

The housing market in Greater Cambridge, access to affordable housing and the role of the councils

1. Introduction

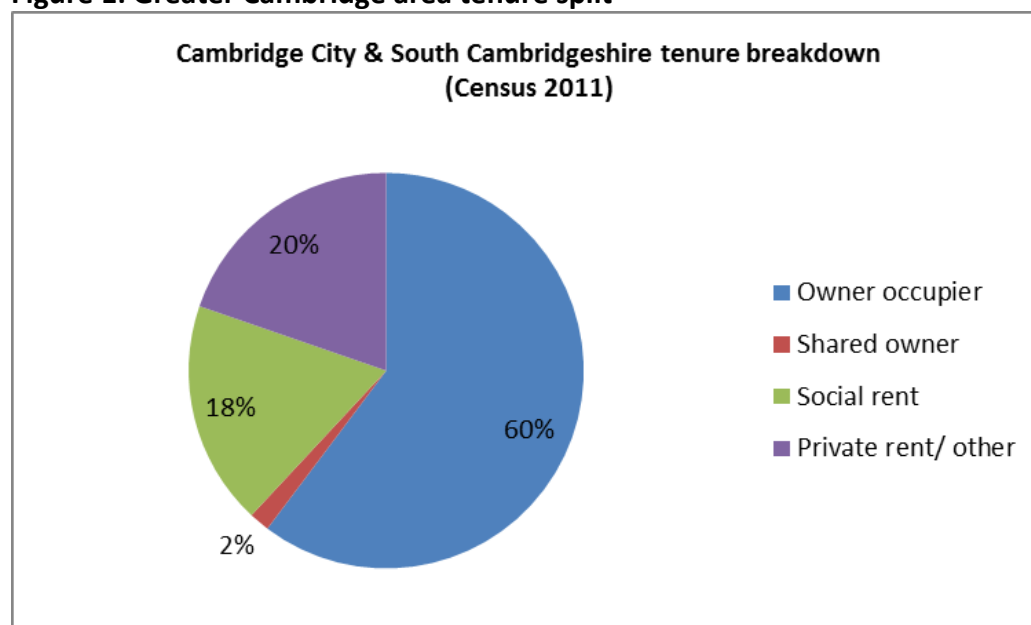
- 1.1 The City of Cambridge and the surrounding South Cambridgeshire district together represent an important national economic hub, and have a strong track record of working together working as Greater Cambridge, including on the successful City Deal bid. Alongside improved transport links and addressing the skills requirements of the booming economy, housing is recognized as an essential contributor to supporting economic growth, both locally and for national benefit. This paper looks at the Greater Cambridge housing market as the City's housing market and that of South Cambridgeshire are inextricably linked.
- 1.2 The City Council is very concerned about the combined effect of a number of Government policies which have the potential to compound the problems of housing affordability and housing supply in the Greater Cambridge area, in part, because of the particular characteristics of the local housing economy. This is likely to have a negative impact upon the health of local communities and the health of the local economy, and potentially damage economic growth.
- 1.3 This report:
- Sets out the key characteristics of current housing market and housing provision in Greater Cambridgeshire.
 - Analyses the potential impact of impending housing legislation on local affordable housing supply, and on the provision of new affordable housing – particularly homes for rent;
 - Summarises Cambridge City Council's 'asks' of government, to facilitate the local authorities' continued delivery of affordable housing.
- 1.4 The detail of much of the proposed legislative change has yet to be finalised. Cambridge City Council has been active in making representations to set out our case to Government and local MPs, and has taken the opportunity to describe the impact of legislation in our areas to various policy influencing bodies. This paper summarises the main points that have been made, and provides a statement of our current position. It will be used next to make our position clear to the House of Lords who will be considering the Housing and Planning Bill immanently.

2. The Housing Market

Current tenure split

- 2.1 The 2013 Strategic Housing Market Assessment for Cambridgeshire sets out the tenure patterns for the estimated 106,674 households in the Greater Cambridge area.

Figure 1: Greater Cambridge area tenure split



- 2.2 The majority of households are owner-occupiers, with an even split between social and private renters. Only 2% are in shared ownership. Around two thirds of social rented households rent from local authorities.
- 2.3 In Greater Cambridge the demand for all tenures outstrips supply. There are just over 4,100 applicants on the two districts' housing registers;¹ it takes around two and a half weeks to sell a property in Greater Cambridge, despite the fact that house prices are increasing fast (see below) and average private rents have risen by 7% in South Cambridgeshire, and 11% in the City in the last year.²

Owner occupiers

- 2.4 Table 1 below shows house prices in Cambridge City and South Cambridgeshire compared with the rest of the Eastern region and England as a whole.

