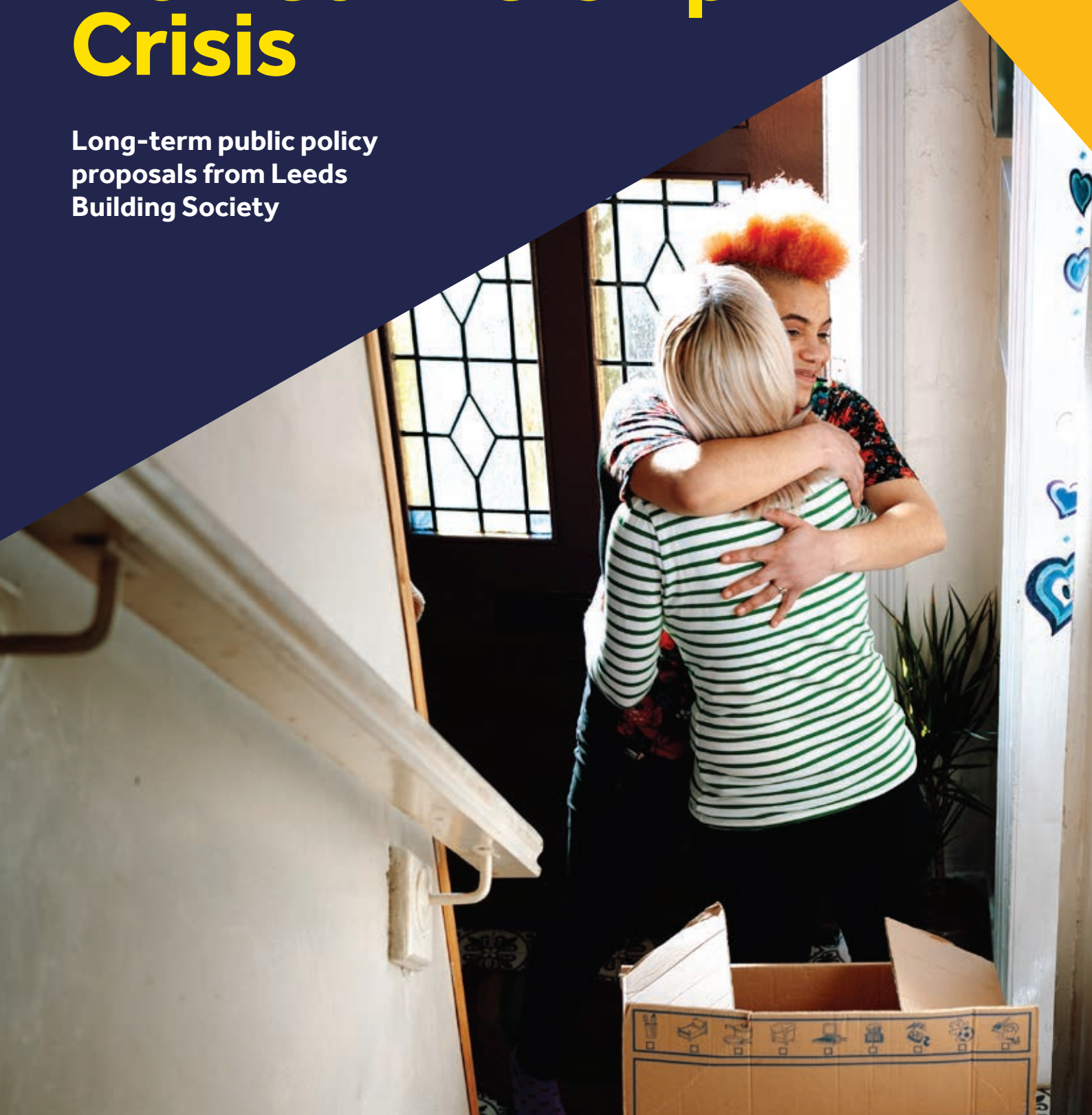




Leeds Building Society

Tackling the UK's Homeownership Crisis

Long-term public policy proposals from Leeds Building Society



Chief Executive's Foreword



Putting homeownership within reach of more people generation after generation

Richard Fearon,
Leeds Building Society
Chief Executive

Here at Leeds Building Society we've been helping people across the UK save money and have the home they want for almost 150 years.

We believe that to make our country prosperous and help grow our economy, everybody should have access to housing that is decent and affordable.

A house is more than just the roof over our head. Secure housing drives positive outcomes in health, education and social mobility.

Homeowners are less likely to live in overcrowded or damp conditions, they move home less often and are more likely to feel part of their community. Not only is homeownership good for families, it's good for the economy and central to making our country fairer.

