Executive Summary

Boosting the supply of affordable rented housing: learning from other countries

In the UK, we have a housing supply crisis. We are not building sufficient homes despite a raft of initiatives. Estimates suggest that in England, between 2011 and 2031, 240,000-245,000 units per year are needed, 80,000+ of which should be affordable homes. We are currently building approximately 100,000 units per year of which between 30,000 and 40,000 are affordable. There is also evidence of significant house building shortfalls in the other parts of the UK.

So why are we failing when other countries are investing more in housing? It's not a lack of spend. Large and increasing amounts of money are being spent on housing benefits yet less public support is going into investment in new and improved housing. In 2010/11, government help with housing costs amounted to £20 billion in Great Britain with over £12 billion for tenants in the social rented sector. This compares with capital subsidies of just over £2.5 billion. We estimate that supply side support for the rental sector in 2010/11 was 75% of that in 1990/91. In comparison, demand side support through housing benefits was over four times that in 1990/91.

House building and housing investment is low in the UK compared with other advanced economies. This has been the case for several decades. A new approach is needed which increases housing production and ensures the availability of good quality affordable housing that is allocated to those who cannot afford market rents or home ownership.

A new approach with more support for extra supply is likely to mean less, not more, will need to be spent on housing benefits. More supply side support may both cost less in terms of public expenditure and amount to a more efficient use of resources.

This research shows that an approach used successfully in several other countries to achieve these objectives relies on selective supply side support. Tax breaks for all types of suppliers and investors are used elsewhere to boost the provision of affordable rented housing. They come with incentives to supply good quality accommodation for those in housing need. Such an approach is radically different from what we currently do in the UK. Applied here it would provide a fresh innovative approach to supporting affordable rented housing supply and could deliver a significant increase in new housing starts without a significant increase in direct public expenditure.

Tax breaks in other countries incentivise investors in housing supplied by all sorts of developers and landlords including market-orientated, not-for-profit and charitable organisations. No direct public expenditure is involved and the tax concessions are only realised if additional good quality housing with sub-market rents is delivered to the households that are targeted. These are households whose incomes fall below locally prescribed limits. The measures incentivise an increased quantity of good quality housing which is accessible and affordable to low income households.

In France and the USA in particular there is hard evidence of additional units of housing delivered as a result of time limited tax incentives. The UK can learn from these initiatives. Policy makers need to look at the evidence and decide why such tax based incentives should not be used to promote affordable housing supply in the UK. If there are barriers, are they structural; ideological; regulatory; or fiscal, and is there the desire and the ability to overcome these barriers?

We are seeking views on the desirability and the practicality of using tax based investment incentives to boost the supply of affordable rented housing in the UK.