

Bringing affordable ownership home

How co-operatives could help people currently priced out of home ownership

A report by Jenny Jones Green Party member of the London Assembly

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(This response sets out my individual views as an Assembly member and not the agreed views of the full Assembly)

Introduction

Most of us already know that our current approach to home ownership can be risky, stressful and expensive. In my recent report, *Coming Home to Roost*, I showed how two London Mayors have failed to stop the cost of home ownership rising faster than average incomes.



More and more people are being priced out of home ownership.

If eggs had risen in cost at the rate of houses in London since 1969, a dozen eggs would now cost us £12.55 and a bottle of milk would cost £13.11ⁱ.

Getting a mortgage for low cost home ownership is difficult enough, but the home doesn't stay low cost for long. When the first time buyer sells it on in the open market it will have increased in value much faster than incomes, just like every other house on the market, so the owner will sell an unaffordable home to the next buyer.

The Government and Mayor want to keep building more every year to fill up the bath with a steady pool of low cost homes, instead of putting the plug in by building permanently affordable homes. In this report I want to push one possible "plug" up the agenda: co-operatives.

Co-operatives can offer a genuinely low cost way of offering home ownership to low and middle income households, and crucially the homes will stay affordable permanently. They also make it considerably easier for people to get onto the ladder in the first place. They inhabit a tiny niche in the UK, but co-ops provide 18% of homes in Sweden and 15% in Norwayⁱⁱ.

The Mayor promoted co-operative housing solutions in his election manifesto, and co-operatives generally have risen up the agenda in the UK since I first started to push the previous Mayor for co-operative housing solutions in 2006ⁱⁱⁱ. But the Mayor has delivered little so far. There is barely any mention of them in his Housing Strategy^{iv} and none in his draft replacement London Plan, and he is yet to announce any progress on his un-ambitious target of one pilot by 2011.

Like most politicians, I'm not an expert in lots of areas I work in, but I have talked and listened to experts in housing and economics. If you have any suggestions on reading this report, I'd love to hear from you. Email your thoughts to me at jenny.jones@london.gov.uk.



1 The rising cost of home ownership

- 1.1 We are used to hearing that large rises in house prices are good, that the housing market is “picking up” after the recession. But in *Coming Home to Roost* I showed that, for many Londoners over the past decade, this has meant that the cost of buying a home rose twice as quickly as incomes, making it harder and harder to afford a mortgage.
- 1.2 The average monthly mortgage payment for those who can afford a 25% deposit is now up to £1,240 a month^v. The Government’s advisers found that in London deposits rose from 25% of average household income to 153% in the last decade, and predict that they will keep rising^{vi}. The following chart from my previous report showed how the cost of buying a house relative to incomes has increased rapidly in the past ten years. To really be affordable, we shouldn’t expect households to raise a mortgage for any more than three to five times their income.

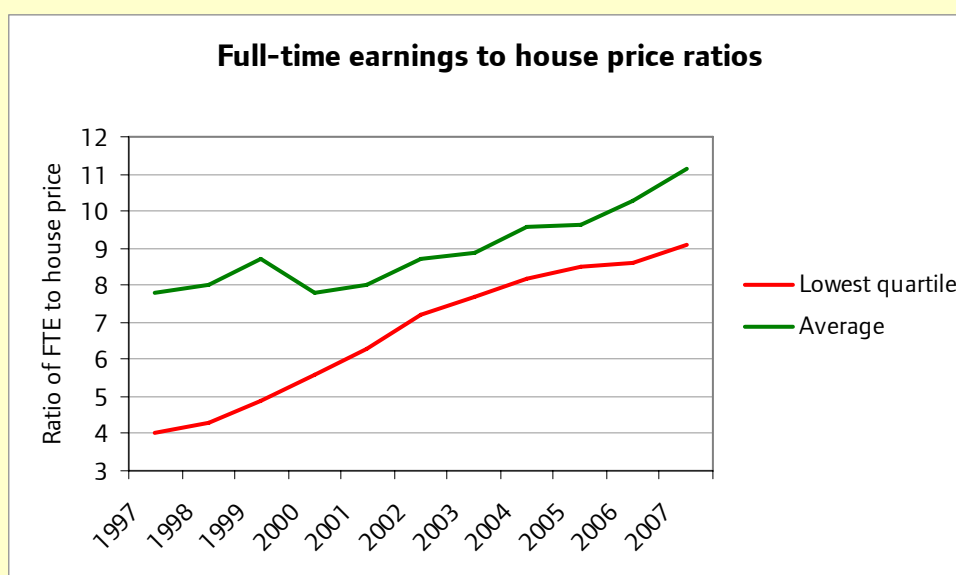


Figure 1- Ratio of average full time earnings to the cost of buying an average and lowest quartile house in London, from ASHE and HM Land Registry figures^{vii}

- 1.3 One solution offered is “shared ownership”, which is supposed to be a low cost way of getting onto the housing ladder. You can buy a share of the home and pay rent for the rest, so you don’t need to get such a huge mortgage. But this can still trap people with risky, inflexible mortgages. If your income changes or property prices drop, you could be in trouble. And for all the government subsidy, this home will become just as unaffordable as every other over time. The first-time buyer will sell on a home that has risen in cost far more quickly than incomes.

