government housing grant should be increased, and directly hypothecated, to meet these costs.

In the current fiscal climate it is important to recognise practical and financial barriers to the reforms advocated here. But nor should we succumb to a counsel of despair. Some small-scale initiatives with housing associations have shown that advisory services can actually save money. Circle Anglia, for example, has worked with Fair Finance to provide financial and debt advisory services for its tenants and has found that the scheme more than pays for itself in reduced rental arrears.

But it is also crucially important that we develop an obligation – with an appropriate funding mechanism – to provide such services for struggling owners (and not just tenants) in the areas managed by housing associations. In some cases the funding should come directly from local authorities, when their planning and policy mistakes have exacerbated the predicament of owners, especially those who have bought inappropriate homes under the right to buy. Funding for such services must also be a central component of regeneration grants; as discussed in the previous chapter, neglect of owner occupied homes has too often undermined regeneration projects.

The provision of cross-tenure services: Moat Housing and Circle Anglia

Moat Housing Association largely operates in the South East of England. In keeping with the spirit of holistic housing management, Moat is also actively involved in area regeneration. One of its most successful projects has been the regeneration of the Stanhope housing estate near Ashford in Kent, built in the 1960s as an overspill estate for London, and designed in such a way that it exhibited many of the pitfalls that come with bad planning and social disconnection. One of the interesting features of Stanhope is the high level of former council properties (roughly 50 per cent) bought under the right to buy. High levels of worklessness on the estate when the regeneration started, illustrate the point that owners can often find themselves in the same predicament as social (and private) tenants.

What has helped to transform Stanhope over the last three years is Moat's recognition that a cross-tenure approach is crucial to support the physical regeneration of rundown areas. Moat has therefore sometimes offered owner occupiers repairs and improvements at cost. For the estates' social regeneration Moat also offered its employment and benefit advisory services to all residents of Stanhope. Unfortunately this has not been backed by any state funding and Moat has had to scale back these services due to current financial constraints, even though there is good reason to believe that the measure can save money in the long-run (for example, though greater financial capability and therefore reduced mortgage arrears). Indeed, a recent study in Wales found that for every £1 spent on housing related support saved £1.68 from other budgets.[58] Moat continues, however, to pursue the broader goal of creating a mixed, balanced community, in which there is no longer a self-perpetuating concentration of disadvantaged households.

Circle Anglia (CA) has developed a similar, holistic approach to the needs of tenants and owners. They manage a range of owner-occupied housing, much of it inherited from Local Authorities when they transferred the ownership and management of some large estates to CA. Circle Anglia offers a comprehensive range of services to all its residents (not just renters), including financial education and advice in partnership with other organisations such as local credit unions. Much of the funding of advisory services for owners is taken out of the leaseholder's service charges. CA also has a track-record of providing training opportunities for its younger residents, with an emphasis on the construction industry. Combining this kind of opportunity with CA's own development plans would be a natural progression. Housing procurement policy under the last government was moving in a complementary direction, with public subsidy only given to house-builders if they were prepared to provide apprenticeships. This is a development that should not be lost.

More help with financial insecurity

A housing cost credit

One of the most notable features of the British housing system is that owner-occupiers are excluded from the system of HB and receive no help with housing costs whilst they remain in work, regardless of their financial situation.

Of course, there are serious problems with the current HB system. The withdrawal rate of 65 per cent can be a serious disincentive to earning more, creating a 'poverty trap' for some. And the complexity surrounding the administration of HB can create uncertainty that can act as a barrier to work or 'unemployment trap: once off the benefit it can be hard to re-enter the system, which means some will face a serious risk in accepting jobs that are temporary or insecure.

In fact, some unemployed owner-occupiers currently face almost exactly the same kind of traps, through the scheme of Support for Mortgage Interest (SMI), a benefit that is administered alongside Jobseekers Allowance. SMI is also withdrawn steeply, and is currently only available after a waiting period, meaning the psychological barrier to work, for many individuals, is likely to be very high.[59] HB, unlike SMI, can at least be claimed both in and out of work (if income is sufficiently low and costs sufficiently high), lessening the negative impact on decisions to enter work.

A logical step would therefore be, first, to extend the HB system to owner-occupiers, helping with some of the costs associated with ownership, reaching the million-plus low-income (mortgaged) owner-occupied households who are in poverty. The next should be to ease the withdrawal rate, helping many struggling renters and mortgaged homeowners who are struggling financially (and who may be at risk of poverty or hardship in future). There have in fact long been calls for this kind of reform, and we should look seriously at the costs and benefits of doing so.

