

More Homes and Better Places

Solutions to address the
scale of housing need



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Consultation at St George's House, Windsor Castle
28th – 30th June 2011

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Foreword

The supply of new homes is intricately linked to every aspect of housing policy and to many of the economic and social issues faced by the UK. In 2009, BSHF conducted a review of the UK housing system called *The Future of Housing*. One of the key areas for attention identified was broadening the range of housing providers to increase housing supply, reduce house price volatility and increase choice. A year later, analysis of support with housing costs, particularly Housing Benefit, highlighted the clear links between increasing costs and the undersupply of new homes.

Much has been written about the need to increase housing supply, including major reviews by Kate Barker and John Callcutt. However, the financial crisis of 2007/08 saw housebuilding completions drop to their lowest level since the Second World War. At the same time the Coalition Government is implementing significant policy changes that will affect housing supply.

BSHF considers now to be an opportune moment to look at housing supply. As an independent housing research charity, BSHF co-ordinated a Consultation on the subject at St George's House, Windsor Castle. In June 2011, experts from a broad range of backgrounds, including academia, central government, trade bodies, housebuilders, housing associations and the media, joined BSHF at Windsor Castle. Over three days, these participants engaged in a detailed and wide-ranging discussion of this issue, which sought to challenge simplistic thinking by creating space for 'high-quality disagreement'. This Consultation sought to move the debate forward, to highlight new ideas and challenge some of the current assumptions, and ultimately to provide a high-level strategic approach to tackling the problem.

This report outlines the findings of the Consultation and has five main sections:

- Why do we need to increase supply?
- Why is there undersupply?
- How is the government responding?
- What more needs to be done?
- Strategic objectives for increasing supply

Executive summary

The UK's historic and growing undersupply of housing has a substantial impact on the country: it affects individual households, who struggle to find housing that fits their needs at a price they can afford; it affects the wider economy, creating a drag on growth and hindering labour mobility; and it affects society, worsening inequality and amplifying the challenges of demographic change.

This undersupply of housing is a longstanding problem, which has been exacerbated by the financial crisis of 2007/08. The structural problems – such as those related to land and planning, opposition to development, and the operation of the construction industry – have been compounded by increased restrictions on finance and mortgage availability.

The current government, like the last, is publicly committed to a vision for significantly increased housing supply, and is implementing a variety of policies across different aspects of housing supply. However, critics suggest that these changes are insufficient to deal with the scale of the problem. Significant change is necessary if the country is to get the housing it needs. With the recommendations presented in this report, it is also possible.

The government needs to ensure the good intentions of the vision for increased supply feed through to workable, detailed policies that ultimately deliver the homes the country needs and places that are better to live in. Like many elements of the housing problem, the solutions are often local in nature, or need to be flexible to respond to local situations. There is not one national housing crisis, but many local housing crises, affecting individual villages, neighbourhoods, towns and cities in different ways. This does not, however, lessen the need for strategic larger-than-local responses to help address these crises.

At present, however, there is an absence of clearly articulated strategic objectives, to provide a coherent framework within which individual policies can be developed, to contribute to the overall vision of greater supply. The following strategic objectives would work together to overcome many of the substantial barriers to delivering sufficient housing. Under each strategic objective further recommendations have been made for changes that could increase supply.

- 1. Build new places.** Local authorities should take a leading role in assembling land and parcelling it out to a range of suppliers, to increase competition amongst firms and between different models of development.

Developing new places will often be an appropriate way of helping to meet the housing needs in an area, and local authorities' long-term interest in their locality, combined with their practical functions, makes them a key part of this process. The specific approach will vary from very small developments to sustainable extensions or new settlements depending on the local context. Whilst this objective naturally relies on local authorities displaying leadership, there is also a substantial role for central government to provide support.

- 2. Enhance delivery of land.** Those who own or control land that is suitable for housing need to be encouraged to bring it forward for prompt development at values that will secure appropriate quality. Government policies, regulations and taxation structures create certain patterns of incentives, which may or may not support the prompt development of land. These rules and their consequent incentives should be aligned to ensure that they provide the maximum possible incentive for development.

It is essential to ensure that landowners are encouraged to release land holdings, that local authorities provide a suitable supply of land with planning permission, and that, once it has permission, incentives act to encourage its prompt building out.

- 3. Ensure that an appropriate range of finance is available to support development.** Following the global financial crisis, there has been a fundamental change to the financing of housing supply and purchase, in addition to short-term credit constraints. Government and the housing sector need to ensure that these changes are adapted to, so that housing supply is not inhibited, and that funding is available for the infrastructure needed to boost growth, and cope with climate change.

In order to increase housing supply there needs to be a sufficient quantity of development finance available, which should ideally be diversified so as to be less sensitive to shocks in one part of the system. There should also be sufficient mortgage finance available so that people are able to purchase the private sector housing. An important balance exists to ensure that finance is made available appropriately: reckless mortgage lending is not in the long-term interest of the borrower, the lender, or society.

- 4. Maximise the use of the existing building stock.** The existing stock of buildings, including empty homes and some commercial properties, represents a potential source of additional housing. Where possible this should be brought into use to help to meet housing needs.

The nation's empty properties represent an underused resource in increasing housing supply. Whilst they can be vacant for any number of complex reasons, making it important to be realistic about their potential contribution, they can be brought into use through a variety of mechanisms, including community-based models.

Introduction

The UK's housing supply problem

Over several decades the UK's housing system has exhibited a growing number of significant problems. On average people are now paying more to live in homes that are often more crowded.¹ Many people have less choice about where they live, creating longer journeys to work and separation from friends and family.² The use of housing wealth as a way of saving for retirement is becoming increasingly problematic.³

As well as issues that are directly linked to the nation's housing supply problems, the impacts are felt more widely, due to the inter-relation between housing and the big issues facing society and the economy.

Housing is the unspoken problem in many of the big issues we face as a **society**:

- It has been described as the **wobbly pillar of the welfare state**.⁴ Due to the huge variation in housing costs around the country, it requires special treatment in our benefits system. Unlike other elements of the benefits system such as Jobseekers' Allowance, which can be paid at a flat rate across the country, rental support is either provided by subsidising the capital cost of a home and making it available at a low rent level, or through Housing Benefit payments that reflect the widely varying rental costs in the private sector.
- The response of housing to an **ageing population** will be vital for ensuring older people can live in dignity and enjoy a decent quality of life. The housing stock will need to meet changing needs, which will require attention to physical differences, but also, for example, to social aspects such as ensuring that high quality accommodation is available in the places that older people want to live. At a societal level, the structure of our housing system interacts significantly with the pension system, as those reaching retirement without substantial housing assets will ultimately need a source of revenue to cover their housing costs for the rest of their lives.⁵
- It is at the heart of **inequality in wealth and social mobility**. A better housing system is a key part of creating a fairer, healthier, more educated society.

Housing is also a misfiring cylinder in the UK **economy**:

- It is a **drag on economic growth** and hinders improvements in our standard of living. The volatility of the housing market and housebuilding has a negative impact on economic growth.⁶
- It **blocks labour mobility and investment**. High house prices can make it difficult to move to find work and act as a barrier to job creation. Rising house prices 'crowd out' productive capital from the rest of the economy.⁷
- It is a **cause of unemployment**. Job losses in the construction industry may account for up to half of all job losses during the credit crunch.⁸
- It leaves the nation **exposed to changes in the global economy**. House price booms make the economy more vulnerable to external shocks. The credit crunch was in part linked to problems in the UK housing system.
- The amount of national **wealth and debt tied up in the housing market**, during the most recent housing boom, has been described by one commentator as "the greatest misallocation of ... resources imaginable."⁹

The supply of sufficient homes (in terms of quantity, quality, and location) is a key issue in relation to these problems. However, even prior to the recession the UK's housing supply system was not providing sufficient homes. The highest level of housebuilding in the last two decades was 219,000 completions in 2006/07, short of the 235,000 new households formed that year.¹⁰ Since the recession the situation has got much worse. In 2010 the UK population increased by 470,000 people; in the same year 147,000 dwellings were completed.¹¹ Although comparing aggregate figures for population and dwelling increases is not a perfect measure (e.g. it does not reflect the wide geographic variations in housing need and demand, or the supply of empty properties being returned to use), it is clear that the housing system is not delivering the homes the nation needs. Even if housing supply returns to pre-recession levels the problems will continue to grow; if it fails to reach those levels, the shortages will be even more acute.

In addition to the insufficient quantity of supply, there is also a problem of quality: homes in the UK are small in comparison with other nations, and average sizes are getting smaller.¹² In terms of environmental quality, almost half of homes have the poorest Energy Efficiency Ratings of E, F, or G and only around one per cent have the top A or B ratings.¹³ Although the situation has improved over recent years, in 2009 (the most recent year for which data are available) some 20 per cent of households lived in homes assessed as having "substantial disrepair", eight per cent of dwellings had damp problems and 12 per cent were

assessed to have serious hazards relating to falls.¹⁴ Against the Commission for Architecture and the Built Environment's Building for Life standard, 18 per cent of developments of new homes in England were rated good or very good, and 29 per cent were rated as poor.¹⁵

The impact of these problems is all the more important because "Homes are the anchor points of lives, not mere boxes for living in".¹⁶ The quality of our built environment, the quantity of housing available, and its distribution have real impacts on people's lives. Addressing the undersupply of housing will help to address these problems but will not, on its own, resolve them. However, without increased supply most of the problems are likely to worsen.

What happens if housing supply does not increase?

Whilst it is impossible to predict precisely the impact of different levels and types of housing supply, some likely outcomes of continued undersupply can be drawn from existing trends and known relationships. It is already clear, for example, that housing markets around the country behave very differently. Many high-price areas enjoy low unemployment, making them attractive to those seeking work. Continued undersupply, leading to further house price inflation in these areas, might increase barriers to labour mobility, as those seeking relatively low-paid work might be unable to move to these areas. These problems are likely to be exacerbated by welfare reforms that seek to limit access to expensive housing by those in receipt of state support.

A combination of further house price inflation, arising from undersupply, and suitable properties not being built, could act to increase constraints on would-be first-time buyers. This would be likely to increase demands on the private rented sector, and may push up rents. For aspiring buyers, this would increase the difficulty of saving for a deposit, whilst for those requiring support to afford rents in the private sector it could lead to an increase in the state's housing benefit expenditure. If households were spending more of their income on rent, it is likely that, consumer spending would be suppressed, with resultant impacts on the economy.

If housing in general continues to get more expensive relative to incomes, some households will have to occupy cheaper homes that are not fully suitable for their needs, which would tend to result in more people living in overcrowded and poor quality accommodation. These conditions have wide-ranging impacts on households' lives, including their wellbeing, health and children's education.¹⁷ As well as the distressing effects on individual households, this could lead to increasing pressure on the NHS, social services and police. This pressure on public services is likely to require expensive capital investment to resolve.

If access to market housing becomes more constrained or expensive it is likely that pressures would be transmitted to other parts of the system, and demand for social housing may increase. The existing residualisation of social housing (which describes the process of its changing from being a tenure that housed a relatively diverse cross-section of society towards a focus on housing only the poorest and most vulnerable) could be compounded by this. If this occurred, efforts to generate mixed communities could be hindered, the management of social housing could be made harder by antisocial behaviour and we may see an increase in pockets of severe deprivation. It has also previously been noted that pressures on social housing stock can lead to increased tensions between communities, with it having been cited as a potential contributory factor to the growth of the BNP in some areas.¹⁸

There also appears to be a risk that the longer the level of housing supply is suppressed, the harder it may be to recover. Over an extended period of reduced housing construction skills shortages build up in the industry as, for example, those laid off in the downturn find jobs in other sectors. Following the last recession, employment and training in the construction sector took ten years to recover, and there is an expectation that workers who are made redundant in a downturn are lost to the industry forever.¹⁹

Increasing problems in the housing system might be expected to lead to a national outcry, making housebuilding once more the national priority it was after the Second World War. However, this may not be the case: many housing problems go largely unnoticed in the public consciousness, and might remain so, even if they worsened.

Why are housing problems not more visible?

Problems caused by housing undersupply are largely unseen. They receive sporadic attention in the media and are not a school-gate conversation topic. Much of the impact of these problems is experienced literally behind closed doors. Education and healthcare are accessed in shared communal spaces; police visibly patrol; and buses pass up and down our streets. Housing is different. Our homes are private spaces for those close to us. Few people may enter, particularly if we perceive them to be inadequate or not matching the standards that we expect. Housing as a broad topic rarely tops the list of public concerns²⁰ and yet individual housing problems fill the mailbags of MPs from across the country.²¹

The worst housing problems affect only some parts of society. Much of the population is well housed and benefits from the status quo. They may be unaware of the significant harm the system is doing to others, or unwilling to give up the benefits that the current system has given to them. Crucially, the

beneficiaries tend to be those with the greatest power and wealth, which gives them the loudest voices in housing debates. Those who are most affected by housing crises may struggle to have their say, or may not realise that their personal circumstances are part of a wider problem in society. There is no social consensus that more housing would be positive, or is a national priority.