Sadly, for too many people the dream of owning their own home remains unfulfilled and for many others the security of a safe and decent home to rent at an affordable price is despairingly remote.

The urgency of the problem has never been more acute.

Housing is at its least affordable point since records began. According to ONS data, the average home currently costs 9.1 times the average local wage compared to 3.5 times the average in 1997¹.

In the UK, 87% of people say they would prefer to buy their own home, but young people today are now less likely to own than ever before.

With rising mortgage rates and the cost of living crisis becoming more severe, we can no longer afford to treat the symptoms and not the cause of our country's housing crisis: making it easier for borrowers to borrow more, and for longer, is not the solution.

¹ <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2021#:~:text=In%20England%20in%202021%2C%20full,their%20workplace%2Dbased%20annual%20earnings.>

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The problem is clear: a crippling lack of homes to meet demand fuels rising house prices, drives ever higher deposits and makes repayments less affordable for first-time buyers.

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Instead, our country needs to develop a long-term plan to provide stability in the housing market by delivering more homes, supporting first-time buyers to save for their deposit and extending affordable routes into homeownership.

That's why at Leeds Building Society we've created 'Tackling the UK's Homeownership Crisis', a clear set of public policy proposals that we believe should guide both the Government and the housing industry in their support of first-time buyers.

We're proud to say 1 in 3 new loans at Leeds Building Society helps a first-time buyer take their first step onto the housing ladder and in 2022 we took the bold decision to be the first lender to end mortgages for second homes.

Our purpose at Leeds Building Society is to put homeownership within reach of more people, generation after generation.

That can become a national mission if we plan for the long-term and build stability into our housing market.



Our long-term public policy proposals

The problems affecting homeownership are deep-rooted and wide-ranging but building enough homes to meet demand is the right place to start.

Over 15 years, it's estimated the UK will require 5 million new homes². That's 340,000 a year – a number greater than the Government's 300,000 target and not achieved since 1971³. In fact, the average number of homes delivered over the past ten years has been less than half of that.

It will take all parts of the market to deliver this level of housebuilding, from private developers to housing associations and local government.

Fixing the homeownership crisis is challenging and often controversial but there are common barriers facing each part of the housing market which need addressing.

² <https://pure.hw.ac.uk/ws/portalfiles/portal/24741931/HousingSupplyMay2019.pdf>

³ <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ukhousebuildingpermanentdwellingsstartedandcompleted>

These seven proposals are designed to find achievable improvements to the supply of homes and overcome demand-side barriers in a cost-effective way.

- 1 Build more homes
- 2 Tackle the skills gap in construction
- 3 Maximise the potential in existing properties
- 4 Build sustainability into our housing market
- 5 Increase routes to homeownership
- 6 Help people save for a deposit
- 7 Provide meaningful support for borrowers

Fixing the system is not impossible, but it will take strong political leadership to listen to expertise, challenge the status quo and deliver the change required.



1

Build more homes

Our country can only achieve its ambition of delivering over 300,000 homes a year through clear and consistent leadership from the top.

⁴ <https://www.telegraph.co.uk/business/2022/10/22/end-house-building-targets-will-deal-17bn-blow-economy-obr-warned/>

⁵ <https://lichfields.uk/content/insights/banking-on-brownfield#downloadcollapse>

Nationally set government targets for housebuilding exist for a reason. The impact of pledging their removal has already had a direct impact on housebuilding as some local authorities slow development in their areas. It's estimated that scrapping them could have led to 100,000 fewer homes a year and deprived the economy of £17 billion in housebuilding and supply-chain output⁴. We must keep these targets, to provide consistency and stability, and catalyse the sector.

But housebuilding targets are not a silver bullet, as evidenced over recent years.

The UK planning system is not fit for purpose – it's complex, underfunded and understaffed. Years of partial, stop-start reform and budget cuts have slowed the process which must now be brought back up to a sensible speed. That starts by recruiting and training enough new staff to support the planning process in local government.

The availability and cost of land is one of the most significant long-term barriers to building more homes, particularly at affordable prices. While brownfield sites have a key role to play in the provision of new development, we have to acknowledge the cost and complexity of getting this land ready for building, not to mention its finite availability. According to Lichfields, brownfield can only deliver around 1.4 million new homes⁵. Clearly this is not in itself a practical long-term approach.

We support calls to reform the 1961 Land Compensation Act and end 'hope value', an old law that inflates the cost of land by making councils pay more to landowners based on what it could be worth after planning permission is granted. The rule pushes up the cost of housing and makes affordable homes less viable.