We propose the development of a housing cost credit (HCC), to bring all forms of assistance for housing costs into the same system. This, we should note, is not intended to *replace* HB. Rather, the aim must be to address some of the pitfalls of HB whilst also defending it as a crucial component of a more universal welfare system. Like the current model of tax credits there would be different streams to meet different needs. We would envisage, for example, a contribution to all low-income owners (retired and working) based on average repair and maintenance costs. We would also advocate an HCC stream targeted on low-income owners, to at least bring their housing costs into line with working families that are currently in receipt of HB. In order to maintain parity with renters it may not be appropriate to include capital repayments in the owner occupier's HCC payments (though this is an issue that advocates of asset-based welfare are likely to revisit).

Unifying different streams of provision within a single system would hopefully also deal with some of the stigma directed at social tenants. It would also put an end to the hypocrisy of political commentators who decry HB as part of an alleged culture of 'welfare dependency', whilst lamenting the passing of mortgage tax relief. More specifically, the aim is to remove some of the institutional structures that have done so much to create the impression that individuals in different tenures are somehow different types of people, with social housing reserved only for the 'undeserving poor'.

There are in fact some signs of movement towards this kind of thinking. The coalition government announced in October 2010 that they would be adopting a new 'universal credit system', which will replace the existing range of benefits with just one, bringing HB, income support and a range of other benefits together. Crucially, it is proposed that help with mortgage interest for unemployed owners will be included in this system, thereby going some way to breaking down the distinction between owners and tenants.[60]

Yet what was a potentially positive development has been completely undermined by a vicious attack on the whole range of benefits and a blanket condemnation of benefit claimants (see box). Indeed, at the same time that the universal credit was finally adopted as official coalition policy, we also saw the introduction of a universal benefits cap: no household will be allowed to receive more than £500 a week in benefits, regardless of the size or geographical location of the household. This will certainly have a detrimental impact on families relying on either HB or the Local Housing Allowance, especially in areas with high housing costs. Many households will not be able to afford rent without having to make up the shortfall from other income (often from other benefits), and some will be priced out of an area completely. So what *could* have been a positive development for households and a more universal approach to welfare has instead become one of the most serious threats to social solidarity for decades, wrapped up in Victorian assumptions about the 'undeserving poor'.

Housing benefit and tenure reforms

Since the coalition's Emergency Budget in June 2010 there has been a sustained attack on the benefits system, with housing benefit taking much of the brunt. There are also a number of proposed reforms to social housing. Most of these reforms are likely to have a negative impact not only on the quality of life of those who rely on housing benefit or the Local Housing Allowance, but also on their employment prospects. The most significant reforms to HB and LHA are:

- A cap on the total weekly or monthly rent subsidy for tenants in both the social and private rental sector. Depending on the size of the household the cap will range from £250 to £400 a week. In many areas of London this will simply be too little. London Councils recently predicted that it would lead to approximately 80,000 households in London having to move.[61]
- Most new social tenants will be charged 80 per cent of the market rate for their home (up from approximately 30 per cent). Many tenants will struggle to meet this level and will continue to be reliant on (reduced) HB or LHA, thus having to move to another area.
- At the same time, LHA rates will be capped at the 30th percentile rather than the median local rent. This means that LHA claimants will be excluded from 70 per cent of the local market. The LHA will also be up-rated on a new basis, now based on the Consumer Price Index rather than the Retail Price Index. CPI does not take account of housing costs and is therefore unlikely to keep pace with rising rents.

These measures are driven by the political rhetoric of the 'undeserving poor'. But DCLG figures demonstrate that the reality is very different: only one in eight HB and LHA claimants are unemployed. That figure may well rise if these reforms force working households out of their homes, leaving them faced with an impossible commute, and perhaps stuck in a depressed area with fewer job opportunities.

These reforms are therefore going to hit working households hard. TUC polling has found that, despite government assurances to the contrary, these households will not be able to absorb cuts to HB and LHA. 31 per cent of 44 per cent of social renters say that if their income was to fall by 10 per cent they would face real difficulties. 18 per cent of private renters and 22 per cent of social renters already also worried that their income was lower than their expenditure. But it is not just incomes that are likely to suffer; employment prospects will also be hit by these regressive reforms.