Acknowledging and responding to the housing crisis may challenge deeply held cultural assumptions. We are a nation that views itself as a green and pleasant land, that dreams of an escape to the country and controls development with a strict planning system. Too often debate about housing is dominated by the desire to protect an imagined past rather than respond to the realities of the present or the need to deliver a better future. The UK needs a clear vision for housing in a country where global cities can coexist with market towns and a sustainable countryside. Other assumptions surround tenure, for example the framing of homeownership as the 'natural' tenure of choice.²²

The complexity of the housing undersupply problem also makes it difficult to tackle. Politicians and the media struggle to convey simple and interesting messages to the wider public about housing that move beyond simplistic discussion of house prices. In reality, there is not one national housing crisis but many local housing crises, as different areas struggle with very different economic and social challenges. There will be no simple, one-size-fits-all solution to these challenges, but rather multiple, multifaceted responses are required. Even the most ingenious and effective responses will provide few quick fixes. It will take years, maybe decades, of determined action to solve a problem that has been building for a generation.

Insufficient actions to address the scale of the problem

Whilst the problems of housing undersupply have been building for a generation, some politicians have sought to address the issue. There have been multiple reviews into aspects of housing supply in the last decade including the Barker, Callcutt, Killian Pretty and Ball Reviews. The Coalition Government has outlined a number of significant changes that are intended to increase supply. There is broad agreement across the political spectrum at central government level that increased supply is desirable, with both the existing Planning Policy Statement that was in place under the Labour government and its replacement proposed by the Coalition Government citing increasing the supply of housing as a key objective for planning policy.²³

However, it remains questionable whether the actions being proposed to meet this objective are significant and coordinated enough to deliver the vision. In particular, it appears that there is little appetite to substantially increase the

amount of funding dedicated to meeting the aspiration, with £20 billion per year spent on supporting housing demand through Housing Benefit, £16 billion of tax breaks for owner occupiers, but less than £2 billion per year spent on supporting supply.²⁴

How can the necessary homes be delivered?

An aspiration of a housing system that will deliver decent and affordable housing for the current and future generations is easy for nearly everyone to agree with. The difficulty is turning that aspiration into a reality.

It is vital that there is a vision for how things can be better. Planners, architects and housing experts often have a vision for how our current and future communities could be greatly improved. Continental examples show that housing supply can be delivered in better and quicker ways than it currently is in the UK. However, there is a need to articulate that vision to the general population so that the expectation of better communities and homes seeps into the public consciousness, reducing opposition to development.

Alongside a vision there needs to be a clear and coherent plan that will deliver progress in the right direction. The right incentives must be in place to support housebuilding and ensure that unnecessary barriers are removed. Local authorities need to have the capability and confidence to shape the communities in their local areas. Different types of supply models should be encouraged, to find new ways of delivering more and better homes in the places where they are needed, and in a way that is more responsive to demand. Sufficient social housing is needed to ensure that households who cannot access the market are able to find decent and affordable homes. We need to make sure that we are making best use of the existing homes that we have.

Section 1: Why do we need to increase supply?

Growth in demand for housing

Demand for housing in the UK has increased considerably over the last two decades. Estimates from the Organisation for Economic Co-operation and Development (OECD) suggest that until the credit crunch demand was driven by rising incomes, growth in the number of households and lower mortgage rates.²⁵

Incomes rose continuously between 1992 and 2007. During this time there was continuous growth of real household disposable incomes by between 1.1 and 4.0 per cent per annum.²⁶ Data from the ONS suggests that “between 1998 and 2009... the average growth in earnings for full-time employees was 4.2 per cent. On average, over this period the CPI increased by 1.9 per cent and the RPI by 2.8 per cent per year, meaning that earnings grew at a faster rate than inflation.”²⁷ However, it should also be noted that house prices rose significantly more than earnings over the period.²⁸

The **number of households in the UK has also grown** considerably in the last two decades from 22.9 million in 1991 to 26.0 million in 2008.²⁹ Between 2001 and 2008 an average of 218,000 households were formed each year in the UK.³⁰ This growth in households is expected to increase with an additional 272,000 new households in the UK each year until 2033 due to an ageing population, increasing numbers of single person households and migration.³¹

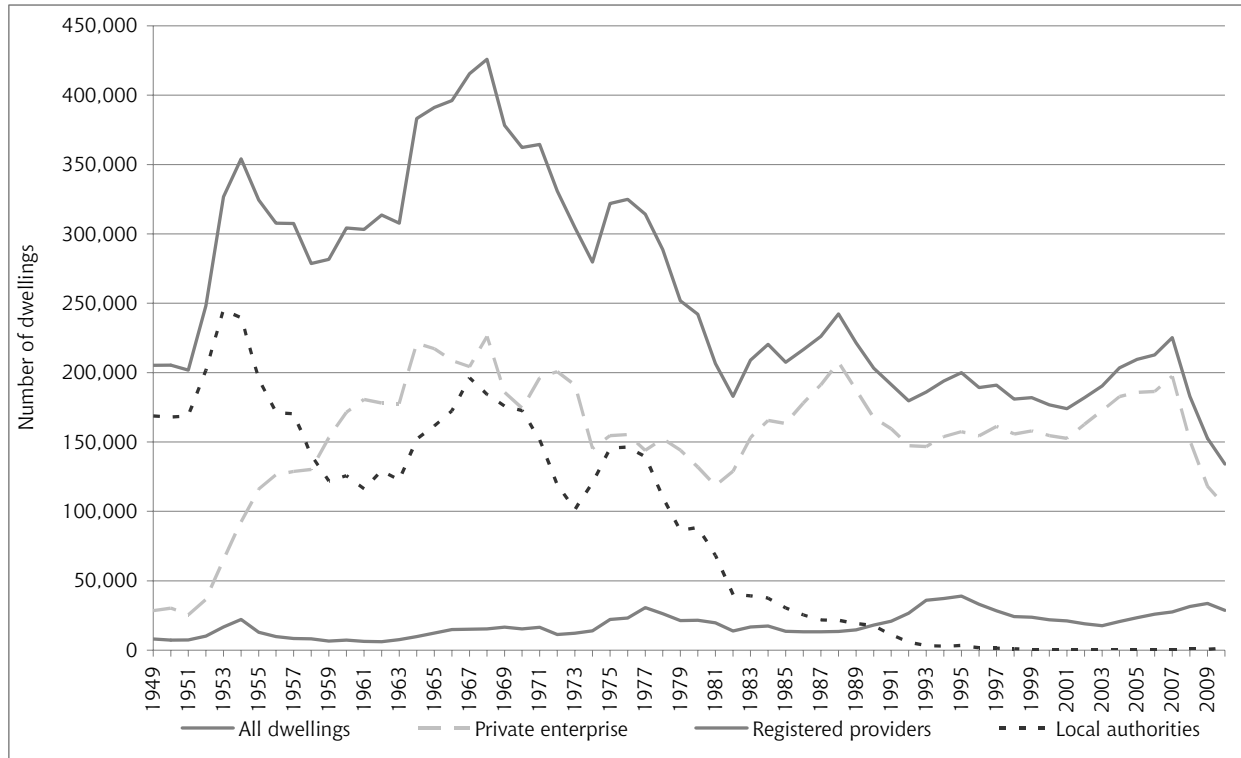
Many UK households gained **access to lower mortgage rates** in the 1990s and early 2000s due to liberalisation of the mortgage market.³² Rising incomes reduced the relative cost of mortgage repayments through much of the 1990s until rising house prices reversed this trend through the 2000s. Greater access to high loan-to-value mortgages (e.g. 100 per cent of value) maintained access to mortgage finance for many households until the credit crunch in 2007.

Housing supply has not matched demand

Housing supply has not responded to this increase in demand. UK per capita building rates are low by comparison with other advanced economies, as well as historically compared with the population level.³³ “The increase in housing stock – about 14 per cent from 1995 to 2007 – has been insufficient to offset the demand factors.”³⁴ Figure 1 indicates that between 1990 and 2009, an average

of 190,000 dwellings was completed each year in the UK. **This dropped to 134,000 completions in 2010, the lowest number since the Second World War.**

Figure 1 Permanent dwellings completed, 1949 to 2010, UK³⁵



The number of housebuilding starts increased between 2009 and 2011. In quarter one of 2011 there were almost 30,000 starts in England compared with just over 15,000 for the same quarter in 2009. (A dwelling is recorded in the statistics as started when work begins on the laying of the foundation.) However, this is still well short of the pre-recession levels of almost 50,000 starts in quarter one of 2008. Similar trends are found in housebuilding in Northern Ireland, Scotland and Wales. Housebuilding in the UK has been badly affected by the credit crunch and subsequent recession. The industry has seen falls in activity that are comparable with countries such as the USA, Spain and Ireland, which experienced housebuilding booms in the past decade.³⁶

Figure 2 Housebuilding starts, England³⁷

A government sponsored review of the impact of the recession on the housebuilding industry noted that following the crashes in the 1970s and 1990s, the industry took ten years to recover to pre-recession levels:

“construction capacity is lost; banks become reluctant to lend to developers; and those holding back land supply in the planning system become galvanized, perhaps remembering the excesses of a recent boom rather than recognizing the needs of the future and the urgency of facilitating recovery. What is more, policy takes a long time to adjust to new realities.”³⁸

The uncertain economic outlook increases the likelihood that housebuilders will be cautious about their output. The report noted that in addition to this general uncertainty “there may also be particular ways in which the housing supply process operates that heighten builders’ perceptions of risks or dampen profitability. These constraints are more important in a downturn than during a boom; simply because profitability in general is much lower then, so such factors weigh more heavily upon decisions.”³⁹ This led the report’s author to conclude that “the risk of a slow recovery in housebuilding is high.”⁴⁰

Taken together, the evidence suggests that the UK has not been building enough new homes for many years. However, this situation has become more acute since the onset of the credit crunch and levels of supply may be restricted for many

years without additional action. In order to assess what action might be required to address undersupply it is important to be clear about how many new homes are required.

How many homes do we need?

As highlighted above, overall population levels in the UK are continuing to increase, with the mid-2010 count being 62.3 million, up 470,000 (0.8 per cent) on the previous year – the most rapid increase since 1962.⁴¹ The number of households is expected to increase by 272,000 per year until 2033 which will significantly increase the pressure on limited housing supply.⁴²

In addition to housing need arising from new households, there is the backlog of constrained need and demand, where housing demand has outstripped supply over the last decade. In recent years, household formation has been lower than projected from demographic trends due primarily to economic constraints.⁴³ This takes the form of, for example, concealed households and those living in temporary accommodation. In order to address this over the period 2008-2026, the National Housing and Planning Advice Unit (NHPAU) estimated that 27,500 homes need to be built annually in addition to those required to meet newly arising need.⁴⁴ In order to also take into account the natural vacancies in stock and the growth in second homes, the NHPAU modelling suggests that 261,000 net additions to the English housing stock are required annually to address this housing need and demand.⁴⁵ However, others have suggested that the figure needs to be much higher if past shortages are to be addressed and certainly if the affordability of the existing stock is to be increased.⁴⁶ One of the most substantial studies of the effects of construction rates on affordability, which used econometric modelling to analyse different build rates, found that increases in construction have to be large to have significant effects on affordability, where affordability is measured in terms of the ratio of lower quartile house prices to incomes.⁴⁷

This broad picture needs to be considered in the light of different local contexts. In a significant number of areas, many of which are in the North of England, there is low housing demand, whereas in London there is continual pressure on housing, with the costs of private rental and home ownership increasing.⁴⁸ As well as needing to build the right number of homes in the right places, it is also important to build the right types of homes for our changing demography. There is a need to build homes that better suit the needs of our ageing population⁴⁹ and the growing number of single person households.⁵⁰

The levels of supply outlined above are focused primarily on addressing housing need. However, this is not the only way of conceptualising undersupply, as

demand and aspiration are also important issues to consider. The different calls on housing are not unrelated: in broad terms, if a relatively wealthy household consumes more housing resources than it strictly needs, for example by having a second home, it removes that home from the pool of property available for households experiencing actual housing need.

Consideration of short-term expressed demand for housing must be balanced with an understanding of the long-term patterns of housing need, since in the short term “demand is mediated by the ability to fulfil it”.⁵¹ This creates an effective demand for housing which may be different to long-term demographic trends. Effective demand is particularly dependent on house prices and mortgage lending. Long-term planning in respect of housing need is generally based on demographic projections, particularly the likely number and composition of households.

This raises the question of whether this undersupply is a problem. Does it represent local housing markets balancing different levels of housing supply and demand or is it a symptom of market failure? To consider this question fully it is worth assessing the **impact of undersupply on the economy, individuals and wider society**.

Impact on the economy

The role that housing supply and house prices play in the UK economy does not receive the attention that it deserves, as there is increasing evidence that restricted housing supply is damaging the rest of the economy.