Not only do we need to reform land compensation laws, we need to ensure that any change to land value rules facilitate more affordable homes. Section 106 agreements – which a developer pays towards local infrastructure as part of the planning process – are by no means perfect, but they remain the biggest funding source for affordable housing in the country. We need a clear commitment that the purpose of reforming Section 106 is to deliver more affordable options.



2

Tackle the skills gap in construction

It's estimated that building over 300,000 homes a year would generate £14.2 billion in economic output⁶. The benefit to the country is clear and yet a shortage of skills at technical, supervisory and managerial levels is holding construction back.

Recent research by the Construction Industry Trading Board shows that the industry will need 266,000 new workers over the next 5 years to meet demand⁷. New and growing skills needs such as energy efficient construction and digital ways of working are key challenges for the sector.

We need the government to work with the construction industry to invest for the long-term in education and skills training, as well as supporting small and medium sized housebuilders who already provide over 70% of apprenticeships.

6 https://www.hbf.co.uk/documents/7876/The_Economic_Footprint_of_UK_House_Building_July_2018LR.pdf

7 <https://www.citb.co.uk/media/2nfpuwdc/csn-uk-full-report-final.pdf>

8 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000040/EHS_19-20_Home_ownership_report.pdf

3

Maximise the potential of existing properties

Fixing the homeownership crisis is not just about building more homes, it's also about ensuring existing properties are properly used.

The number of empty homes across the country stands at over 650,000. A plan to repurpose and retrofit these properties would unlock additional supply at lower cost, with the average price of work to bring these properties back into circulation estimated to be £20,000 per home.

Meanwhile, the country faces a challenge to address the occupation levels of our existing housing stock. Over half of all owned properties are under-occupied while many renters face increasingly overcrowded conditions⁸. Empty nesters are disincentivised from down-sizing, while stamp duty is a major barrier for households wishing to move up the ladder. The net result is a gummed-up housing market with a lack of typical first-time buyer homes available to buy.

We need to build the right homes to address demand. Developing a proper understanding of 'local need' can help all parts of the market to deliver housing that is both right for first-time buyers and those seeking suitable accommodation for later life, freeing up existing properties as a result.

4

Build sustainability into our housing market

Building new sustainable homes is central to achieving Net Zero and ensuring homes are fit for future generations to live in, but 80% of the buildings that will exist in 2050 have already been built. The UK has the oldest and least energy efficient homes in Europe contributing 16% of the UK's carbon emissions⁹.

A bold and coherent plan to invest in retrofitting these homes would make sure they remain fit for the future and is crucial to avoiding longer-term housing pressures. Furthermore, action now would provide real help to homeowners struggling with the rising cost of energy bills and make a significant contribution to economic growth in the UK.

Improved energy efficiency can lead to better mortgage rates while savings on energy bills can improve affordability calculations. Failing to get to grips with the scale of the retrofit challenge on the other hand, could have lasting implications for vulnerable homeowners living in poorer conditions.



If the 13.8 million homes currently with an EPC rating of D or lower were brought up to the same efficiency standards as the average new build ... there would be a collective saving of £28 billion a year, and carbon emissions would be reduced by over 31 million tonnes.¹⁰

House Builders Federation
Energy Report, October 2022



We call on the Government to make the retrofit of housing a national public priority, collaborating with all stakeholders in the housing sector on a large-scale consumer education and communication campaign.

The Government should bring forward meaningful, long-term public funding solutions, tax incentives and support for the most vulnerable property owners.

⁹ 2020 UK final greenhouse gas emissions statistics: one page summary (publishing.service.gov.uk)

¹⁰ https://www.hbf.co.uk/documents/12053/HBF_Energy_report_-_Watt_a_save_-_Oct_2022.pdf

5

Increase routes to homeownership

Of the 340,000 homes we need each year, it's estimated that 145,000 of these should be affordable by local standards. A healthy housing mix which includes affordable options to buy and rent is critical to supporting more people into homeownership.

Here at Leeds Building Society, we're proud to be Britain's largest lender on Shared Ownership homes.

Shared Ownership remains the most fundamental means of reducing deposits for renters who want to become homeowners but do not have the means for traditional full ownership. Shared owners are younger and more likely to be sole occupants, giving them the opportunity to grow their equity over time.



With private rents rocketing and the cost of living eating into people's ability to save for a deposit, it's clear that if we can help people onto the housing ladder through Shared Ownership they can invest in their futures sooner and live in better quality homes.

Shared Ownership is a tried and tested tenure that has existed for over 40 years. It is also significantly cheaper for government to deliver through lower grant rates, delivering greater supply of new homes. Yet despite its benefits Shared Ownership makes up only 1% of housing in the UK¹¹.