2 Why aren’t low cost homes staying affordable?

- 2.1 The housing bubble was inflated by easy credit, buy-to-let investors who bought up two thirds of new homes^{viii}, high population growth and many other factors. But unless we build approximately twice the number of homes that we build at the moment, demand will continue to outstrip supply so prices will continue to rise^{ix}. Homes that are low cost today become high cost homes in tomorrow’s housing bubble.
- 2.2 The Government and both London Mayors have tried to build enough low cost “shared ownership” homes to help people onto the housing ladder, but as I showed in *Coming Home to Roost* they never turned the taps on enough to fill up the bath with a large pool of low cost homes. The low cost homes drain straight out of the bath as their price rises in the open market. The Mayor is still trying to open the taps a bit more instead of putting the plug in.

3 Co-operative ownership – it's genuinely low cost

- 3.1 How can we stop low-cost homes we build from becoming tomorrow's high-cost homes?
- 3.2 One co-operative model that can achieve this is called a Community Land Trust. If you joined this type of co-op you could buy a secure, low-cost home that you could make your own, just like any other. If you move out, the co-op would ensure that you could only sell your home for the original asking price plus a fair uplift similar to the inflation in average incomes. You wouldn't get the huge gains from the unfair property market, but you'd still gain a valuable sum towards your next home or retirement and you'd pass on a low-cost home to the next buyer.
- 3.3 How does this work? Well, when you buy a home, you're buying two parts: the building on top and the land underneath. Over time you might slightly improve the home, but the cost of rebuilding it won't increase very much. The huge increase in the cost for the next buyer is an increase in the cost of the land. In the diagram below, you can see how the land value iceberg grows each year, pricing more and more people out of home ownership as it outpaces income inflation.

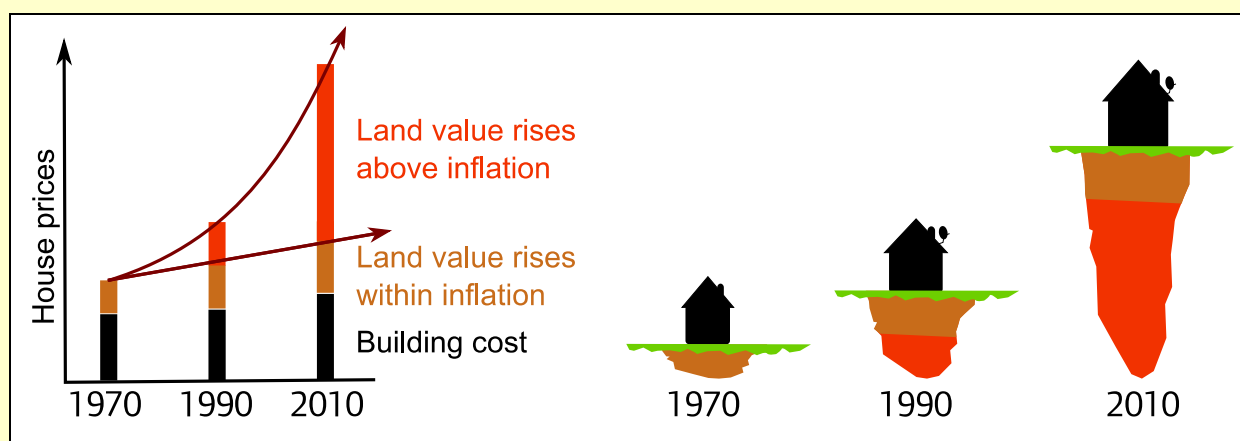


Figure 2 – Increases in land value price people out of home ownership. Not to scale.