House price increases

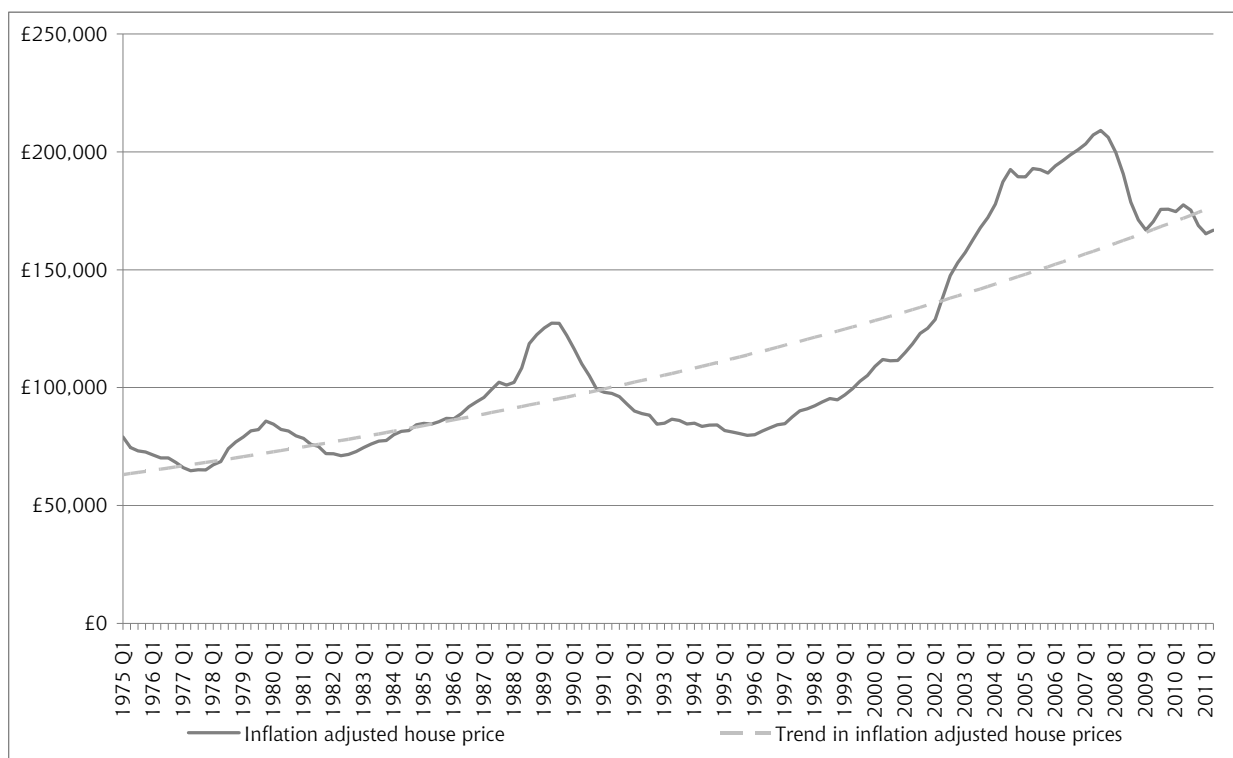
There are at least two significant ways in which house price increases can impact on the wider economy. The first mechanism is that house price increases cause a greater share of people’s wealth to be expended on their housing, lowering the amount that is available for investment in productive enterprises. Secondly, by worsening affordability, house price increases can, in some circumstances, act to restrain labour market mobility. It appears that the housing market can prolong unsustainable booms and also exacerbate recessions and downturns, although it should be acknowledged that the precise mechanisms remain the subject of debate amongst economists.⁵²

Increasing house prices in the UK are well documented. The magnitude of this growth in the last 40 years is illustrated in Figure 3. **Average UK house prices in 2010 were over four times higher than those in 1990.** Even adjusting for

inflation, house prices had more than doubled in less than 20 years. There has been significant regional and local variation in both house prices and house price increases. In 2010, average house prices in London were £385,000 which was more than double the average for the North East of England at £162,000.⁵³ Some local areas, such as central London and popular coastal areas, have seen much greater increases in house prices. In the first quarter of 2011 the median house price in Westminster was £600,000, nearly five times higher than in 1996.⁵⁴ The average house price in Middlesbrough is £96,000, which is just over twice the price in 1996.

There have also been significant variations in the responses seen to the downturn, with Northern Ireland being an extreme case, having experienced a fall in average house price estimated at up to 50 per cent.⁵⁵ This is compared with a five per cent fall in England and five per cent increase in London over the same period.⁵⁶

Figure 3 UK House Prices (adjusted for inflation), 1975 to 2011⁵⁷



There is clear evidence that **the increase in house prices over the last two decades is closely linked to a shortage of supply**, although, as noted above, studies have found that large increases in construction would be required to address affordability. In 2004, HM Treasury noted that “high house price growth and volatility, [reflects] to a significant extent the low supply response of housebuilding in the UK”.⁵⁸ It is widely agreed that housing supply in the UK is less responsive to changes in price than other developed economies.⁵⁹ Research

published by the Department for Communities and Local Government suggests that “house prices are significantly higher in areas where supply is more constrained. There is also a clear link between constrained supply and housing affordability more generally.”⁶⁰ The OECD reviewed house prices in the UK and concluded that “high house values reflect ... tight supply more than excess demand”.⁶¹

Volatility of house prices

The UK housing market is much more volatile than many other OECD members and has repeatedly experienced significant house price cycles over recent decades. There is evidence that the volatility of house prices is particularly **damaging to the UK economy**. This volatility is closely associated with restricted housing supply. “In general the tighter the underlying housing market conditions, the more likely a sudden increase in demand is to result in a rapid increase in prices, setting off another house price boom. In this way underlying supply constraints and volatility are linked.”⁶²

Housing is a vital, and underappreciated, component of macroeconomic stability.⁶³ House price booms make the economy more vulnerable to external shocks. Before the credit crunch, former member of the Bank of England Monetary Policy Committee Kate Barker had observed that weak housing supply leads to greater **risk of macroeconomic instability**.⁶⁴ This was demonstrated during the credit crunch and subsequent recession. The OECD suggests that:

“A combination of favourable economic and financial conditions and tight housing supply led to sharp increases in real house prices between the mid-1990s and end-2007, which spurred household consumption. While this boosted output growth, economic and financial weaknesses mounted, leaving the economy vulnerable to the global financial crisis.”⁶⁵

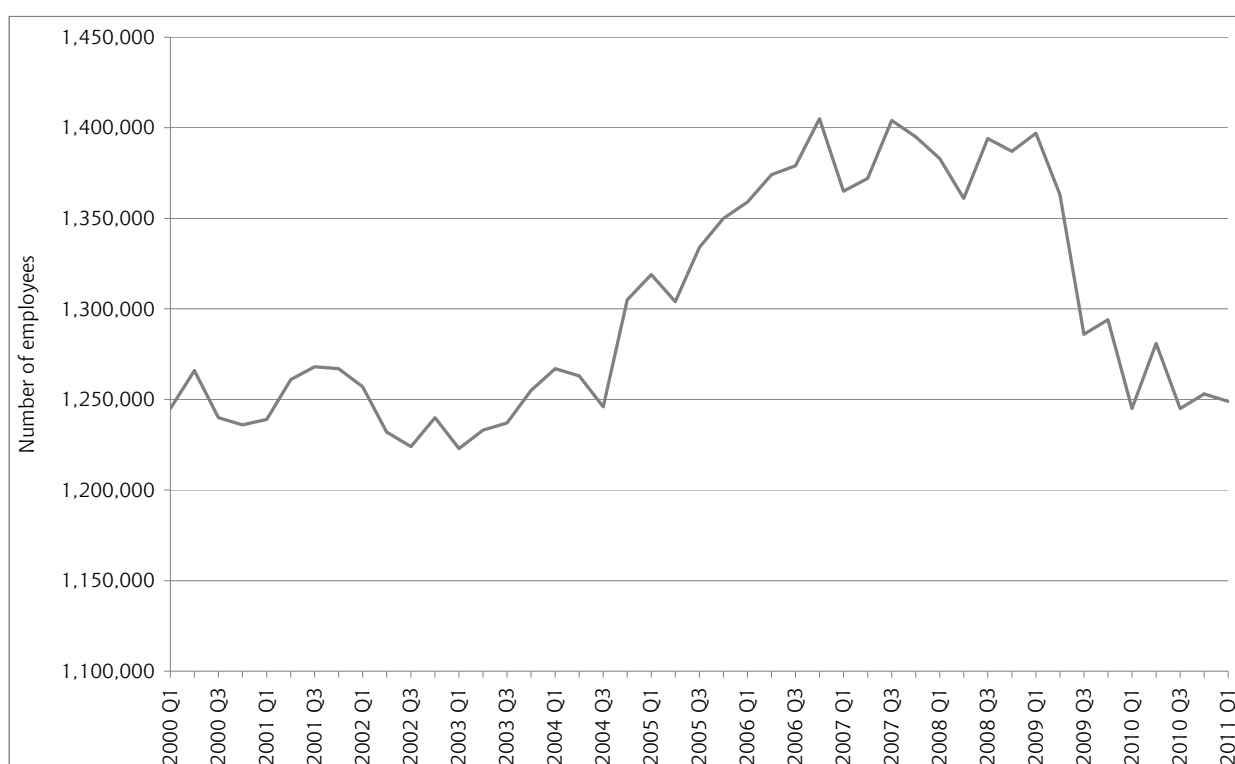
The financial crisis itself was closely linked to problems in the housing systems of many countries, particularly the USA. The sharp reduction in housing demand stifled construction in several countries, including the USA and Ireland; and the damage to financial institutions made investors and lenders strongly risk averse, reducing the supply of credit and subsequently leading to declining asset values.⁶⁶

This is a situation that is likely to persist for as long as significant amounts of national wealth and the activities of their financial systems are devoted to housing costs, and particularly the opportunity costs of financing the speculative price of land.

Housebuilding industry

Housebuilding is a significant part of the UK economy and the scale of the industry is demonstrated by sales figures from before the recession. In 2007, 197,000 new homes were built in the UK representing around £44 billion of sales.⁶⁷ This compares to £38 billion of retail sales on textiles, clothing and footwear in the same year.⁶⁸ However, by 2010 the value of private new house sales had halved, reducing turnover by £22 billion.⁶⁹ There are also close links between housing and the growth of the wider economy. Evidence from the Bank of England shows that “dwelling investment can have a large impact on GDP growth.”⁷⁰ Dwelling investment (both housebuilding and home improvement) accounts for about 4.5 per cent of GDP. However this type of investment is volatile and has made a disproportionate contribution to economic cycles since 1970. For example, the Bank of England identified a fall in dwellings investment at the start of 2008 as a key driver of the wider contraction in GDP during that year.⁷¹ It has been argued that the **undersupply of housing restricts economic growth which reduces standards of living for everyone in the UK.**⁷²

The construction industry is a significant employer in the UK. Just over 1.23 million people were employed by the sector in 2010 which represents about five per cent of the total workforce.⁷³ The size of the construction workforce follows the activity of the sector, including housebuilding (see Figure 4). Between quarter one of 2009 and the same quarter in 2010 the number of employees in the construction industry fell by 150,000. This represented an 11 per cent fall in the size of the sector in one year. Job losses in the construction industry may account for up to half of all job losses during the downturn.⁷⁴ The construction workforce was still shrinking in 2011 even though the overall workforce was beginning to grow.⁷⁵ This change in the size of the workforce could have a lasting impact on the sector. The recession of the 1990s led to a “missing generation” in the construction workforce that is still noticeable today.⁷⁶

Figure 4 Number of employees in construction industry, UK⁷⁷

There are few data on the number of people employed specifically in housebuilding, but in 2005 it was estimated to be 285,000 (21 per cent of the total construction workforce). This represented about 1.5 employees per completed dwelling in that year.⁷⁸ This means that any increase in housing supply is likely to support local labour markets. Given that the housebuilding industry operates across the UK, this has the potential to bring employment to many areas. For example, if housebuilding completions in the West Midlands return to the levels seen prior to the financial crisis it would add 8,000 jobs to the area.⁷⁹

Housing wealth and consumer spending

Property wealth represents the largest store of wealth in Great Britain. Net property wealth accounted for almost 40 per cent of wealth between 2006 and 2008.⁸⁰ Residential buildings are valued at over seven times the combined value of commercial, industrial and other buildings.⁸¹ In 2009, the value of owner occupied housing was estimated to be £3.5 trillion, which was over two and a half times GDP for that year.⁸² This represents a rapid increase since 1996 when housing wealth represented 25 per cent of wealth.⁸³ Martin Weale, a member of the Bank of England's Monetary Policy Committee, has argued that rising house prices 'crowd out' productive capital from the economy:

“Rising house prices reduce the need for people to save to finance their retirement... [They] have the effect of depressing saving which either reduces the economy’s stock of productive capital (crowding out) or results in investment being financed from abroad, with a similar effect.”⁸⁴

One of the major links between housing and the rest of the economy is through consumer spending. **Rising house prices have been linked to increased consumer spending** in the UK in recent decades. Every £1,000 increase in house prices is likely to increase consumer spending by around £70.⁸⁵ This is important when a one per cent increase in house prices adds around £35 billion to overall housing wealth and might increase consumer spending by almost £2.45 billion. However, this effect is likely to be strongly pro-cyclical, funding significant spending during economic booms and contracting rapidly during recessions; consequently it will tend to add to instability in the wider economy.

Conversely, **negative equity is linked to higher rates of savings.**⁸⁶ “A 10 per cent drop in house prices is estimated... to reduce GDP by between 0.2 and 0.85 per cent over each of the first three years of a downturn.”⁸⁷

There is also a wider link between housing costs and consumer spending. If housing costs take up a **greater proportion of income, it leaves less income for other types of spending.** The percentage of household expenditure spent on housing costs (excluding mortgage interest) in the UK has risen from 15 per cent in 1970 to 21 per cent in 2009.⁸⁸

Labour market problems

Housing supply and the associated problems of high house prices and affordability problems are also linked to wider problems in the labour market. “Lower rates of housebuilding can lead to significant regional house price differentials and regional price expectations, reducing labour mobility and constraining productivity.”⁸⁹ Key workers such as nurses, fire-fighters and some local authority staff struggle with affordability problems in some parts of the UK, particularly Southern England. A study from the University of York suggests that “the impact on recruitment and retention of key workers appears to be problematic in several locations and is particularly linked to the retention of skilled key workers once they have been in post a few years and reach the age at which they wish to settle and buy a home.”⁹⁰ Private sector companies also struggle to recruit and retain staff in high cost locations, but are perceived to have more flexibility around pay and conditions than many public sector employers.⁹¹

The undersupply of housing and high house prices is having a number of negative impacts on the UK economy. These range from relatively localised problems with labour supply to very serious increases in the vulnerability of the whole economy. “A well functioning housing market is essential for economic prosperity”.⁹² The UK housing market, particularly housing supply, is currently failing to meet that standard.

