

Written evidence submitted by Rentplus-UK Ltd

About Rentplus

- 1.1 Rentplus is a privately funded provider of affordable rent to buy homes. We work in partnership with local authorities and housing associations to deliver additional affordable home ownership properties. We are helping more people on lower incomes onto the housing ladder by removing the principal barriers to home ownership.
- 1.2 Under the model, tenants move into a new home which they rent from a housing association with a long-term, secure tenancy of 5-20 years. They don't need to pay any upfront deposit, removing the main obstacle to the housing ladder for those who struggle to save. For the entire rental period they pay an affordable rent (80% of market rent, including service charges) enabling them to save more each month towards a deposit than if renting privately. The long-term tenancy gives them time to save for a deposit and to build a good credit history for a mortgage whilst living in the house they will one day own. When they are ready to buy we gift them 10% of the purchase price to add to their savings and reduce their mortgage repayments. At the point of purchase, they become full homeowners.
- 1.3 We have £2bn funding available today to invest in affordable housing and currently have 20,000 affordable homes in the pipeline.

Executive Summary

- 2.1 Our response focuses on the effect on inequality of a lack of affordable home ownership options for aspiring first-time buyers who cannot afford a deposit, how this has worsened during the pandemic, and the role that institutional investment can play in the affordable housing sector to mitigate these problems as we recover.
- 2.2 Being able to save is a pre-requisite for being able to get on the housing ladder. In 2019-20, 85% of first-time buyers funded their purchase through savings. This opens up a significant opportunity gap between those on middle to higher incomes who can afford to put some money away and those on lower incomes who can't, such as the 60% of private renters and 80% of social renters who have no savings at all.
- 2.3 This has been exacerbated by the pandemic. Whilst middle to higher-income households have generally been able to save more as outgoings decreased, many of those on lower incomes have had to dip into their savings or take on more debt, pushing any hope of saving for a deposit even further away and also generating adverse credit history.
- 2.4 To support an equal recovery from the pandemic we need to ensure that a wider range of people can achieve their home ownership ambitions, not just those on middle to higher incomes. There need to be accessible routes into ownership for those who struggle to save.

- 2.5 Treasury intervention through the form of Help to Buy has been successful in boosting the supply of new homes. However, a significant number of those who have benefitted from the Scheme are those who could have already bought anyway, so it has not necessarily helped to reduce intergenerational inequality in housing by widening access to the housing ladder.
- 2.6 The winding down of Help to Buy in 2023, with the associated reduction in housebuilding, makes it even more important that other providers can step in to deliver home ownership initiatives to support those who cannot afford to buy on the open market.
- 2.7 According to research from a coalition of leading housing groups, the Government must invest £12.8bn a year from 2021 for the next decade to end the housing crisis. The Government pledge of £20bn in capital investment in housing for 5 years leaves a shortfall of some £100bn from what is required to meet the target of 300,000 new homes a year. To deliver the amount of new affordable homes needed, additional funding must therefore come from external, private investors.
- 2.8 At present, there is a reluctance from local authorities to accept institutional investment rather than grant funding for affordable housing, despite there being no policy barriers to doing so. This means we are losing out on additional affordable housing that could be delivered at no cost to the Treasury or the taxpayer.
- 2.9 From our discussions with investors we know that there is strong and widespread interest in investing in the affordable housing sector. There are billions of pounds waiting to be unlocked if local government was more amenable to accepting institutional investment and if the Government did more to encourage local authorities to do so and break down the existing cultural barriers.
- 2.10 What would be most helpful in securing investment in the sector would be clear guidance that encourages local authorities to welcome institutional investment in their affordable housing provision and to consider innovative models that fit within planning guidance.
- 2.11 To demonstrate its support for private investment in affordable housing the Government could put aside a funding pot for delivering innovation in housing. It would use this to invest in a range of private affordable housing providers in return for an equity stake and a commercial return on investment. We argue that there is a precedent for this and that it should be extended to the affordable housing sector.
- 2.12 Securing more institutional investment in affordable housing would help to deliver the amount of new homes needed, provide confidence to the housebuilding sector as Help to Buy winds down and deliver a wider range of innovative home ownership models to help more people on lower incomes onto the housing ladder and support an equal recovery.