	Average prices		Lower quartile prices	
	Average prices	% increase over past 12 months	Lower quartile prices	% increase over the past 12 months
Cambridge City	£483,625	12%	£315,000	17%

¹ Home-Link housing register data, February 2016

² VOA rental market statistics April-March 2013-14 and April to March 2014-15.

South Cambridgeshire	£385,742	15%	£250,000	9%
East of England	£303,900	10%	£179,000	8%
England	£300,147	7%	£150,000	3%

Source: Hometrack, September 2015 data (based on sales and valuations)

2.5 This shows that average house prices in both districts are well above those in both the East of England and nationally. It also shows that recent increases in both average and lower quartile prices outstrip those both regionally and nationally.

2.6 Houses for sale are now unaffordable for anyone on average incomes, unless they have access to a substantial deposit. The median house price in Cambridge City is 11.9 time median earnings, and 8.2 times median earnings in South Cambridgeshire.³ The picture is even more extreme for those on lower quartile earnings, with lower quartile house prices to earnings standing at 17.9 in the City, and 12.0 in South Cambridgeshire.⁴

Private rental

2.7 The private rental market presents a similar picture in terms of affordability.

2.8 Research carried out by Cambridge City Council in 2014 found that only around 10% of rooms, and 2% of one bedroom properties were advertised in the City at or below Local Housing Allowance rates. No larger properties were available at or below LHA rates. Even in the surrounding area, which included most of the villages in South Cambridgeshire, plus the rail-commuting towns of Littleport, Ely and Royston, only around 8% of one bedroom properties, and 2% of larger properties were advertised at or below LHA rates. This means for people on lower incomes the options for living in the Greater Cambridge area are heavily reliant on housing provided by the local District Councils and Housing Associations.

2.9 High private rent levels also affect those not reliant upon housing benefit. Table 2 below shows typical local rents and average local earnings.

Table 2: Monthly median private rents compared with take-home pay

District	1 bed	2 beds	3 beds	Median gross pay (annual)	Median take-home pay (annual)	Median take-home pay (monthly)*	Lower quartile take-home pay (monthly)*
Cambridge	£850	£1,038	1,200	£31,700	£24,643	£2,053	£1,530
South Cambridgeshire	£665	£785	£885				

* Approximate monthly take-home pay for full-time workers resident in Greater Cambridge area.

Source: VOA rental market statistics April-March 2014-15, Annual Survey of Hours & Earnings (ASHE) 2015, and incometaxcalculator.org.uk.

³ Hometrack, September 2015 data (based on sales and valuations)

⁴ Hometrack, September 2015 data (based on sales and valuations)

2.10 Table 2 illustrates that in Cambridge City, the monthly median rent for a one bedroom property represents 41% of annual median take-home pay for full-time workers living in the City, and for two bedrooms it is 50%. Rents are a little more affordable in South Cambridgeshire, at 32% and 38% respectively. Those on lower incomes would have to pay over half their take-home pay on a two bedroom property at median rents in either district. This means that for many single residents, house or flat sharing may be the only option, and that private rent is difficult to access for families.

Affordable housing

2.11 Providing affordable house for rent for in the City is therefore vital. Currently the City Council provides 29% of all rented housing in the district and 65% of all affordable rented homes, whilst South Cambridgeshire District Council provide 33% of all rented homes and 64% of all affordable rented. The demands on this housing are considerable. In the City, of the 601 council and housing association properties let in 2014-15 through Home-Link, 84% were to households in the two highest bands of need. In South Cambridgeshire the figure is over 90%. The numbers of homeless applications in the City is rising steeply. Homeless applications rose from 112 in 2011-12 to 146 in 2014-15. Last year in the first three quarters of the year 143 households had been accepted as homeless. The figures have also risen in South Cambridgeshire. The ending of a private rented tenancy is one the main reasons for new homeless applications in the Greater Cambridge area.