Impact on households

Undersupply of housing and high house prices have a clear impact on individual households. The current situation is beneficial for many households, particularly some owner occupiers who stand to gain from rising house prices (often depending on when they purchased their home, how much outstanding mortgage debt they have, and whether their future moves are likely to be into larger, more expensive properties, or downsizing). However, an increasing number of households experience difficulties that are related to undersupply of housing and high house prices. There is evidence that **undersupply is limiting choice for a variety of different types of households**.

Undersupply may constrain the **choice of tenure** experienced by many households. Housing tenure is linked to consumer satisfaction, stock condition, security of tenure and the ability to build up assets.⁹³ Many households, particularly younger households, now have a more restricted choice of housing tenure than previous generations. Access constraints can apply across all three of the major tenures, in different circumstances.

- For the first time in a century the number of **owner occupiers** has decreased, while simultaneously the private rented sector has grown rapidly, increasing by one million households between 2005 and 2009.⁹⁴ Analysis of this growth in private renting suggests it has largely been driven by people who aspire to owner occupation but cannot access it. Restrictions on mortgage finance, particularly increasing deposit sizes, appear to be a major barrier, particularly since the credit crunch, when the supply of high loan-to-value mortgages decreased rapidly. Previously, high purchase costs (and hence monthly repayments) were the major barrier to prospective buyers.
- Access to **social housing** is also limited with 1.8 million households on waiting lists.⁹⁵
- Over the longer term, the favourable taxation treatment given to owner occupation compared to **private renting** has also effectively acted as a form of constraint.⁹⁶ The relative costs of living the two tenures are therefore altered by this bias. As a result, for some households making marginal

decisions about which tenure to live in, the taxation system will contribute to making owner occupation more desirable. For some of these households renting might have suited their situations better, aside from the price differential introduced by the taxation system.

Affordability may also be constraining the formation of new households and leading to a growth in intergenerational households. It has been estimated that affordability could result in 1.2 million fewer households being formed than expected by 2026.⁹⁷ There is also evidence that more young adults in their twenties and thirties are living with their parents.⁹⁸ This suggests that undersupply and high house prices may be **restricting choices about when and how to start a new household**.

Undersupply may also be **constraining choice for older households**. Households that are headed by a person over 65 years old are expected to account for more than half of household growth in the next 15 years.⁹⁹ Despite the fact that older households account for much of the equity held in housing they can find that their housing options are limited. "Staying put becomes the only option because there are no attractive alternatives available within their community. These older people face a difficult choice between staying in housing that is increasingly inappropriate, but in familiar surroundings, and moving away from important social networks."¹⁰⁰ A panel of experts who analysed housing for older people concluded that this group has diverse needs but are particularly interested choice, control and reassurance. Its members are looking to balance the ability to make personalised decisions about their lives with the need to ensure that support is available if and when it is required.¹⁰¹

It has already been noted that housing supply and affordability affect labour mobility. Some areas with relatively high availability of jobs also have high housing costs. This means that individual **households may not be able to move home to improve access to work**. Choices are most restricted for those in social housing or on low incomes who may have most need to move to find employment.

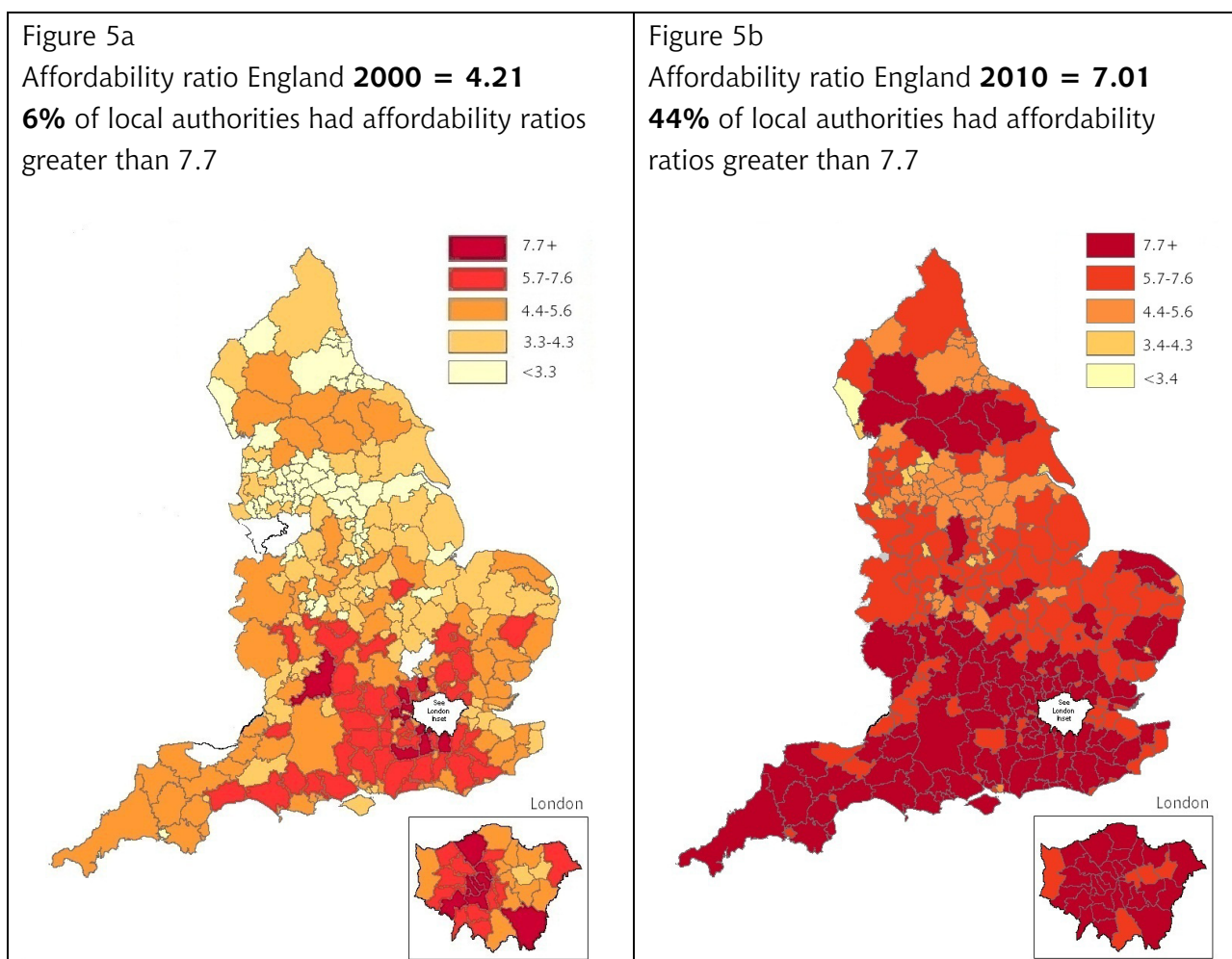
One of the most severe examples of the impact of the lack of choice occurs when **households have to live in overcrowded accommodation**. Overcrowding is most common in areas with greatest affordability problems, particularly in London.¹⁰² Overcrowding is much more common in the private rented and social housing than in owner occupation. There is evidence that overcrowding is increasing in both private renting and social housing.¹⁰³ Overcrowding is linked to a variety of problems in both adults and children but may be particularly damaging for children. There is evidence that links overcrowding to both physical

and mental health problems (such as asthma, anxiety and depression), to behavioural problems and to lower educational outcomes.¹⁰⁴

Evidence of the increased pressure on dwelling space can be seen in a recent data release by Eurostat showing the degree of overcrowding in European countries. In the UK, this has increased from 2.2 per cent in 2004 to 4.7 per cent in 2009 in the owner occupied sector. In the social rented sector, it has risen from 13.7 per cent to 17.5 per cent and the market rental percentage has stayed virtually the same at 14.2 per cent over the five years¹⁰⁵

In general, **the dramatic rise in house prices** described in an earlier section is linked to worsening affordability: within a ten-year period the proportion of local authority areas in England where the ratio of house prices to incomes exceeded 7.7 increased from six to 44 per cent (Figure 5).¹⁰⁶ Despite the financial turmoil of the last four years, house prices on average are only 11 per cent below their peak level.¹⁰⁷ The wider picture across Great Britain is similar, with house prices almost seven times higher than incomes in 2009.¹⁰⁸

Figure 5 Affordability ratios in 2000 and 2010, in England¹⁰⁹



This worsening affordability has a clear impact on households, increasing the proportion of their earnings that must be spent on housing (and hence decreasing the money available to spend on everything else).

The undersupply of housing may also contribute to households living in **lower quality homes**. The Callcutt Review noted that “within the housebuilding market as it is today, the incentives for quality are weak.”¹¹⁰

Impact on wider society

The undersupply of housing and high house prices has an impact on **wider society**: there is evidence of significant financial and social costs to different groups.

The problems of affordability and supply, outlined above, have a cumulative impact on public services. Housing supply has a negative impact on the **affordability and delivery of public services such as healthcare, education and social care**. Problems recruiting and retaining key workers can increase the cost and difficulty of delivering services. In healthcare, for example, unsuitable housing can add to public expenditure as a contributing factor to falls. The incidence of strokes and heart attack is decreasing but the number of falls continues to increase. Hip fractures associated with falls cost the NHS around £2.3 billion per year and ten per cent of all ambulance call outs relate to falls.¹¹¹

The number of people with severe housing problems such as repossession, homelessness and overcrowding is likely to increase with undersupply. Responding to the needs of people has a financial cost for a variety of public services. It has been estimated that the average cost of supporting a homeless person for one year is £26,000, based on a homeless person who is ready for work and with no additional support needs: the cost of those with complex needs (e.g. drug and alcohol dependency) are estimated to be far higher.¹¹²

The growth of the private rented sector may also place greater pressure on parts of the public sector. For example, expenditure on Housing Benefit has grown rapidly in recent years from £12.3 billion in 2003/04 to £20.0 billion in 2010/11.¹¹³ This is due to increases in both rents and the number of claimants in the private rented sector.¹¹⁴ Continued expansion of the private rented sector may further increase Housing Benefit expenditure.

Undersupply may also have a longer-term impact on the affordability of public services. The growth of homeownership and rising house prices has underpinned a move towards asset-based welfare in the UK. Under this model individual households are able to use their housing assets to support themselves, particularly

in retirement. If households own their property outright they are able to manage with lower levels of pensions.¹¹⁵ The examples of Housing Benefit and pensions highlight the fact that “if we fail to deliver enough market housing more people ... will need state support to meet their housing needs.”¹¹⁶

Undersupply also has an impact on **a range of different communities undermining their economic and social sustainability**. The Taylor Review of the countryside concluded that “villages [that are] ‘protected’ from development, face becoming increasingly exclusive communities of the retired and of wealthy commuters travelling ever longer distances to work, losing their services like schools and shops, and with local jobs either lost, or serviced by people commuting in from larger towns.”¹¹⁷

The Joseph Rowntree Foundation has argued that affordability also creates problems for the economic and social sustainability of cities. “Those in low-paid and insecure work are important to the competitiveness of our cities, including London. Low-cost housing close to labour markets helps people to take these jobs, mitigating low wages and part-time work, as well as providing valuable stability during periods of unemployment.”¹¹⁸

The impact of undersupply on specific communities highlights a wider issue in the UK. **Undersupply is leading to a polarisation of housing wealth**. This polarisation has different dimensions. Increasing house prices are leading to an intergenerational transfer of wealth. “The burden of rising house prices falls on current and future first-time buyers.”¹¹⁹ It has been argued that younger generations are unlikely to be able to build up property wealth to the same extent as the baby boomers.¹²⁰ There is also an uneven distribution of wealth between different areas. Although housing wealth in the poorest areas doubled in the decade between 1993 and 2003, it increased more than four-fold in the wealthiest areas.¹²¹ High housing costs are leading to:

“greater inequality at the lower end of the distribution of long-term living standards. This is seen in the pricing out of the housing market of people without pre-existing housing equity or family connections with such equity. This perpetuates disadvantage through the generations.”¹²²

This polarisation of housing wealth is likely to increase if wealth constraints (i.e. access to a deposit) continue to form the major barrier to owner occupation.¹²³

There is a wide range of evidence that undersupply and high house prices are having a significant negative impact on the UK economy, to individual households and to wider society. The next section of this report looks at a variety of practical reasons for the low levels of housing supply.

Section 2: Why is there undersupply?

UK per capita housebuilding rates are low by comparison with other advanced economies, as well as historically compared with the population level.¹²⁴ The result is a large and growing national housing shortage, which has significant negative economic and social impacts. This shortage has long been a government concern and a series of authoritative reviews have been commissioned to look at various aspects of the problem.¹²⁵ The influential Barker Review of 2004 addressed housing supply in the UK, with a view to delivering stability and securing future housing needs.¹²⁶ Subsequent reviews were undertaken to address some of the issues highlighted, including the Callcutt Review of house building delivery,¹²⁷ the Killian and Pretty Review into speeding up the planning process,¹²⁸ the Office of Fair Trading's study of the homebuilding market¹²⁹ and Ball's study of how the house building industry can promote recovery in housing supply.¹³⁰ A summary of the findings and key recommendations of these various reviews is set out in Appendix A.