How does housing, and housing finance, impact on intergenerational inequality and regional imbalances?

- 3.1 The impact of the shortage of affordable housing is well documented. We want to highlight in particular the effect on inequality of a lack of affordable home ownership options for aspiring first-time buyers who cannot afford a deposit, and how this has worsened during the pandemic.
- 3.2 The ability to save is becoming an increasingly important determinant of being able to get onto the housing ladder. In 1995-96, 70% of first-time buyers funded their purchase through savings. By 2019-20, this had increased to 85%. Over the same period, the proportion of first-time buyers receiving a gift or loan from family or friends to fund their home decreased from 39% to 28%¹. In the vast majority of cases, to be able to buy a home you need to be able to save. However, according to the English Housing Survey², 60% of private renters and 80% of social renters have no savings at all. They can afford to pay rent and potentially a mortgage, but have little hope of saving for a deposit.

Coronavirus has exacerbated the savings gap

- 3.3 The ability to save is not distributed equally. According to Aviva's Family Finance Report, low-income families have just £95 in savings and investments, compared to £62,885 among high income families³.
- 3.4 This gap has been exacerbated by the pandemic. Whilst middle to higher-income households have generally been able to save more as outgoings decreased, many of those on lower incomes have had to dip into their savings or take on more debt, pushing any hope of saving for a deposit even further away. The Joseph Rowntree Foundation found that of those renters who had seen a drop in income since the start of the pandemic, 41% of private renters and 34% of social renters reported having to use their savings to pay rent⁴.
- 3.5 The Resolution Foundation⁵ found that groups which are more likely than average to have taken on more debt since the start of the coronavirus pandemic include renters and young people.
- 3.6 In November 2020, the Bank of England found that the accumulation of savings during lockdown was, unsurprisingly, greatest for high-income households whilst lower and middle-income households had built up less savings or run them down⁶.

¹ MHCLG, 2020, *English Housing Survey 2019 to 2020: headline report*, <https://www.gov.uk/government/statistics/english-housing-survey-2019-to-2020-headline-report>

² *ibid*

³ Aviva, 2017, *UK: Inequality worsens as savings gap grows 25% and homeownership levels fall for low income families*, <https://www.aviva.com/newsroom/news-releases/2017/02/uk-inequality-worsens-as-savings-gap-grows-25-and-homeownership-levels-fall-for-low-income-families-17740/>

⁴ Joseph Rowntree Foundation, 2020, *2.5 million households worried about paying rent over winter, with 700,000 already in arrears and 350,000 at risk of eviction*, <https://www.jrf.org.uk/press/25-million-households-worried-about-paying-rent-over-winter-700000-already-arrears-and-350000>

⁵ Resolution Foundation, 2020, *Return to spender*, <https://www.resolutionfoundation.org/publications/return-to-spender/>

⁶ Bank of England, 2020, *How has Covid affected household savings?*, <https://www.bankofengland.co.uk/bank-overground/2020/how-has-covid-affected-household-savings>

42% of high-income (in the top fifth of earnings) households saved more during the pandemic, compared with 22% of low-income (in the bottom two fifths of earnings) households. The reported income of households that had increased their savings was 25% higher on average than households that had decreased their savings, and their reported holdings of deposits were over two times greater.

3.7 Similarly, the Institute for Fiscal Studies found that the lowest-income fifth saw a £170 per month decline in their savings (or increase in their debt) between March to September 2020 compared with the previous year, whilst every other group saw an increase.⁷

3.8 The increase in debt amongst those on lower incomes and renters means that as well as the deposit challenge, there will be many emerging from the pandemic with an adverse credit history, which will make it harder for aspiring buyers to be accepted for a mortgage.