3. The national agenda

3.1 We recognize that housing is high on this Government's agenda.

3.2 The Welfare Reform and Work Bill introduces

- A 1% rent cut to social housing rents, each year for the next four years.
- Other welfare reforms that will impact on household income

3.3 Proposals in the Housing and Planning Bill include:

- Reference to a voluntary agreement with Housing Associations for their tenants to have the Right To Buy (RTB)
- The expectation that local authorities will dispose of 'high value' properties to pay for the extension of RTB to Housing Associations
- A requirement for tenants earning over £30,000 outside London (£40,000 within London) to pay market or near-market rents, compulsory for Local Authorities but voluntary for Housing Associations. (Otherwise known as 'Pay to Stay).
- Fixed term tenancies for new social housing tenants, compulsory for Local Authorities but voluntary for housing associations.

3.4 The Government have also announced an intention to build 1 million new homes by 2020 of which 400,000 will be affordable including;

- 200,000 Starter Homes for purchasers aged under 40, which will count as Affordable Housing.
- 135,000 shared ownership

- 10,000 rent to buy
- 50,000 from existing commitments
- 8,000 specialist homes for older people and disabled.

3.5 Specialist housing therefore represents only 0.8% of the national target for new homes, and there is no commitment to new general needs affordable rented housing. In addition, scarce affordable housing land will have been used to build the 345,000 affordable owner occupied homes, all of which have the potential to become market housing within 5 years.

4. The Impact of Government Policy – and the Challenges we Need Resolved

4.1 We have serious concerns about how national policy will affect both the current supply of affordable housing, and our ability to deliver new homes.

The 1% cut in rents

4.2 The requirement for an annual 1% cut in all social rents will result in a reduction in income for the Housing Revenue Account in Cambridge City of £15 million over 4 years. The major impact has been, aside from those schemes already committed, to put on hold any further development of affordable housing whilst financing remains uncertain. We have been delivering schemes which include affordable housing, and potentially have the capacity to deliver more. The City Council have a strong track record of delivering new homes, completing a programme of 280 new social rented homes together with 217 for market sale.

4.3 The Greater Cambridge local authorities, including Cambridgeshire County Council, have set up a Housing Development Agency to facilitate and speed up development of our own sites. The earlier statistics in this paper show the importance of providing affordable housing for rent in this mix, including social rents at or below local housing allowance levels.

Welfare Reform

4.4 Welfare reforms will impact on households' ability to access the Greater Cambridge housing market, making it more important than ever that we provide new homes which are affordable to those on low incomes.

4.5 As already stated, Local Housing Allowance (LHA) rates, and therefore the housing element of Universal Credit – both for in and out of work claimants - are considerably lower than private sector rents across the Greater Cambridge area. Rising rents, combined with a four-year freeze on LHA rates, lowering the overall benefit cap, and the range of other welfare benefit cuts, will make it even more difficult for those on lower incomes to access private rented housing.

4.6 Capping LHA rates at social housing levels will also affect the ability of those on low incomes to sustain social housing tenancies.

Disposal of high value stock, Right to Buy, and one for one replacement

4.7 With high local property values, we anticipate that we will have to sell a significant proportion of our stock to fund the Right to Buy for Housing Association tenants.

Research by the Chartered Institute of Housing (CIH)⁵ and the more recent Parliamentary Select Committee on Housing Associations and the Right to Buy (to which South Cambridgeshire was called as a witness)⁶ have raised a number of concerns which we share. We accept the need to actively manage assets and have been reinvesting the proceeds for the sale of high value stock into new homes for several years. But the current proposals give much cause for concern:

- The overall impact of the extension of the RTB to Housing Association tenants and the sale of High Value Assets for local authorities will deplete the availability of affordable housing for rent if one to one replacement is not facilitated. The CIH estimate that “almost 7,000 council homes could be lost if no extra funding is provided by central government”. In the City this could see the sale of over 170 homes per year, and more if homes are not re-provided in the local area.
- The Government is proposing an up-front levy based on an assumed level of disposals. The CIH analysis suggests that property turn-over and levels of sales are likely to be considerably less than government estimates, so that local authorities could be required to pay out more than they receive in receipts.
- Whilst the flexibility that a levy provides is welcome, we will not be in a position to make a substantial upfront payment of what could amount to tens of millions of pounds, as we do not hold anything close to this level of reserves in our HRA accounts.
- It is inescapable that Local Authorities will need the ability to borrow more through their HRA to provide the full funding required for replacement of homes sold, cover historic debt, and contribute to compensating housing associations. The CIH analysis shows that local authority replacement cannot be achieved without increasing the ability of HRAs to borrow by raising the debt caps.