In addition to these longer standing structural problems, the financial crisis of 2007/08, and the subsequent credit crunch and deficit reduction programme have had a major impact on demand for new homes and the strength of the construction industry, and have hence exacerbated the existing housing shortage. The dramatic reductions in the availability of mortgage finance have severely curtailed the private market.¹³¹

Simultaneously, the government has adopted a policy of austerity in response to the financial downturn. One element of this has been to reduce the amount of grant paid to social housing providers to build new homes. This policy has been accompanied by the Affordable Rent programme, which is allowing significant additional housing to be delivered at lower grant levels, typically requiring those social landlords that wish to build more homes to borrow against their existing assets for part of the development finance. If successful, this will avoid a major reduction in the amount of housing delivered by this sector, but there are ultimately limits to how much assets can be sweated, so this may not provide a long-term solution to maintaining supply.

The main policy levers available to government to influence supply are regulation, taxation/incentives and subsidies. The Coalition Government has argued that the inappropriate and inadequate use of these levers in the past is responsible for the current shortage problems.¹³² There are, however, other

factors over which governments have less control, such as the global recession and financial collapse experienced in 2008, which had a severe impact on the UK housebuilding industry with the collapse of the mortgage credit system.

Land and planning

Although there is a need to build a lot more homes, there is not a consensus about where they should be built. As John Callcutt stated unambiguously in his seminal review in 2007, “[land] is key to housing delivery.”¹³³ The low level of supply of viable land for housebuilding over many years is the major reason why we have the current housing shortage; this is interconnected with reasons arising from distortions in the functioning of the housing market and the structure and operation of the construction industry, outlined below. Availability of land for housing supply may be constrained by the physical environment, government policy and land control.

There is a common misconception that the UK is heavily developed, with little land left for new homes to be built on and the availability of suitable land for development is a major impediment to new supply. There is, in fact, no intrinsic physical scarcity of land in the UK, nor is there likely to be in the future. Ninety per cent of the land in England is green space and only one per cent is covered by domestic buildings.¹³⁴ Further information on the extent of major land uses and policy designations is shown in Figure 6.

Figure 6 Extent of major land uses and policies in UK¹³⁵

Land use	Per cent land area
Agricultural	73.9
Urban	14.4
Forest and woodland	11.6

Policy designations (categories overlap)	Per cent land area
Green Belts (England only)	12.6
Special Areas of Conservation	10.3
Sites of Special Scientific Interest	9.9
Areas of Outstanding National Beauty	9.6

It is land with permission for development that is in short supply, a barrier that could be removed with a change in government policy. This is theoretically easy, requiring only a change of legislation and regulation, but politically complex, due to opposition to development, outlined below. Regulatory constraints on development exist at both national and local levels and have an important role to

play in ensuring that health and safety standards are met with respect to sanitation, water supply and highways; that building design standards are maintained; and that the environment is protected, urban sprawl prevented and congestion avoided.

The planning system in the UK controls land use and local authorities are responsible for development control decisions that allocate planning permissions for the development of new homes. State control of the right to develop land was introduced with the Town and Country Planning Act 1947. The Act sought to prevent the urban sprawl in ribbon-type developments that had emerged in the interwar period. At the same time however, the need for more homes was also recognised and the development of new towns was advanced with the New Towns Act 1946, which sought to focus development in consolidated urban areas. Later the focus moved to increasing densification of cities.¹³⁶

Planning has since developed into a key mechanism for delivering the government's wider social, environmental and economic objectives. In the past, national or regional guidance has provided the broad framework in which decisions are made. The Coalition Government has introduced radical reform to the planning system, replacing the top-down planning system with a much more decentralised framework where local authorities have much greater powers and incentives to allow building. With the policies still under development, it is too early to understand fully how this will change the current system. The proposed changes are outlined in more detail in the following section.

The current development control process for obtaining planning permissions on land can be lengthy, costly and uncertain. A variety of studies have measured the time taken between submitting a full planning application and receiving permission, the most recent of which was carried out by Ball in 2010, which identified a mean of 43 weeks, with substantial variation between authorities.¹³⁷ In addition to this, considerable time is spent in pre-submission discussions and carrying out the necessary surveys. A recent study by the OECD into housing and the economy showed that housing supply responsiveness tends to be lower in countries where it takes longer to acquire building permission.¹³⁸ Ball sought to identify the factors affecting the variability in the time taken, one of which related to the size of the project, but he also found that development control takes longer in localities that are more affluent and where there are hung councils, indicating that such decisions are political as well as technical.

Some commentators have suggested that the planning system does not employ the best mechanisms to consider the viability of a range of sites in an area, allowing planners to proactively discuss suitable sites with landowners. Specifically, a form of sustainability assessment that would examine a range of

sustainability criteria (such as the potential for sustainable transport) at both the strategic and local stages of planning for development has been suggested.¹³⁹ It is argued that this approach would enable planning authorities to be much clearer about which land would and would not be considered acceptable for development, and could also support more productive discussions with central government, landowners and developers about how and when to finance and deliver the required infrastructure. The absence of this structure for a discussion compounds the difficulties faced by central and local government in devising an effective system of financing new and backlog infrastructure requirements.

As well as the planning application process, planning policy constrains development through the designation of land, under classifications such as Sites of Special Scientific Interest (SSSI) or Green Belt. While some of these designations ensure the preservation of the natural environment, a recent study by the Social Market Foundation as to where the outstanding housing demand can be met concluded that it is inevitable that a significant proportion of houses will need to be built on greenfield land and that a debate is urgently needed about loosening the Green Belt as indeed was recommended in the Barker Review.¹⁴⁰ The purpose of the Green Belt is to contain towns and cities and prevent urban sprawl, rather than protect the countryside and wildlife. They appear however to be viewed as a national treasure, whereas in fact there are many areas that are far less attractive than popular conception would suggest, including areas of previously developed land and agricultural land of limited environmental value.¹⁴¹ Locating homes beyond the Green Belt often adds to carbon emissions and commuting time (as people commute across the Green Belt from homes on one side to jobs on the other), detracting significantly from people's quality of life as well as household budgets.

Finally land supply can be constrained through land control. Housebuilders have significant control of land, either through the securing of options, or through ownership of land with or without planning permission. By leaving these parcels of land undeveloped, the land supply brought forward for development is reduced. The reasons for housebuilders acting in this way are discussed below, (see Structure and operation of the construction industry).

Opposition to development

In addition to the practicalities of planning regulations highlighted above, the planning process can reduce development due to local opposition to applications. Planning decisions are frequently adversarial and, as Barker noted, reflect "what is politically feasible rather than what is socially optimal".¹⁴² Opposition comes from both the community and local councillors, with more affluent households most likely to actively oppose new development.¹⁴³ The reason for this

opposition is that there are considerable benefits for some groups if development does not occur:¹⁴⁴

- New development **increases pressure on infrastructure**, with opposition often expressed on the grounds of increased traffic and congestion, lack of space in local schools and the additional burden on wider public services;
- **Environmental impacts**, such as damage to wildlife and the loss of countryside, are of concern when developing greenfield land, particularly in rural or edge-of-settlement developments;
- For the existing homeowners in a locality, new development may present a threat to **property values**. Those with the most to gain in terms of rising house prices also tend to be the people have most power to mount an effective opposition.

In addition, in the case of some developments, opposition can come from a desire to **exclude particular groups**. For example, there tends to be particularly strong opposition to the building of pitches for Gypsies and Travellers.¹⁴⁵

Given the level of community opposition, councillors are also more likely to oppose developments in order to **maintain political and electoral support**. This is particularly so if a larger development is proposed.

There is an inherent bias in the political system towards those who are already living in a place and especially to those who are able to present an articulate case for no change. It is virtually costless and much easier to combine and coalesce as objectors, than as those in favour of the development. Those who would gain most from the development (i.e. future generations) are neither easily represented nor seen to be an immediate political priority.

More broadly, these local pictures combine to form a national impression of a public that is opposed to housebuilding in general. This perception may be the reason why national planning legislation and regulations are structured as they are, with MPs believing that adopting rules that ease development will tend to lose them more votes than they will gain. However, the evidence suggests that the public may not be as opposed to new housebuilding as this perception might suggest. Research from 2010 into public attitudes towards housing found that “more than three quarters (76 per cent) of adults would support more houses being built in their local area if local services like GP surgeries, hospitals, and schools did not suffer.”¹⁴⁶

Local people can also be prevented from coming to an informed opinion about the level of housing needed in their area by a lack of access to usable data. To be useful information must be transparent and comprehensible. Without such data it can be very hard for the public to know how much housing is needed and what the various impacts are.

Combined, the processes described above act to limit the amount of land that receives planning permission, increasing the scarcity and hence the value of planning permission.

Structure and operation of the construction industry

As currently structured, **housebuilding is inherently a risky business** due to the length of time it takes to build a house, the unpredictability of costs and the difficulties and uncertainties of the planning system. Construction costs increased by nearly 50 per cent in the UK in the eight years from 2000 to 2007, compared with an average of just under 18 per cent in a sample of other OECD countries.¹⁴⁷ As the OECD Economic Survey notes, this may be partly explained by the increase in brownfield development, which tends to be more expensive than greenfield development, although volatility and property markets may also have contributed.¹⁴⁸

The **scarcity of land with planning permission**, generated by the planning system, distorts the market and means that the industry derives a significant proportion of its profit from increases in land value; firms often compete in terms of their ability to obtain planning permissions, rather than in the design or quality of the homes that they are building. Not only is there uncertainty regarding the outcome of planning decisions, they can also take a long time and cost large sums of money upfront, especially if they need to go to appeal. Inevitably, working in a risky environment does not encourage building firms to invest in new technologies, training of its workforce or innovation in design that would help to increase the rate or quality of homes supplied. Slow and unpredictable development control processes encourage builders to develop land banks to address the uncertainty, which can limit start-ups of new providers.

The scarcity of land with planning permission also contributes to housebuilders' needs for a land bank of potential sites, allowing them to have various sites at various stages in the development process. However, housebuilders also explain their 'trickling out' of large sites (i.e., building the homes relatively slowly over an extended period) as a response to what they term "market absorption constraints", fearing that prices would be driven down and their profits would be reduced if they were to increase the rate of supply.¹⁴⁹ Evidence presented to the Callcutt Review suggested that there are "concerns that landbanking for profit

(rather than to ensure a smooth supply of land as development opportunities arise) and purchase of options on land, both of which are common practice in the housebuilding industry, have a negative impact on both land supply and land price: restricting supply and reinforcing fluctuations in the housing market.”¹⁵⁰ The fall in land prices since the credit crunch may have exacerbated this situation as land owners seek to avoid crystallising losses.¹⁵¹

As Barker noted, land will only be developed if the right incentives are in place for those making development decisions.¹⁵² Commercial viability of land is crucial if construction firms can realistically be expected to bring it forward into development. This is a particular issue for previously developed land (brownfield): developers and their shareholders consider development on brownfield to be more risky than greenfield sites. As the Callcutt Review noted, these risks need to be addressed if urban land that is low in commercial viability is to be developed.

The ‘current trader’ model is the predominant model of market housing provision in the UK. This “consists in essence of a cycle of land acquisition, development and outright sale. Profit is the margin between sale price and acquisition and development costs; the developer retains no long-term interest in the property.”¹⁵³ **This approach does not encourage high quality development,** as builders do not maintain an interest in the property and so quality, speed of delivery and quality of aftercare services have less impact on profitability. Instead the focus is on land value uplift as outlined above. The Callcutt Review noted that “within the housebuilding market as it is today, the incentives for quality are weak.”¹⁵⁴

The ability of the housebuilders to produce high quality housing is also hindered by the industry’s extensive use of sub-contracted labour in construction. In most industries, firms employ their labour directly and for the long term, allowing them to recruit, train and promote staff in ways that reward good performance and engender mutual loyalty. Housebuilders tend to only employ a relatively small core of labour in-house, with the bulk subcontracted out to local workforces on each site. Whilst this pattern of employment is understandable (and largely explained by the geographical spread of housebuilders’ work) the “nature and structure of the subcontractor supply chain makes it very difficult to establish a quality culture amongst trades on site”.¹⁵⁵

In addition to the traditional housebuilders, there are other contributors to housing supply in the UK. **Self-builders** – whether conducting the building work themselves, or contracting firms to carry out the construction – currently contribute around 14 per cent to housing supply each year.¹⁵⁶ This is substantially lower than in most other European countries, where around 50 per cent of

building is self-build.¹⁵⁷ The main reasons for this lower level of self-build are difficulties obtaining suitable land and accessing mortgage finance.¹⁵⁸ The Callcutt Review, noted that “self-build developments characteristically achieve higher quality of specification and better cost-in-use” and that “[on] larger sites, the presence of self-builders can help to raise site values overall”. The relatively small scale of this model limits the availability of these benefits, and the review went on to recommend that an increased supply of smaller plots of land, suitable for self-builders and other small housebuilders, should be made available.¹⁵⁹

A very small number of dwellings are constructed each year through **community-based organisations** such as community land trusts and co-operatives. This is in contrast to other European nations where “the cooperative housing sector plays a significant role. While it comprises only 0.6% of the housing stock in the UK, the comparable figure is 18% for Sweden and 15% for Norway.”¹⁶⁰ By comparison with other countries, the self-organised sector (i.e., self-builders and the various forms in which communities organise together to provide their own housing) in the UK is more fragmented and under-capitalised, with many projects being a one-off development for a particular group rather than one of a series or one enabled by a well-capitalised and resourced secondary support agency.¹⁶¹ This makes it very difficult for this sector to compete in land markets and obtain development finance except in special situations created by local or central government. These models can have many benefits, including maintaining housing affordability in perpetuity and empowering communities.¹⁶² However, they also face many barriers particularly related to accessing development finance, preventing them from playing a greater role.¹⁶³

The barriers that these smaller development models face prevent them either from entering or from playing a greater role within the housing market, therefore limiting the increase of supply. It would not be necessary to shrink the large producers in order to encourage an increase in the numbers of providers and diversity of supply: the issue is the supply of land, outlined above. If land supply were to increase there would be room in the market for new entrants, who would contribute to supply in addition to the development already undertaken by the major housebuilders. For those developing individual homes (including self-builders), an absolute increase in supply would be most useful if combined with an increase in access, whereby individual plots were more commonly available.