3.9 Prior to the pandemic, there was also a growing disparity in savings habits between regions. Londoners were putting an average of £3,962 away annually, 11% of their income, compared with £1,400 in the North East, representing 7% of income⁸.

3.10 Without being able to save for a deposit, families cannot afford to buy on the open market. They are also locked out of most government home ownership schemes, which still require upfront funds to be eligible. The average property price for first-time buyers using Help to Buy in 2020 was £284,995, meaning buyers would have needed a 10% deposit of over £28,000. Whilst the deposit required for Shared Ownership is lower, in 2019-20 the average was still over £10,000, plus legal fees and moving costs, which are usually in the thousands in total. Even the new First Homes scheme will require buyers to have saved an upfront deposit to purchase their home at a reduced value.

3.11 This all makes it very difficult for those who struggle to save to access home ownership, even though many renters could afford the monthly costs associated with home ownership. Up until the pandemic, monthly rent had been higher than mortgage repayments in all areas of the country; it is just the deposit that stands in their way.

3.12 The outcome is that the majority of first-time buyers are higher earners who can save more. As MHCLG's English Housing Survey notes⁹: "*With an average (mean) deposit of £42,433, it is not surprising that 62% of first-time buyers were in the upper two income quintiles.*"

House prices have increased during the pandemic

⁷ Institute for Fiscal Studies, 2020, *Spending and saving during the COVID-19 crisis: evidence from bank account data*, <https://ifs.org.uk/publications/15146>

⁸ Aldermore, 2019, *Growing disparity in savings habits between UK regions*, <https://www.aldermore.co.uk/about-us/newsroom/2019/12/growing-disparity-in-savings-habits-between-uk-regions/>

⁹ MHCLG, 2020, *English Housing Survey 2019 to 2020: headline report*, <https://www.gov.uk/government/statistics/english-housing-survey-2019-to-2020-headline-report>

3.13 Over the last year we have seen record house price levels which has made it even more difficult for those on lower and middle incomes to get on the housing ladder. On average, deposits increased by nearly £12,000 in the six months to December 2020¹⁰. Halifax notes that the increase has been driven in part by the Government's stamp duty holiday, the build-up of savings amongst some buyers, *"which can now be deployed to fund bigger deposits for bigger properties, potentially pushing property prices even higher"* and also the greater demand for properties with more space meaning people might be prepared to spend a higher portion of their income on housing. Halifax's Managing Director said: *"These trends, coupled with growing confidence in a more rapid recovery in economic activity if restrictions continue to be eased, are likely to support house prices for some time to come, particularly given the continued shortage of properties for sale"*¹¹.

3.14 During the pandemic the reduction by lenders of low deposit mortgages also disproportionately impacted this group. There were just five 95% loan to value mortgage products available at end of March 2021 compared with nearly 400 in March 2020. Whilst the Government has sought to address this through the 95% mortgage guarantee, a number of the main lenders are not offering this on new build properties given the premium they are often sold at. Money expert and consumer champion, Martin Lewis, has also warned buyers they would be best waiting until they can save for a higher deposit as the 95% mortgage may come with higher borrowing rates.

3.15 To support an equal recovery from the pandemic we need to ensure that a wider range of people can achieve their home ownership ambitions, not just those on higher incomes. There need to be accessible routes into ownership for those who struggle to save. This is even more important given that the savings gap has been exacerbated throughout the pandemic.

How successful have Treasury interventions in housing been? Have they led to any market distortions?

Help to Buy

4.1 Treasury intervention through the form of Help to Buy has been successful in boosting the supply of new homes. However, a significant number of those who have benefitted from the Scheme are those who could have already bought anyway, so it has not necessarily helped to reduce intergenerational inequality in housing by widening access to the housing ladder.