4.8 Although we do not yet know precisely how the formula will work, on a cautious estimate, using the regional thresholds published by the Conservative Party in April 2015, the City Council expects to lose around 130 homes each year through the sale of high value assets, in addition to the 40 or so anticipated Right to Buy sales. In South Cambridgeshire it is estimated that high value sales will be in excess of 80 per year with a further 20 being sold through Right to Buy. This amounts to a loss of around 270 homes per year.

4.9 The Housing and Planning Bill includes provision for London to keep an element of the sale price from the compulsory disposal of high value stock to replace each home

⁵ Chartered Institute of Housing: Selling off the Stock - An interim analysis of the proposals for sales of council houses in high-value areas to finance a new right to buy for housing association tenants October 2015

⁶ Communities & Local Government Committee report - Housing Associations and the Right to Buy, 2016: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2015/housing-association-sector-and-right-to-buy/>

lost with two more. Government guidance on the Bill suggests that they are open to consideration of similar deals with local authorities who can re-provide housing. It would be possible to deliver a one for one replacement programme locally within the City and at affordable rent if the funding was available, although two for one would be much harder to achieve because of land and planning constraints.

- 4.10 Right to Buy receipts are still available to us to spend on new affordable housing, but with the 1% rent cut and sale of high value assets we cannot provide the required match funding of 70% as we do not have access to funding streams. The 1% rent cut has effectively removed any surplus to use for this purpose and the sale of high value assets takes away another previous source of funding.
- 4.11 Importantly, any homes built in a replacement programme would need to be exempt from the Right to Buy, or from the high value calculation, for at least 30 years to allow the investment debt to be fully repaid. Historic Right to Buy sales have, in most cases, been of properties for which the debt has already been paid off. Without such protection, we could risk becoming insolvent if sales less statutory discounts exceeded the debt to be repaid.

Pay to Stay

- 4.12 The details of how the government's proposals on Pay to Stay will operate are not yet clear. We have responded to the government's consultation expressing our concerns on the potential impact on households on low to middle incomes. Annual median gross pay is £31,778 for Cambridge residents who are full time workers, and for South Cambridgeshire it is £31,609. This means that households with single median incomes would be required to pay higher rents, as would those with two full time workers on lower quartile earnings.
- 4.13 In Cambridge and South Cambridgeshire the private sector rents are at least double those of socially rented properties. It is estimated that a household earning £30,000, if required to pay full market rent, would need to spend 43% of their take-home pay on rent in Cambridge City, and 34% in South Cambridgeshire - just for a one-bedroom home. For a three bedroom home it would be around 61% and 45% respectively.⁷
- 4.14 Given the context of high market rents in the Greater Cambridge area, this policy has the potential to displace hard working families. It also has implications for people with carers, for children attending local schools, and for the economy if lower paid workers are forced out of their homes. We also have concerns about using a single income threshold for potentially very different household compositions.
- 4.15 Locally determined income thresholds need to be introduced, which reflect local incomes and rents, to ensure that households are not hit with a sudden huge rise in rent in our high cost area. Sliding tapers also need to be set at the right level to meet local needs, to avoid some of the unintended consequences.

⁷ Based on HMRC take-home pay calculator and VOA rental data.