- 3.4 The co-operative can stop this gap growing by owning the land underneath the buildings and leasing it to home owners, enabling it to set the terms of the sale for any homes built on it. If land values rose 20% over a year whilst incomes only rose 3%, the co-operative could ensure that the home is sold for only 3-4% more than the original price.
- 3.5 In this way, co-operatives put the plug in the bath. They create a growing pool of permanently affordable homes, emphasising that homes are places to live, not speculative investments.
- 3.6 The second problem is that mortgages are difficult to secure and inflexible. Most households in London can't afford them, and those that could just about afford a shared ownership mortgage sometimes find themselves trapped if their income drops or their family grows.
- 3.7 The co-operative can solve this by taking ownership of the homes as well, and offering members the opportunity to gradually buy up a stake in the co-operative instead of buying the home outright. You would make a monthly payment set at a fixed proportion of your monthly income, so that if your income drops so will your monthly payments. A significant slice of the payments that help pay off the co-operative's mortgage would be added to your stake. You'd have a secure home that you could make your own just like any other. If you move out you would cash in your stake plus a fair uplift based on the growth in average incomes and interest rates.
- 3.8 This co-operative model, called Mutual Home Ownership, provides a community safety net that could help people build up a stake in their homes without the risks and high costs of traditional or shared ownership mortgages.

4 How far could the Mayor go?

- 4.1 The Mayor has set a target for new shared ownership homes over the next 25 years in his London Plan. If the Mayor simply built *all* those homes with the co-operative models instead, by the end of his Plan three to five percent of our homes would be mutual. With 82,000 empty homes around the capital and plenty of appetite for affordable housing, the models could catch on and go a good deal further with real Mayoral support.^x
- 4.2 The previous Mayor promised to take these models forward in 2007^{xi}, and the current Mayor promoted them in his manifesto^{xii}, but neither has done much to deliver them^{xiii}. There is no sign of them being pushed through current Mayor's draft replacement London Plan, and his Housing Strategy only manages a brief mention in a policy (3.1E) on 'new delivery arrangements'.
- 4.3 These innovative models need to be thoroughly tested but the Mayor could certainly go further than one as-yet-unannounced pilot in three years, and include some policy support in documents designed to last up to 25 years. In Cornwall, communities supported by their local councils delivered a pilot programme aiming for 17 Community Land Trusts in just two years^{xiv}.

5 Why has the Mayor not delivered a pilot yet?

- 5.1 The key to delivering co-operative models like Community Land Trusts lies in the name. The Mayor needs to work with and support local *communities* to bring proposals forward, helping them jump through the hoops created by the local planning system and the Homes and Communities Agency. Instead, the Mayor and his housing adviser have paid for consultants to investigate top-down "Government Land Trust" projects in places like Bow Lock, and have made little progress.^{xv} Their appraisal process doesn't even involve the local communities.^{xvi}
- 5.2 The Government has provided the Carnegie UK Trust with £500k of Empowerment Fund money over three years to build a national CLT enabling framework and pilots are being established in the North West and South West regions.^{xvii} In Cornwall, this money enabled the Cornish Rural Housing Association to employ a full time project officer to establish an umbrella trust that has supported five local communities build over a hundred homes in high value areas, with more in the pipeline.^{xviii}
- 5.3 There are four communities already organising to develop co-operative housing schemes in London with the support of knowledgeable regeneration practitioners. The Mayor has so far rejected my suggestion that he follow the Cornwall and Carnegie examples to provide support.^{xix}

Case study – Walter's Way

Lewisham Council bought up vacant sites in their borough to build housing in the 1970s, during a housing boom. They allowed tenants on the social rented waiting list to build their own homes on the land with training and support.

Starting in 1979, residents built twenty seven spacious detached homes with gardens at very low costs, using a construction method designed by Walter Segal.

Councils can enable local people to take the lead in providing low cost homes. Unfortunately the land for



Walter's Way wasn't owned by the community, so they are no longer low cost homes.

6 How co-operatives could help us solve other problems

- 6.1 Co-operative members can build, own and control their homes and neighbourhoods, working towards common long-term goals. This model could help solve several other pressing problems relating to Londoners' homes.
- 6.2 First, because the co-operative has a long-term investment in the homes it can more easily pay for high quality homes and infrastructure. Industry concerns about the Mayor's new space standards and the Government's new social housing standards would be allayed^{xx}. The co-op would more easily achieve the Mayor's goal of attracting money from any institutional and individual investors looking to make secure and socially useful investments^{xxi}.
- 6.3 Second, the co-operative can manage facilities and infrastructure over a long period, rather than leaving it to individual home owners. This could just mean managing the renewable energy equipment so individual home owners don't have to deal with problems. The co-operative could also provide shared resources, for example by following the car club model and providing anything from gardening tools to community centres.
- 6.4 Third, as a member of a co-operative you would have more of a say over your home and the estates management than under a housing association or private landlord.

7 Five fresh policy suggestions for the Mayor

- 7.1 My report has so far painted a picture of an alternative approach to low-cost home ownership. The following policy recommendations explain how the Mayor could make this a reality.