In current market conditions, some housebuilders are accepting that they may have to retain an equity interest in their developments for some time, at least until a first or second resale. This may be a temporary phenomenon, but will provide some insight for the industry into the potential for creating value over time. A small number of developers retain a long-term interest in a development. These are often financed with institutional funds and are beginning to develop a

different brand of what has been described as placemaking investment, taking their investment return from a bundle of rentals, capital appreciation and selling value adding services including energy.¹⁶⁴ Variations on this model are also possible: in the UK the role of developer and builder are usually combined. Another model would be for these roles to be separated, with the developer maintaining the longer-term interest in the land and the housebuilder making profits simply as a construction contractor.

This placemaking investment approach is also reflected in self-build and community-based models of development, where those responsible for the development have a long-term interest in the property, typically as occupiers, and so the quality of the property is of greater importance. This is reflected in the higher build quality associated with self-build properties.¹⁶⁵

In addition to market housing, a substantial proportion of supply is contributed by the provision of social housing. Each year around 25,000 homes are built by **housing associations**, around 15 per cent of supply.¹⁶⁶ Some local authorities also engage in housebuilding, but to a much lesser extent, building an average of 360 dwellings per year over the last ten years.¹⁶⁷ As with self-build and community-based models, these developers maintain a long-term interest in their properties and so quality is of greater importance. One major source of affordable housing delivery over recent years has been through Section 106 agreements. These are negotiated by local authorities when planning permission is granted on a site for the development of housing, requiring the developer to provide some affordable housing as well as homes for the private market. This mechanism is naturally pro-cyclical: its output increases when commercial housebuilding increases, and fewer social homes are delivered when the private market contracts.

The **housebuilding industry has become increasingly concentrated** over time with the top ten firms accounting for 44 per cent of output in the sector.¹⁶⁸ However, despite the growth of a small number of large firms, the vast majority remain small in scale, with only 13 firms building more than 2,000 units per year in 2006 and over 5,000 building fewer than 100.

Although a recent study by the Office of Fair Trading found no evidence that the concentration of developers in the housebuilding industry outlined above is responsible for supply shortages,¹⁶⁹ there are issues around competition at a site level. Typically there will be only one developer working on any large site and so there is little competition in terms of the quality of homes built.

Taxation, incentives and subsidies

Taxation and incentives can be powerful tools in helping a government deliver its policies, but have also been instrumental in contributing to the housing shortage. One key area here relates to the treatment of windfall gains from the increase in land values once planning permission is granted. For example, in 2007, one report stated that a hectare of land in the South East with planning permission was worth £3.32 million, whereas its agricultural value was £7,410.¹⁷⁰ The highest headline values for land with planning permission will be for so-called 'oven-ready' sites, which:

- are fully serviced with no infrastructure payments outstanding;
- have no remaining obligation on the developer to make planning gain payments;
- and present no site-specific challenges, making the site more difficult than average to develop.

These may therefore not be directly comparable to the prices quoted for land without planning permission. However, even after accounting for these additional costs that will reduce actual land values, there is still normally a substantial uplift. This uplift in value accrues primarily to the landowner: where housebuilding firms buy land cheaply and obtain planning permission they will typically achieve a greater profit through the uplift in land value than from the construction and sale of homes. The lack of any attempt to capture part of the value on these windfall gains creates expectations from developers and landowners of continuing increases in residential land values. While the price of residential land continues to increase, there is a powerful incentive not to release too much for new development, as this maintains the pressure on supply and therefore prices.

Government can also add to housing supply directly by providing subsidy to social housing providers to meet the capital costs of new construction, as well as making publicly owned land available without charge, or at a reduced cost. Government subsidy for housing consists of the grant aid that it provides to housing associations to develop new homes and the financial support with housing costs it provides to tenants through the housing benefit system. Over the years, there has been a shift from the capital subsidies for supply to personal subsidies for tenants in the private and social rented sectors, with personal subsidies now accounting for a substantial majority of subsidy provided. This has therefore reduced the amount of development subsidy available to housing associations and local authorities, reducing their capacity to develop. Although supply-side subsidy has reduced, social housing supply has broadly been maintained or increased, as providers have used less subsidy per home. However,

had more subsidy been available and the same efficiencies achieved, supply could have been considerably increased.

However, it should be noted that subsidies can have unintended inflationary effects. Where supply is constrained, they can act to push up the price of the thing they were supposed to be making more affordable. As housing supply is very constrained in many parts of the UK, subsidies (whether capital subsidy for social housing, or demand subsidies such as Housing Benefit) may act to inflate land and house prices. If land supply for housing were less constrained, subsidies would be more likely to be effective in boosting supply, rather than inflating the price of land.

As housing is typically the largest asset for owner occupier households, there are clearly also links between personal taxation and the housing system. The details of the relationship are complicated, but broadly speaking, housing wealth is relatively untaxed as an asset class. Council tax has a limited number of bands and is based on outdated property valuations. The other main taxes on owner occupiers' housing wealth are based on transactions: stamp duty land tax and inheritance tax (which is effectively a tax on house values for many estates). People's main residences are normally exempt from capital gains tax. Consequently, the tax burden tends to fall more heavily on productive activities like work and business activity, than on unearned capital appreciation of housing.

Market conditions

The reduction in mortgage lending following the credit crunch in 2007 was striking and unprecedented. As can be seen in Figure 7, mortgage approvals dropped from almost 130,000 a month in late 2006, to a low of 28,000 in November 2010. Data for 2011 show a steady level of approximately 45,000 per month. The credit crunch has had such an impact on the UK mortgage market because large banks had increasingly come to rely on funds from the capital markets for lending, rather than investing funds from their customers' deposits. The closure of the market for residential mortgage backed securities badly affected the UK's mortgage market: it is not likely to expand in 2011 and will form a major constraint on activity in the next few years.

Figure 7 Number of mortgage approvals per month¹⁷¹

It is not certain how long more restricted mortgage lending will continue, but in a recent speech, David Miles, a member of the Bank of England's Monetary Policy Committee suggested that we are currently experiencing a move from the unsustainable mortgage market that existed prior to the credit crunch to a new equilibrium. During that adjustment, which may take five years, it is to be expected that there will be "a very big fall in first-time buyers, much lower transactions, and much lower new mortgage lending."¹⁷²

This restriction on mortgage lending may have a particular impact on new house building. Michael Ball has observed that "the constraints on mortgage finance have hit the borrowers that typically buy new homes [first-time buyers] worse than those in the market for existing homes."¹⁷³ Building firms are also facing financial issues: small and medium size building firms have found it difficult to access loans from banks. Larger builders have traditionally been able to access a wider range of finance but are currently limited by significant debts, which built up during the credit crunch.

The future of the mortgage market is likely to be strongly influenced by an ongoing review by the Financial Services Authority (FSA) and a proposed mortgage directive from the European Commission. The FSA published a preliminary discussion paper in October 2009, which discussed limits on mortgage lending that could be used to ensure the mortgage market is sustainable for all participants (including ensuring lenders are sufficiently capitalised).¹⁷⁴ The

findings of the review have been delayed and are now expected in autumn 2011. Consideration is also being given to the potential role that various constraints on lending might play in making the system work better for the economy as a whole (a counter-cyclical macro-prudential framework). It is the view of the Joseph Rowntree Foundation's Housing Market Taskforce that "the nature of the next housing market cycle will be heavily influenced by the terms on which finance is available to builders and to purchasers."¹⁷⁵

Mortgage lending is also closely linked to wider economic performance. Bank of England interest rates are still at the emergency level of 0.5 per cent, but will inevitably be raised at some point. This will increase the cost of mortgages for consumers and is likely to reduce demand for new homes. However, there is a wide range of opinion on how quickly these rates will be raised. Current levels of inflation, which are higher than expected, might lead the Monetary Policy Committee to raise interest rates, but the sluggish growth of the economy has led them to keep interest rates low at present. At the same time, take-home pay has dropped by 12 per cent in real terms, which is further reducing the ability of many households to borrow.¹⁷⁶

The lack of development finance has been a major problem for the development industry during the last three years. The larger firms have fared better than smaller ones having managed to refinance with the banks having a strong incentive to lend to them. The experience of medium sized firms is mixed, some have refinanced, others do not need finance and others have ceased trading. For smaller and new firms it has been difficult to get finance, as indeed it has for self-builders.

The housebuilding industry also appears to be highly pro-cyclical; that is, its output falls during general economic contractions. This has impacts on the wider economy, for example by contributing to increased unemployment during downturns. It also harms the longer term ability to supply homes, as those with construction skills leave the industry, potentially finding work in other sectors.

High land prices and unaffordability, particularly when combined with a credit shortage, can restrict the commercial viability of housing schemes. Section 106 agreements may have been entered into, requiring the housebuilder to provide a certain level of additional services and infrastructure in order to receive their planning permission, and this level may be prohibiting sites from being delivered.¹⁷⁷ In other instances, it is possible that sites are not being brought forward because they are recorded on balance sheets above their current true realisable value, and trading the land would force the owner to crystallise this reduction in value.

Inefficient use of existing stock

In addition to building new dwellings, more effective use of empty homes has been proposed as a method of increasing housing supply.¹⁷⁸ Government statistics suggest that there are more than 300,000 long-term empty properties in England.¹⁷⁹

More efficient use of existing stock provides a means of increasing the amount of available housing.¹⁸⁰ In 2008, there were 26.9 million dwellings in the UK and 26.0 million households.¹⁸¹ These figures might suggest that there are around 900,000 'spare' dwellings in the UK. However, this would be an oversimplification of a complex relationship between the number of households and dwellings.¹⁸² This 'surplus' fails to account for second homes, regional variation or the 'natural' rate of vacancy due to house moves and refurbishment.

There is also evidence that "the contribution of empty homes to greater supply and affordability is limited because there is a mismatch between the areas where demand is highest and the areas where most unused housing is located. Analysis by the National Housing and Planning Advice Unit (NHPAU) suggested that, at most, empty homes could contribute around 5,600 homes to the stock in high-demand areas."¹⁸³

However, even in areas where stock could be brought back into use there are further barriers to development. The cost of bringing an empty property back into use can be high, particularly due to VAT being charged at the full rate on refurbishment work for a property that has been empty for less than two years.¹⁸⁴ This can discourage owners from restoring their properties. At the same time there is little incentive for owners to use their stock more efficiently because the opportunity costs associated with holding an empty property are often not easily perceived. Whilst the owner is foregoing a potential rental income or capital receipt, if the property is not mortgaged they will generally not be paying out significant sums for it to sit empty.

One means of bringing empty property back into use is through self-help housing, where "groups of local people [bring] back into use empty properties that are in limbo, awaiting decisions about their future use, or their redevelopment."¹⁸⁵ However, these groups can face barriers in identifying suitable properties for this process.

Section 3: How is the government responding?

The Coalition Government has put forward and implemented a number of policies that will affect housing development. This section highlights some of the key changes and assesses the impact they might have on increasing housing supply. It should be noted that many of the policy areas relating to housing supply are devolved to the nations, so different policies apply in different parts of the UK. The following section refers mainly to England; the box below outlines the relationship between housing supply and devolution.

Housing supply and devolution

Housing policy is rapidly diverging in the different countries that make up the UK. Housing is a devolved power so some of the policies developed by the UK Coalition Government will not apply across all of the constituent countries.¹⁸⁶ For example, policies affecting only England include:

- Abolition of Regional Spatial Strategies
- National Planning Policy Framework
- Housing Revenue Account reform
- HCA funding framework

Other policies, such as changes to Housing Benefit or regulation of the mortgage market, will apply in all four countries of the UK.

The need to increase housing supply has been recognised in each of the devolved countries. Scotland investigated this issue through a Housing Supply Task Force.¹⁸⁷ In recent years both the Welsh Government and Northern Ireland Executive have undertaken reviews of affordability (the Essex and Semple Reviews respectively) which have investigated housing supply.¹⁸⁸

It is beyond the scope of this report to provide a detailed analysis of the different policies being adopted in different localities. However, a number of policy changes in Scotland are worth noting. A number of new funding models are being developed to provide affordable homes, including a National Housing Trust.¹⁸⁹ The development of a Housing and Planning Delivery Framework is

designed to integrate local housing strategies and land use planning.¹⁹⁰ The Scottish Government has also reformed the Right to Buy in order to give greater local control in areas of housing pressure.¹⁹¹

More analysis of the differences that are developing is required, and the successes and failures in each country present a significant learning opportunity for the others.