At this time of increased pressure on household budgets we need to protect and increase the development of more affordable homes.

¹¹ <https://researchbriefings.files.parliament.uk/documents/CBP-8828/CBP-8828.pdf>

6

Help people save for a deposit

The deposit hurdle is higher than ever with housing at its most unaffordable since records began.

¹² <https://www.rightmove.co.uk/news/content/uploads/2022/10/Rightmove-HPI-17th-October-2022-Final.pdf>

For the average first-time buyer, a 10% deposit is now around £22,500¹² – that's 57% higher than 10 years ago. Despite this, wages have not kept pace and the cost of living is hitting people's ability to save.

Homeownership should not be the preserve of those with access to the bank of Mum and Dad or waiting for an inheritance windfall. Central to improving social mobility must be an accessible and generous incentive for those who want to save but need support to reach ever higher deposit requirements.

The Government's Lifetime ISA is one way to support saving, but not enough people know about the scheme and there are few products available due to its complexity and concerns in the financial sector about its current structure. It's clear that the potential has yet to be recognised.

The Government should work with building societies and banks to repackage the Lifetime ISA scheme so it has the confidence of the full market. It should uprate the limit on house purchases in line with the increase in house prices (HPI), separate homebuyer savings from pension savings and reduce the 25% penalty for early withdrawals to 20%, as it did during the pandemic.



7

Provide meaningful support for borrowers

In June 2022, the Government announced a review into the mortgage market to reverse the decline in homeownership. As we've made clear here, we believe that the key factors that will help put homeownership within reach of more people link mainly to the supply of housing.

Previous efforts to support demand through temporary tax breaks and by helping people to borrow more money over longer periods of time have had the unintended consequence of both inflating house prices and exacerbating the root cause of the crisis longer-term.

With that said, the end of the Help to Buy scheme and the current economic climate mean there is an immediate need to ensure today's would-be first-time buyers are not excluded from homeownership as we seek longer-term solutions.

First and foremost, people need stability and security in order to save and buy the home they want. We need to address the recent trend of private landlords exiting the buy-to-let market and the impact this has on private renters facing increased competition and higher costs. If a landlord decides to sell

their property, we believe the Government should support tenants to have first refusal on the purchase of the property. Alongside the Government's intent to support first-time buyers by making their rent payments count towards their credit history, an option for tenants to receive support for shared ownership or equity on the existing property, could provide stability when facing eviction.

Alongside support for first-time buyers, we need to ensure existing homeowners have adequate protection in the face of rising interest rates and possible recession. Support for Mortgage Interest (SMI) provided a lifeline to many following the financial crisis over ten years ago, but unnecessary reforms have put this support out of reach of many homeowners. For those who fall on hard times we must support them and their families to remain in their homes by widening the eligibility and reducing the point at which SMI can be claimed, from 39 weeks to its previous 13 week waiting period during past recessions.

These recommendations, though long-term in prospect, are designed to help people in the UK withstand the economic uncertainty facing the country and start to turn the tide of declining homeownership.

By baking in stability and consistency to our housebuilding approach, backing savers with meaningful support, increasing affordable routes to buying a home and protecting existing borrowers, we can put homeownership within reach of more people, generation after generation.

About Leeds Building Society

Leeds Building Society is the UK's fifth largest building society. Set up in 1875, we're a mutual, which means we're owned by our 815,000 members across the UK, and our decisions are always made in their best interests.

Our purpose

For almost 150 years we've been helping our members to save money and to buy their own home. This is still at the heart of our purpose – to put home ownership within reach of more people, generation after generation.

Helping our members save and own a home

Led by Chief Executive Officer Richard Fearon, the Society has an innovative and award-winning range of savings accounts and mortgages. At the half-year point of 2022 we held £16.4 billion in savings balances, and had lent £19.5 billion to our members to either get on or move up the property ladder.

As well as offering mainstream residential mortgages, we're the leading provider of Shared Ownership mortgages – winning the What Mortgage Best Shared Ownership Mortgage Lender award seven years running (2016-2022).

With a network of more than 50 branches across the UK and a busy contact centre, we focus on providing members with helpful, friendly service.

A great place to work

In February 2022 we received a 3 Star Best Companies accreditation, recognising the 'world class' levels of engagement from nearly 1,500 colleagues across the UK.

We pride ourselves on looking after the environment and the communities we serve. Whether it's our EPC 'A' rated sustainable head office in Leeds, or our charity partnership to raise £500,000 for Dementia UK by 2024, the Society is committed to reducing carbon emissions and doing the right thing for the world around us.

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