Social insurance for homeowners

A different approach to the lack of support faced by struggling owners has been to look afresh at the idea of social insurance. Steve Wilcox and Mark Stephens have taken the lead here in addressing both the lack of affordable mortgage insurance and the lack of accessible equity release products. The proposed solution comes under the banner of 'SHOP' – the 'Sustainable Home Ownership Partnership'.[62] In essence this is a social insurance scheme to replace the private market for mortgage insurance, which is currently not fulfilling the function of an effective safety net. In 2008 only 20 per cent of mortgaged households are covered on the private market, which charges an average of £5.20 for every hundred pounds of mortgage.[63] In contrast, Wilcox calculates that a new 'solidarity-based' system of compulsory insurance for all new mortgages – in which the burden of risk is shared by government, lender and borrower – could cost the owner significantly less, at around £1.60 per hundred pounds of mortgage payments. costing owners around £1.60 per £100 of mortgage payment or around £170 per year on the average mortgage of £140,000 with an interest rate of 5 per cent.

In the proposed scheme this would cover both interest and capital repayments (the rationale for this is that one is also insuring against the risk of carrying the burden of debt for an excessive number of years; into retirement, for instance).

At a practical level, such a scheme is likely to address the concern that homeowners are being encouraged to take on an excessive risk burden. It also largely removes the benefit trap of SMI, as the proposed system offers mortgage protection within two months (with lender forbearance in this initial period). If a system like this was really put to the test in times of recession, it could also help to prevent the kind of economic sclerosis caused by the negative interaction of declining housing and labour markets (see the previous chapter for a discussion).

The stability and affordability of the system would require significant up-take – far more than the 20 per cent of mortgages covered by insurance in 2008. This would mean exploring a range of options to encourage such take-up ranging such as requiring lenders to offer the scheme. However, we agree with the designers of SHOP that such a system is in keeping with the popular Beveridge model of social insurance and would ultimately prove popular too (an intuition that is borne out by focus group work conducted by Wilcox and Stephens).

An overarching insurance scheme for housing?

The successful adoption of SHOP would be a fundamental and positive reform. There is, however, a potential weakness in terms of the argument of this report: SHOP is solidaristic for owners, but it does nothing for private and social renters. On the contrary, there is a danger that it could reinforce tenure distinctions. A successful SHOP scheme could well create a sense of solidaristic, responsible owners in contrast to (potentially) benefit dependent renters. One relies on insurance, the other on the kind of benefit that is far too easily caricatured as 'hand-outs'.

One way to prevent this might be to administer the state-supported element of SHOP through the Housing Cost Credit – in other words, part of the same structure designed to help tenants. Indeed, it would be possible to go a step further and transform the entire system of support for housing finance in the UK into an insurance-based system, with hypothecated compulsory contributions into it, covering payments out to both renters and owners. Here, the 'contingency' one is insured against would be expressed in more general terms than SHOP or HB – a lack of income to meet housing costs.

Transforming support for housing finance into a fully-fledged system of insurance could go a very long way to breaking down the social hierarchies associated with housing, including the stigma that is unfairly attached to social housing – with all the connotations of 'welfare dependency' and the characterisation of tenants as a burden on the taxpayer that we have become used to.

Conclusion

In this Touchstone pamphlet we have argued that employment and housing policy in Britain needs to be guided by a new framework. This framework needs to meet two crucial objectives. Firstly, it must recognise the ways in which housing across all tenures can sometimes act as a barrier to employment and progression in work. As we have seen, there is an important economic case to make for a new, integrated approach to housing and employment policy. Both the social rental and the owner-occupied sectors can act as a barrier to labour market mobility, and high housing costs across all tenures have led to unacceptable levels of personal stress, with a measurable impact on personal productivity within the workplace. High housing costs also sometimes force households to commute long distances to work from cheaper areas – a situation that will certainly worsen as the current reforms to housing benefit come into effect.

But there is also a second crucial objective, and that is to break down the tacit social hierarchy of housing tenures in Britain. Not only does this hierarchy obstruct our understanding of the needs of owner-occupiers, it also sends out a strong signal about the status of social housing – so often seen only as the tenure of last resort. When this happens it is all too easy for politicians and the media to caricature its tenants as an 'undeserving poor'. In such a context – with an apparent political and social consensus aligned against both social housing tenants and benefit claimants – it may seem that the message of unity contained here will fall on deaf ears. Yet it transpires, from TUC polling, that more than half of renters think government should provide a stronger safety net for homeowners, while more than half of owners think government should provide a stronger safety net for renters. In other words, there seems to be an important sense of inter-tenure solidarity. Making good use of this will require political will. But it also requires an inter-tenure policy framework. Contributing to the development of that framework has been the central purpose of this pamphlet. The challenge now is to have our message heard above the cacophony of cuts, and a government seemingly committed to reinforcing false and socially divisive notions of an 'undeserving poor'.

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