Land and planning

The underlying themes of the changes to land and planning policy are deregulation and decentralisation. It is argued that the burdens of the planning system are such that they inhibit development, so producing simpler, light-touch policies will enable developers to increase supply. Many developers have been supportive of the planning changes,¹⁹² which may indicate that the argument has merit and they believe they will be able to deliver more under the new arrangements, or could indicate that they believe it represents an opportunity to increase profitability without necessarily increasing output. At the same time, the localist approach offers communities a far greater say in how their local areas do or do not develop. The premise is that local communities are best placed to decide what will be most suitable in their area and influence development accordingly.¹⁹³ Much of the reason for opposition to development, it is argued, is that communities do not have sufficient say in what development looks like, so by increasing communities' say, support for development will increase. A key part of this localist approach is the abolition of the regional planning framework. Local authorities will have the freedom to determine and respond to local need rather than being responsible for delivering housing supply targets set out in **Regional Spatial Strategies**.

The planning system is to be underpinned by a **presumption in favour of sustainable development**,¹⁹⁴ meaning that in planning decisions, development and growth should be the default, unless there is conflict with sustainability, be it environmental or social. This presumption is at the heart of the new **National Planning Policy Framework**, which will replace all current planning policies in England.¹⁹⁵ This will reduce more than a thousand pages of current Planning Policy Statements and circulars to a single and concise document, reducing the bureaucracy of planning, and with it, many of the regulatory barriers to development. A similar approach has already been adopted in Scotland.¹⁹⁶

The length of time that planning applications can take to process can also be prohibitive for developers, so a **planning guarantee** is being introduced, ensuring that all planning applications (including appeals made in a timely fashion) will be processed within 12 months.¹⁹⁷ Availability of land with planning

permission is also a problem for developers. In addition to measures that encourage local authorities to grant planning permission (such as the land auctions mechanism outlined below) there has been a move to **accelerate the release of public sector land** for development. Land holders from across the public sector are being required to produce plans for the disposal of their unwanted or unused land assets.¹⁹⁸ The “**Build Now, Pay Later**” scheme has recently been promoted through the Homes and Communities Agency (HCA), enabling developers to pay for the land only once development has started, increasing the viability of development.¹⁹⁹ These measures are designed to provide 100,000 new homes. This bears a strong resemblance to the ‘building under licence’ principles that were widely used by local authorities and development corporations in the 1980s and 90s, but that have fallen into disuse more recently.

The nature of the planning system is also set to change, with the emphasis being strongly localist, giving communities far more say in how development occurs within their area. These measures are contained within the Localism Bill, which applies to England, with special provision for Wales. **Neighbourhood development plans** are being introduced, which would give local communities the right to draw up a plan for their local area (e.g. at the parish council level), to be agreed through a local referendum.²⁰⁰ The scope of each neighbourhood plan will be decided by those making the plan; they can range from covering a single issue, such as shop-fronts through to covering all aspects of planning, including the location and quantity of new houses, businesses and infrastructure. Alongside this, regional housebuilding targets are being abolished and replaced by local assessments of housing need.

There are also measures being brought forward that would enable local communities to engage in development directly. The **Community Right to Build** would enable people to undertake small developments in their areas provided there is sufficient local support, and the **Community Right to Reclaim Land** would allow local people to access unused public sector land for new development.²⁰¹

As well as a greater direct involvement in planning, there is also a greater onus on developers to work with communities, providing a greater opportunity for local people to influence proposals. Specifically, **developers will be required to consult with communities** in advance of submitting especially large planning applications.

Further to these general planning measures, 22 **Enterprise Zones** are being set up in England, which are areas within Local Enterprise Partnerships that will benefit from a range of measures relating to business rates and planning

specifically designed to encourage growth.²⁰² The Welsh and Scottish governments are also investigating the potential to develop similar zones.²⁰³

Taxation, incentives and subsidies

As well as planning reform aimed at encouraging development, there have been significant changes to the financing of development, both in terms of grant funding for social housing and the incentivising of local authorities to support development.

HCA funding for registered providers is available through the **Affordable Homes Programme**, which provides £4.5bn over the period 2011-15 and aims to deliver 150,000 new homes in England.²⁰⁴ This compares with £8.4 billion under the National Affordable Housing Programme, over the period 2008 to 2011.²⁰⁵ This funding programme runs alongside the introduction of **Affordable Rent**, which will allow registered providers to charge up to 80 per cent of market rents on new properties or re-lets.²⁰⁶ The aim is that the additional revenue will be used to fund new development. Access to funding from the Affordable Homes Programme is dependent on registered providers making the most of any grant, with the majority of funding available for Affordable Rent properties, which require a smaller proportion of subsidy per property.

Local authorities are also to receive a payment for any housing built in their area, irrespective of who carries out the development. The **New Homes Bonus** is a non-ringfenced payment “designed to create an effective fiscal incentive to encourage local authorities to facilitate housing growth.”²⁰⁷ The value of the Bonus is equivalent to six years of the national average council tax for the band of the property built, plus an enhancement for the building of affordable homes.

In addition to financial incentives for development, the government is reforming the **Community Infrastructure Levy**, which is paid by developers to contribute to the cost of infrastructure needed for development. Local authorities will be able to use the money raised from the levy more flexibly, not only for building new infrastructure, but also for maintaining and developing existing infrastructure.²⁰⁸ Authorities will also have more freedom in determining the rate of the levy and some of the money will be required to be invested directly into the neighbourhoods affected by the development. However, policy uncertainty remains in relation to the levy, with, for example, government recently stating that it would consider whether it might be used to fund affordable housing.²⁰⁹

Those local authorities that still own council houses are also being given greater control over their housing finances through the reform of the **Housing Revenue Account**. This is intended to provide local authorities with greater financial

freedoms, such as potentially being able to borrow against their existing housing assets in order to develop, as is currently done by housing associations.²¹⁰

A further mechanism that is being considered to encourage local authorities to support development is the use of **land auctions**, which are to be piloted in 2011/12.²¹¹ Land auctions are a proposed mechanism to enable local authorities to capture a greater share of the land value uplift created by the granting of planning permission than is currently the case. Local authorities and communities will therefore see more direct benefit from development, thus encouraging its support.

Making efficient use of the existing stock

In addition to encouraging development of new dwellings, there are plans to make it easier to bring empty properties back into use, as these represent a significant and underused resource in increasing supply. The HCA has set aside £100m specifically to bring long-term empty properties back into use.²¹² In addition, there is the possibility of allowing the change of use of a property from commercial (B1, B2 and B8) to residential (C3, dwelling houses) without the need to apply for planning permission.²¹³

Encouraging diversification in the construction industry

In addition to the measures outlined above, the Minister for Housing and Local Government, Grant Shapps, has made a number of statements in support of particular models of housing delivery. In particular, he has expressed strong support for self-build and has endorsed a report that makes recommendations to double the amount of self-build over the next ten years.²¹⁴ The Minister has also expressed support for self-help housing and Community Land Trusts as examples of local community-based approaches to housing.²¹⁵

Possible impact of government policies

The policies that have been proposed and implemented by the Coalition Government have been made in the context of widespread agreement on the need for change. There is wide-ranging support for some of the principles that underpin the government's policies. For example, a Parliamentary Select Committee has stated that "the principle of localism is not controversial; it commands cross-party support".²¹⁶ This does not mean that the different proposals have been met with universal support. A number have received intense criticism from at least some of the housing sector. These criticisms tend to fall into three categories

A variety of organisations have suggested that some of the government's **specific proposals will not have the desired impact**. This ranges from suggestions that the proposals will be ineffective to the belief that they will have consequences which may even damage housing supply.

There is concern that the government's proposals will not deliver the scale of increase in housing supply that is required. In response to the New Homes Bonus, the National Housing Federation has suggested that the level of the incentive is not large enough to convince most local authorities to support the development of new homes.²¹⁷ The Bonus is effectively a redistribution of existing funding which may provide benefits in a few areas but only at the expense of others. The Joseph Rowntree Foundation has stated its concern about whether the Bonus will deliver homes in sufficient quantity and in the right locations. "What is critical about an incentives system is both that enough new homes are built overall and that they are the right types of property in the right places. This requires a sound evidence base and incentives of sufficient scale to encourage housing development in the most high-pressured areas."²¹⁸ There are also fears that some new procedures, such as the Community Right to Build, may make the delivery of community led housing projects more rather than less complicated, (and expensive),²¹⁹ which could undermine the existing build-up of demand and activity in the community sector.

Whilst there is widespread support for the principle of localism, many organisations have expressed concerns about the practicalities of new policies that seek to implement this approach. For example the abolition of regional planning targets and increased power of local authorities to determine local levels of housebuilding have been criticised. The new powers for local authorities come at a time when they have to respond to unprecedented budgetary constraints. Research suggests that local authorities are concerned about their ability to deliver these new powers. This includes concerns about whether they have the organisational capacity and skills required.²²⁰

Research co-ordinated by the National Housing Federation suggests that the abolition of the regional planning targets will lead to a major decrease in the number of new homes built in some local authority areas. Overall, it would lead to around 200,000 fewer homes being planned for by local authorities.²²¹

A second set of criticisms suggests that **government policies do not address underlying barriers which inhibit housing supply**. These barriers include the wider economic circumstances and the nature of the construction industry. However, the barrier that has received the most attention is the cultural opposition to the building of new homes. In some areas proposals for the building of new homes receives significant local opposition. This opposition is

particularly strong for some types of accommodation such as affordable housing or accommodation for Gypsies and Travellers. Some commentators have stated that the incentives offered by the new government policies such as the New Homes Bonus will not overcome local opposition, stating that “incentives will not work if existing local communities cannot see the benefits of new development.”²²² The Law Society has added that “it would be unrealistic to ignore the dislike most people feel about change, especially change to the local scene.”²²³

Some critics go further and say that some of the new policies will strengthen the barriers to delivering supply. The Localism Bill has been described by opposition MPs as a “NIMBY’s charter,” enabling communities to block development in their area.²²⁴ The measures may increase the power of people who already benefit from the current housing system at the expense of those who are inadequately housed.

A wider criticism suggests that the individual government proposals do not add up to a coherent approach that will deliver new housing on a sufficient scale in the right locations. These individual government policies are designed to address specific problems within housing supply such as planning or land supply. It is not clear how these different policies will interact with each other when they are in place. This reinforces a view, which has been prevalent for some time, that housing lacks an overarching political narrative in the policies of all parties: what housing is for, what role it should play in the health of the nation, how much of our wealth should be allocated to housing, how much we need or are entitled to occupy with or without fiscal support or taxation.

It is not clear how many homes the government expects to be built as a result of these changes or how that relates to increases in demand for housing. The government’s approach is to allow local authorities to assess and respond to perceived need in their area. However, central government will need to retain a role in ensuring that the overall housing needs of individuals are met and that the housing system is playing positive role in the economy and wider society.

Whilst it remains unclear how the government’s policies will impact upon housing supply in the coming years, there are significant concerns that these policies will, at best, fall short of delivery the number of new homes required in the UK. There appears to be a need to consider a more strategic approach to increasing housing supply along with other options that might increase the delivery of new homes.

Section 4: What more needs to be done?

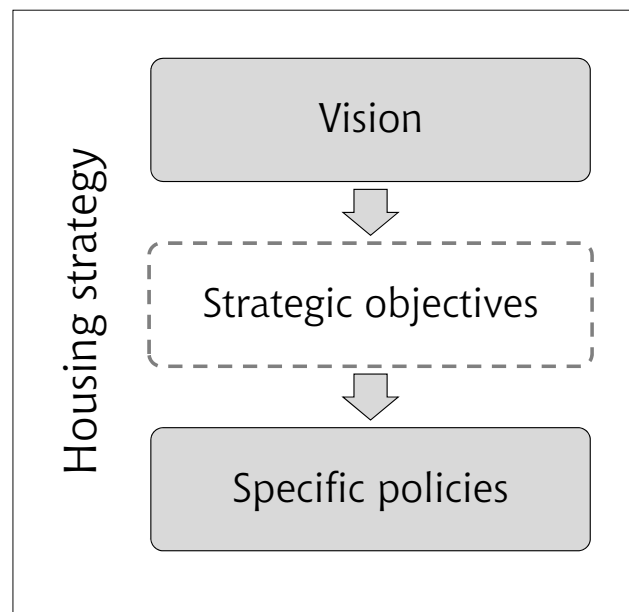
As outlined above, there exist many individual low-level policy actions articulated through ministerial announcements or legislative changes. Alongside this, a broad long-term vision for housing is relatively well articulated, although it resides in a planning policy document rather than a specific housing strategy. It is currently in Planning Policy Statement 3 (PPS3), which is one of many planning documents due to be replaced by the National Planning Policy Framework (NPPF).²²⁵ The draft NPPF states, in a section similar to one in PPS3:

“The Government’s key housing objective is to significantly increase the delivery of new homes. Everyone should have the opportunity to live in high quality, well designed homes, which they can afford, in a community where they want to live. To achieve this objective, the Government is seeking to:

- significantly increase the supply of housing;
- deliver a wide choice of high quality homes that people want and need;
- widen opportunities for home ownership; and
- create sustainable, inclusive and mixed communities in all areas, including through the regeneration and renewal of areas of poor housing.”²²⁶

The NPPF is, by design, a much shorter document than the large body of planning policy that it replaces, and may not be the best location to spell out in further detail the nuance of the nation’s housing policy. However, between this broad vision and the individual actions, there remains a need for a clear statement of strategic objectives that contribute to the vision and which co-ordinates individual measures (Figure 8), perhaps in the form of a new ‘National Housing Policy Statement’. A framework with strategic objectives at its core would ensure that the individual policy measures work coherently towards an overall vision. At present, this level of the strategy is not clearly articulated in government policy.

The recommendations of this report therefore take the form of four strategic objectives, to address this current need. They are accompanied by a range of supporting measures, which are individual recommendations for action by a range of actors, many in central or local government, which will contribute to each of the strategic objectives.