Delivering a range of tenures

- 4.16 The City Council is committed to contributing to meeting local housing need in the city, alongside Housing Associations and the private sector. We have a good track record of delivering housing of all tenures, and together with Housing Associations, are the major providers of affordable housing for rent.
- 4.17 We are in agreement with the conclusions of the Communities and Local Government Committee report on Housing Associations and the Right to Buy. The Committee concluded that “The Government has ambitious plans to address the severe housing shortage and is seeking to do so by prioritizing affordable home ownership. Nonetheless rented housing at full market rents and sub-market rents will continue to be essential to meet the needs of many in our society and should exist alongside other forms of housing”.
- 4.18 In Greater Cambridge, Starter Homes will only provide homes for those on higher incomes. Indeed, Shelter calculates that many households even on high incomes would be unable to afford a Starter Home in Cambridge or South Cambridgeshire by 2020.⁸
- 4.19 As stated above, annual median gross earnings for Greater Cambridge residents are around £31,700, which equates to around £24,640 per year take-home pay.⁹ Although lenders may have different criteria, using Barclays current lending policy as an example, a single earner earning £31,700 would require a deposit of over £100,000 to purchase a home valued at £250,000. Dual earners on median incomes would require a deposit of around £11,300 to be eligible for a loan.¹⁰ (This is on the assumption of lending criteria being similar for Starter Homes as for ordinary market homes).
- 4.20 Shared ownership homes are also out of reach for many. For example, a 40% share of a median priced two bedroom home in Cambridge would cost around £233 a week (around £12,150 a year), equating to around 49% of median take-home pay. In South Cambridgeshire it would be lower, at £149 a week (around £7,800 a year), representing around 31% of median take-home pay. However, this is before taking into account ground rent and service charges, and is based on the assumption of a deposit of 15% of the share purchased.¹¹
- 4.21 The City Council has been successful in developing options for the intermediate market for those unlikely to qualify for social housing, and would expect to continue to develop our contribution to this slice of the market. It is now the case that this ‘intermediate’ market represents in Greater Cambridge the majority of households requiring housing and a piece of detailed analysis is currently being undertaken to demonstrate the full scale and significance of this issue. Cambridge City have set up a lettings agency, Town Hall lettings, aimed at helping the single homeless with low

⁸ Shelter: Starter Homes – Will they be affordable? 2015:
http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/research_starter_homes-_will_they_be_affordable

⁹ Annual Survey of Hours & Earnings (ASHE) 2015, and HMRC take-home pay calculator <https://www.incometaxcalculator.org.uk/>

¹⁰ Barclays mortgage calculator: <http://www.barclays.co.uk/mortgages/mortgage-calculator>

¹¹ Hometrack, Cambridge sub-regional housing market bulletin December 2015.

levels of need find shared accommodation in the city and surrounding districts. Cambridge Housing Company recently set up by the City Council provides sub-market rents in the city for a broader range of households including families.

- 4.22 We are keen to contribute to the availability of intermediate rents and rented accommodation for those on middle incomes. Early discussions are being held with the LEP and with local employers to identify the options to take this forward. We will also need to reach an agreement with central government on the levers that would enable us to do this.
- 4.23 However, there is still a significant proportion of households who are unable to afford intermediate housing, and we therefore need to ensure the availability of affordable housing for rent. This is not to the exclusion of other tenure but needs to be in the mix. Research by Savills shows that the “shift in policy drive from Affordable Rent to one of the other tenures, and particularly the classification of Starter Homes as a form of Affordable Housing, is likely to leave a gap in provision for those on lower incomes.”¹²

5. What are we asking for?

- 5.1 In order to be able to make the best use of our resources and continue to build housing at affordable rents and for the intermediate market, Cambridge City has the following asks of government:
1. Approval for a higher level of borrowing against our Housing Revenue Account
 2. Flexibility to set council housing and housing association rents to better reflect local conditions
 3. Exemption for new build houses from Right to Buy and sale through the disposal of high value assets for 30 years
 4. To retain a proportion of the receipts from the sale of high value assets, to fund one for one replacement of properties lost through sale, a concession that has already been given in London
 5. Approval to use Right to Buy receipts to match against borrowing and the ability to spend RTB receipts within a five year period to take account of land supply
 6. The planning powers to agree the appropriate tenure mix on sites to meet local housing need (which we will set out in a complementary planning focused statement).
- 5.2 We have estimated that if we could use our RTB receipts in full, borrow beyond the debt cap to fund investment and utilise at least 25% of the receipts from high value sale we could sustain a one for one replacement build programme for homes lost through the right to buy and sale of high value assets, exempting these from RTB sale for 30 years.

¹² Savills – The Impact of New Housing Measures on Development, February 2016:
http://www.savills.co.uk/research_articles/141280/198958-0

- 5.3 Council housing plays a critical role in Greater Cambridge area providing over 30% of all rental homes. The forced sale of a significant number of these homes therefore risks damaging the local housing market.
- 5.4 Only the top 20% of households have incomes that enable them to access owner occupation. Starter Homes will add supply to meet the needs of this section of the community but not the 80% of households with lower incomes including the majority of those on average earnings.
- 5.5 Cambridge City Council, working with other Local Authorities and Housing Associations is willing to lead on the development of new housing that is affordable to rent and buy across this wide range of households and deliver housing to address this otherwise unmet need. The provision of new council housing is a key part of meeting this need. We have therefore set out the housing asks that we will continue to request from Government.