1. Include the Community Land Trust and Mutual Home Ownership models in the Housing Strategy and replacement London Plan, with a strong presumption in favour of any housing models that will provide permanently affordable housing that is more flexible and secure than many shared ownership models are today;
2. Require the Homes and Communities Agency (HCA) and local councils to involve promising local co-operatives in the processes that shape the local housing agenda – what are called the Single Conversation and Delegated Delivery discussions;
3. Set-up an umbrella co-operative with a fully funded advice unit to support communities wishing to bring co-operative ownership proposals forward, similar to the Cornish example and the approach that the HCA are considering in other regions of the UK;
4. Use the Mayor's new London Housing Company to help councils take a much stronger role in assembling sites for development, including a much more concerted programme of public compulsory purchase, and parcelling out co-operatively owned land into smaller plots to encourage a more competitive marketplace between developers;
5. Work with the banks, other investors and community development organisations to establish a tradable, credit-rated, long-term housing and infrastructure investment bond that would enable co-operative housing providers to access money from institutional investors and even from individual savers looking for a stable return.

- 7.2 In the meantime, the Mayor could move this agenda forward by simply shifting his approach towards supporting communities who are already bringing these ideas forward.

- 7.3 If you have any ideas as to how we can bring co-operatives into the mainstream of the housing policy debate in London, do get in touch: jenny.jones@london.gov.uk

Credits

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References

- ⁱ Based on CLG live table 505, <http://www.communities.gov.uk/documents/housing/xls/140957.xls> and Shelter http://england.shelter.org.uk/what_you_can_do/campaigning/how_we_made_the_calculations
- ⁱⁱ Commission on Co-operative and Mutual Housing (2009), *Bringing democracy home*, p. 5
- ⁱⁱⁱ Question to the Mayor by Jenny Jones number 0133/2006, <http://mqt.london.gov.uk/mqt/public/question.do?id=15618>
- ^{iv} Only on page 74 as part of Policy 3.1E.
- ^v Evening Standard (8th February 2010)
- ^{vi} National Housing and Planning Advice Unit (2010), *Housing affordability: a fuller picture*. On pages 24-25 they project the affordability of mortgages based on their own maximum housebuilding targets, which are significantly higher than the Mayor's proposed targets in the draft London Plan (44,700 / 33,400).
- ^{vii} GLA (2009), *Greater London Strategic Housing Market Assessment 2008*, p.37
- ^{viii} Evening Standard (20th November 2009), *Foreign buyers snapping up 'too dear' London homes*
- ^{ix} The NHPAU suggested that London needed some 46,700 new homes per year, of which at least 18,200 would be affordable, to keep prices down. See the 2009 Strategic Housing Market Assessment, pp.55-56, <http://legacy.london.gov.uk/mayor/publications/2009/docs/strategic-housing-report.pdf>
- ^x The Mayor's target for intermediate homes is 5,280 per year, or 132,000 over the period of the London Plan. By 2031 that would work out as 3% of the projected 3.99m households. If he increased the overall affordable target from 13,200 to 18,200 to match the evidence, this would increase to 4.6% of the projected 3.99m households.
- ^{xi} The Architects' Journal (31 July 2007), *Livingstone unveils fresh plans to discover inner-city land for development*, <http://www.architectsjournal.co.uk/news/livingstone-unveils-fresh-plans-to-discover-inner-city-land-for-development/107658.article>
- ^{xii} Boris Johnson (2008), *Building a better London*, pp.10-13
- ^{xiii} In the following answers to questions the Mayor has failed to indicate any particular policy or initiative which will do more than ensure that these models are "considered":
<http://www.london.gov.uk/mqt/public/question.do?id=29329>
<http://www.london.gov.uk/mqt/public/question.do?id=29562>
<http://www.london.gov.uk/mqt/public/question.do?id=29563>

^{xiv} Cornwall Community Land Trust Project web page,
http://www.crha.org.uk/cornwall_community_land_trust.htm

^{xv} In the following answer to a question from Jenny Jones, the Mayor confirmed that negotiations ran aground with Tower Hamlets council for the Bow Lock site:
<http://mqt.london.gov.uk/mqt/public/question.do?id=28440>

^{xvi} If communities were significantly involved, the Mayor would explain this departure from the standard methodology for appraising sites in the following answer to a question from Jenny Jones,
<http://mqt.london.gov.uk/mqt/public/question.do?id=30628>

^{xvii} See the Carnegie UK Trust web site, <http://rural.carnegieuktrust.org.uk/clts>

^{xviii} Correspondence with Alan Fox of the Cornwall Community Land Trust Project.

^{xix} Jenny Jones made the suggestion in a letter and at Mayor's Question Time on the 24th February 2010.

^{xx} Property Week (20 November 2009), *Boris's ambitious targets come home to roost*, and Regeneration and Renewal (7 April 2010), *Design standard revamp costed at £8k a home*

^{xxi} Question to the Mayor by Jenny Jones number 3889/2009,
<http://mqt.london.gov.uk/mqt/public/question.do?id=29331>