4.2 The Public Accounts Committee (PAC) found¹² that around three fifths of buyers who used Help to Buy did not need the Scheme's support to buy a property. Rather than the Scheme leading to an increase in the overall number of people who could access

¹⁰ Halifax, 2021, *Homebuyers race to beat stamp duty holiday deadline as house prices jump £57,000 in lockdown*, <https://www.lloydsbankinggroup.com/media/press-releases/2021/halifax/homebuyers-race-to-beat-stamp-duty-holiday-deadline-as-house-pri.html>

¹¹ Halifax, 2021, *May 2021 House Price Index*, <https://www.halifax.co.uk/assets/pdf/may-2021-house-price-index.pdf>

¹² The Public Accounts Committee, 2019, *Value of Help to Buy uncertain*, <https://committees.parliament.uk/committee/127/public-accounts-committee/news/98483/value-of-help-to-buy-uncertain/>

the housing ladder, it largely supported families to buy a bigger property than what they could otherwise afford. Around 20% of people who have used the scheme were not first-time buyers. The report noted: *“The Department has a significant amount of capital invested in the Help to Buy scheme, with the total size of the loan book on Homes England’s balance sheet now equivalent to that of a medium-sized building society. The Department acknowledges that the scheme has, however, only benefitted one section of society - those that are in a position to buy their own home in the first place.”*

- 4.3 The latest Help to Buy equity loan statistics¹³ show that the average (median) household income of families using the scheme in 2020 was £55,586. This compares to the median household income in the UK of £29,900 in the financial year April 2019 – March 2020¹⁴. Those benefitting from the Scheme have nearly double the average UK household income.
- 4.4 The Government has sought to address some of these issues through restricting the Scheme to first-time buyers only from April 2021 and introducing regional price caps. The Scheme will end in March 2023.
- 4.5 MHCLG evaluations show that Help to Buy has increased housing supply by around 14% by unlocking demand and giving developers the confidence to increase their rate of building. The Public Accounts Committee noted that some developers now sell nearly half of their properties with the support of Help to Buy. It raised concerns that the Department has not estimated the expected drop in housing supply, nor does it have a clear plan for offsetting the drop when the Scheme comes to an end.
- 4.6 The winding down of Help to Buy, with the associated reduction in housebuilding, makes it even more important that other providers can step in to deliver home ownership initiatives to support those who cannot afford to buy on the open market.

First Homes

- 4.7 The Government’s new First Homes Scheme, the first properties of which launched earlier this month, will enable local first-time buyers to buy a home with at least a 30% discount from market value. Clearly, it is too early to assess its success. However, we and others¹⁵ have raised concerns that, whilst it may make it easier for buyers to get onto the housing ladder initially by reducing the deposit needed as a result of the lower house price, those who use it may struggle to climb the ladder in the future because they will also need to sell their home at a discount. This means that the difficulty in saving for a good deposit is just deferred. This is a key difference

¹³ MHCLG, 2021, *Help to Buy (equity loan scheme): data to 31 December 2020*, <https://www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-data-to-31-december-2020>

¹⁴ ONS, 2021, *Average household income, UK: financial year 2020*, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020>

¹⁵ Mail Online, 2021, *Government First Homes plan offers HALF PRICE properties to first-time buyers - but data shows a two-bed flat would still be unaffordable for 88% of Londoners*, <https://www.dailymail.co.uk/money/mortgageshome/article-9649263/Government-Homes-plan-offers-HALF-PRICE-properties-time-buyers.html>

to Help to Buy, where buyers have access to all of the equity in their home once they have paid back their government loan.

What problems does the UK housing market have, in particular in relation to housing finance?

- 5.1 Research from a coalition of leading housing groups including the National Housing Federation, Shelter, the Campaign for Rural England and the Chartered Institute of Housing found that the Government must invest £12.8bn a year from 2021 for the next decade to end the housing crisis and meet the target of 300,000 new homes a year¹⁶. The Government has pledged £20bn in multi-year capital investment in housing, including £12bn in affordable housing over 5 years¹⁷. This leaves a shortfall of some £100bn from what the sector says is required. To deliver the amount of new affordable homes needed, additional funding must therefore come from external, private investors.
- 5.2 Whilst there are no policy barriers preventing local authorities accepting institutional investment to deliver their affordable housing provision, be it for rent or ownership, in our experience, many are reluctant to do so.
- 5.3 The challenge is inherently a cultural one. Even if council leaders are supportive of the model, there is a tendency amongst those at officer level to favour sticking to traditional delivery models, i.e. grant funding, rather than accepting institutional investment for affordable housing. This means we are losing out on additional affordable housing that could be delivered at no cost to the Treasury and will fall short on delivering the amount of new homes required.

As we recover, how do we combat inequality in housing?

- 6.1 To combat inequality in housing we need more affordable homes and a wider range of options to suit different needs. If we keep doing the same thing, those in the middle who are not a high priority for social housing but are locked out of government home ownership schemes due to being unable to save for a deposit, will remain unable to buy. This will mean that first-time buyers remain concentrated in the higher income brackets.
- 6.2 Privately funded affordable housing providers can fill the shortfall in funding needed to deliver the amount of new homes needed, provide confidence to the housebuilding sector as Help to Buy winds down and deliver a wider range of innovative, additional options to meet different needs.
- 6.3 From our discussions with investors we know that there is strong and widespread interest in investing in the affordable housing sector. There is billions of pounds waiting to be unlocked if local government was more amenable to accepting

¹⁶ National Housing Federation, 2019, *Capital grant required to meet social housing need in England 2021-2031*, <https://www.housing.org.uk/resources/capital-grant-required-to-meet-social-housing-need-in-england-2021-2031/>

¹⁷ HM Treasury, 2020, *Spending Review*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938052/SR20_Web_Accessible.pdf

institutional investment and if the Government did more to encourage local authorities to do so and break down the existing cultural barriers.

- 6.4 What would be most helpful in securing investment in the sector would be clear guidance that encourages local authorities to welcome institutional investment in their affordable housing provision and to consider innovative models. There needs to be a document to which providers can refer to confirm that there is national level support for accepting institutional investment, providing confidence to accept alternative provision outside of Government grant.
- 6.5 This would build on the expression of support from the Housing Minister for private funding in affordable housing in his recent parliamentary question [response](#), where he said that the Government are *“keen to see new players in this market, and for housing associations to explore new funding streams to support the supply of new affordable homes”*.
- 6.6 To demonstrate its support for private investment in affordable housing, the Government could put aside a funding pot for delivering innovation in housing. It would use this to invest in a range of private affordable housing providers in return for an equity stake and a commercial return on investment. The return generated could then be reinvested back into the next Affordable Homes Programme funding cycle. This would have the benefits of:
- Attracting more institutional investment funds by demonstrating that the Government supports their inclusion within the sector
 - Supporting the delivery of additional affordable homes
 - Delivering value for money for the tax payer by generating money to reinvest into housing.
- 6.7 There is a precedent for this. In 2019, Homes England confirmed £30m of equity and debt funding from Homes England through the Government’s Home Building Fund to invest in Urban Splash’s new ‘House’ development business, which will focus on the delivery of modular homes.
- 6.8 More widely, Homes England is an investor in the Housing Growth Partnership which provides equity capital directly for residential development projects.
- 6.9 Outside of housing, in April 2020 the Government announced the Future Fund which provided loans for “high-growth” British start-ups to ensure they got funding to continue operations during the pandemic. The loans automatically converted into equity stakes at the companies’ next funding round. An FOI response in February of this year revealed that £30.4 million worth of loans had been converted across 37 companies. The term of the loans is 36 months at the end of which the government can choose to be repaid or allow the loan to be converted into a stake if that hasn’t already happened.

- 6.10 The above demonstrate that there is precedent for Government investment in private companies and we are calling for this to be extended to the affordable housing sector to boost delivery and support and equal recovery from the pandemic.

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