Figure 8 Housing strategy

Given the current degree of devolution with respect to housing policy, it may be more sensible to strive for housing strategies for each of the four nations. As a devolved area, the planning policies listed above (PPS3 and the NPPF) apply only to England, although the devolved administrations express many of the same aspirations, albeit sometimes in different language. For example, since 2010 there has been a consolidated Scottish Planning Policy (SPP), which like the NPPF is designed to be shorter than the documents it replaced.²²⁷ The SPP's commitment to increasing housing supply is expressed as follows:

*"The Scottish Government is committed to increasing the supply of new homes and the planning system should contribute to raising the rate of new housebuilding by identifying a generous supply of land for the provision of a range of housing in the right places. The planning system should enable the development of well designed, energy efficient, good quality housing in sustainable locations and allocate a generous supply of land to meet identified housing requirements across all tenures."*²²⁸

Furthermore, it may be pragmatic to maintain a housing strategy for London separate from the rest of England. London has a significant place in international property markets, notably the Prime Central London market where only around one third of sales are to UK buyers.²²⁹ For high net worth individuals looking for additional homes and investment opportunities, Prime Central London is thought to represent a sound investment as a politically stable location.²³⁰ This has important consequences on the rest of London and the supply and cost of more affordable housing for the mainstream workforce of the city. In practice, London is increasingly being treated separately from the rest of England, for example by having separate HCA arrangements, and at the same time many of the housing

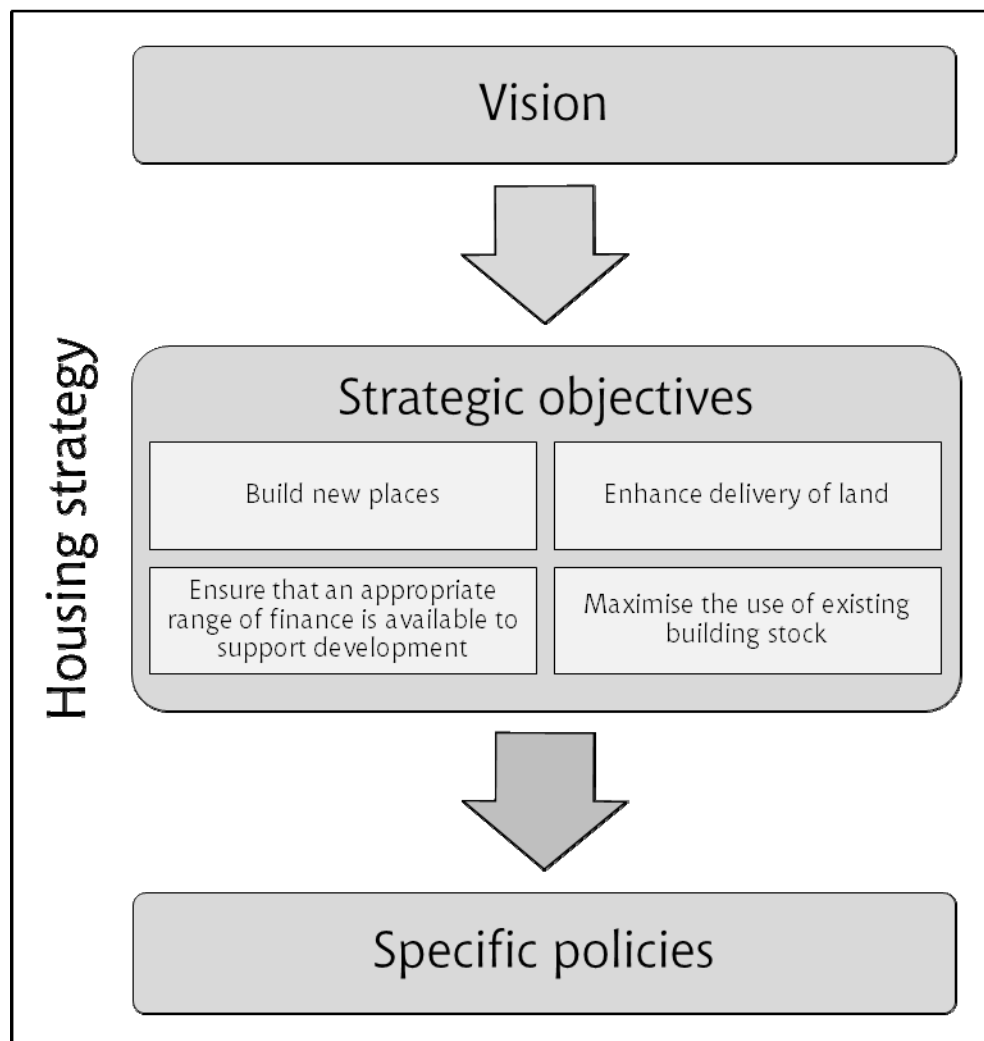
challenges facing London are different at least in scale, if not in nature, from those affecting the rest of the country. Certainly, it would be important to avoid designing a strategy for London that is then applied to the whole country (as sometimes appeared to be the case in relation to the recent Housing Benefit changes, which were often justified by reference to a few very exceptional cases in the capital).

Section 5: Strategic objectives for increasing supply

The Consultation identified the following strategic objectives (Figure 9) that should be adopted to guide the government's overall housing vision:

- **Build new places.** Local authorities should take a leading role in assembling land and parcelling it out to a range of suppliers, to increase competition amongst firms and between different models of development.
- **Enhance delivery of land.** Those who own or control land that is suitable for housing need to be encouraged to bring it forward for prompt development at values that will secure appropriate quality. Government policies, regulations and taxation structures create certain patterns of incentives, which may or may not support the prompt development of land. These rules and their consequent incentives should be aligned to ensure that they provide the maximum possible incentive for development.
- **Ensure that an appropriate range of finance is available to support development.** Following the global financial crisis, there has been a fundamental change to the financing of housing supply and purchase, in addition to short-term credit constraints. Government and the housing sector need to ensure that these changes are adapted to, so that housing supply is not inhibited, and that funding is available for the infrastructure needed to boost growth, and cope with climate change.
- **Maximise the use of the existing building stock.** The existing stock of buildings, including empty homes and some commercial properties, represents a potential source of additional housing. Where possible this should be brought into use to help to meet housing needs.

Figure 9 Strategic objectives



There are clear links between these strategic objectives. Beneficial changes in one area will support improvements in other areas. For example, mechanisms that help to deliver more land for development and remove the financial barriers are likely to make it easier to build high quality new places.

Benefits of this approach

If implemented, these strategic objectives will work together to increase supply by overcoming many of the barriers to development outlined above. In broad terms, the benefits that could be expected from the successful delivery of these objectives include:

Land and planning

- Significantly more land with deliverable planning permission will be brought forward for development, enabling a substantial increase in housing supply.

- Greater certainty will be brought to the infrastructure needed to facilitate allocations of land and the optimal delivery of development.

Taxation, incentives and subsidies

- Taxation and incentives will be aligned to encourage landowners to bring forward suitable land for development.

Opposition to development

- Measures that increase the quality of new development in terms of design of properties and of places will make local communities to be more positively disposed towards new housing.
- Local communities will benefit more from the financial gains created by development.
- Improvements to the provision of infrastructure in new developments will often address concerns regarding the additional pressure of development on existing services.

Existing stock

- Empty properties will be better utilised as owners, both public and private, will have the incentives to make more efficient use of their assets.

Construction industry

- Build out rates will be increased, enabling the quicker development of sites, leading to the delivery of more housing.
- Choice and competition will increase due to a wider range of different providers contributing to supply. A large component of housebuilders' competitive position is at present related to their ability to secure land with planning permission. Increasing the availability of suitable permissioned land should increase competition and, therefore, choice for consumers.
- The quality of homes will also improve, as increased choice of sites will encourage different providers to compete on the quality of the homes they build.
- There will be greater opportunities for smaller-scale development models such as self-build and community-led housing delivery of various types, as parts of sites could be parcelled out as individual or small groups of plots.
- Innovation will increase as barriers to entry would be lowered, allowing new entrants to enter the market. In other sectors new entrants frequently bring more innovation than existing players are able to, improving standards overall.

Market

- Housing affordability problems will be moderated due to the substantial increase in supply.
- There will be a moderation of effects of economic cycles and boom and bust in the housing market.
- The housing industry and therefore the economy as a whole will have improved resilience to economic shocks, as a range of providers adopting different business models become available to deliver housing on sites.

Build new places

Local authorities should take a leading role in assembling land and parcelling it out to a range of suppliers, to increase competition amongst firms and between different models of development.

Local authorities are well placed to understand the needs of the communities that exist in their area. They should take a leading role in ensuring that new places are developed to meet the housing needs and demands in their area. This response will vary from very small developments to sustainable extensions or new settlements depending on the local context. Whilst this objective naturally relies on local authorities displaying leadership, there is also a substantial role for central government to provide support; for example, by granting local authorities the powers that would be needed (or to provide assurance that it would not stand in the way of them exercising powers that already exist). Local authorities and central government can both adopt policies and practices that enhance the ability of a range of providers to supply homes. It is also vital that local authorities ensure that the needs of people who wish to move into their areas, for example to find employment, are recognised and included in local assessments of housing need.

Local authorities are institutions with extremely long-term interests in making sure that the places that are created function effectively and are successful in the long run, to an extent that is unlikely to be rivalled by other organisations involved in the delivery process. They also bring democratic accountability to the process, hold the responsibility for assessing and planning for housing need, and are perhaps better placed to oversee a process of parcelling out of land than a private sector actor. At their best, they have the potential to provide vision to their local areas, and to contribute to a sense of municipal pride.

Place-making will require economic and business skills, in addition to the town planning and community skills that are, at present, likely to be key competences of more local authorities. Developing these skills, where the political will is present, is not impossible, but in many local authorities it will represent a shift in culture, and the associated challenges should not be underestimated. There will also be a need for strategic analytical capacity to assess and forecast demand. Whilst it should be acknowledged that at the current point in the economic cycle local authorities are facing substantial cuts, which in some cases will stretch capacity and cause existing expertise to be lost, the creation of successful new settlements is inherently a long-term process.²³¹

The leadership of local authorities should not be viewed as crowding out other actors, as in most instances it is likely to be helpful if the authority can work in partnership with other parties, including land owners and others in the private sector. Furthermore, were there to be private sector appetite to lead the creation of a new settlement, this should not be ruled out: some successful early examples of new settlements were led by private initiative (including Rowntree at York and Cadbury at Bournville in the 1800s, and the Garden Cities of Letchworth and Welwyn in the early 1900s).

As the needs of different areas will vary, details of the precise arrangements should be viewed as a typical starting point, rather than prescriptive on local areas.

Supporting measures

- ➔ **Local authorities** should take a leading role in creating a new generation of garden cities, or other styles of new settlements, best suited to local conditions.

The Consultation noted that many of the strongest lessons for new settlements could be drawn from the garden city movement, some of the subsequent New Towns and international examples, such as Malmö and Freiberg. Local authorities should be encouraged to take bold decisions that address housing need.

Assessment of potential locations for development could include strategic appraisals of sustainability, comparing the available sites, to ensure that any planning allocation secures the most sustainable patterns of development, and rules out other less sustainable locations. As the government intends to create a “presumption in favour of sustainable development”,²³² an early assessment of which sites would be compatible with sustainable development would be a powerful tool in enabling local authorities to make the best allocations of land required to meet local needs. As importantly, identifying those locations where development would not be sustainable could help to minimise the time and resources expended, particularly by public bodies, on considering planning applications that would be unsuccessful.

Where possible, cross-party support for these measures should be secured, to ensure the project is not unduly hindered by changes in power as it progresses over several electoral cycles.

- ➡ **The Department for Communities and Local Government** should confirm that it would be minded to accept requests from local authorities seeking to create new garden cities and other types of settlements in their areas, using the powers of the New Towns Act 1946.

The powers initially granted under the New Towns Act 1946 (and subsequently amended under Acts including the New Towns Act 1981 and the Housing and Regeneration Act 2008) allow areas to be designated as New Towns, which would facilitate new settlements being developed. In some areas, New Towns powers could be helpful in creating this new generation of settlements.

- ➡ **Local authorities** should create local ventures for large-scale strategic sites, taking title of land, promoting, granting planning permission, putting in infrastructure and parcelling out the serviced land. Such local ventures should be led by local authorities, but would typically require participation from other stakeholders such as land owners.

A local venture of this nature would be able to pull together a range of stakeholders with a financial interest in a development. Within its structure it could integrate planning, investment and development functions, and would have the ability to draw in the appropriate skills. This technique would generally not suit smaller sites, but could be appropriate for both substantial extensions to settlements and new settlements.

By undertaking activities related to planning permission, site assembly and the installation of infrastructure, the risk to developers would be substantially reduced. Reducing the risks for developers could allow a wider variety of development models to emerge.

A group of partners coming together to take a longer-term interest in the site would help to draw benefits into the community over a longer period. The involvement of local authorities would help to ensure democratic accountability to local communities, and would also be vital to ensure statutory functions such as planning could be properly integrated.

- ➡ An organisation such as the **Local Government Group** should create a network to facilitate sharing of experience amongst local leaders for development. This would seek to build a network of local champions for quality growth. Such a network could foster mutual support amongst these leaders, seeking to build municipal pride in the quality growth of their localities.

- **Local authorities** should work in partnerships with community-scale models to deliver housing which has long-term links to local residents.

Local-scale community-led models have the potential to unlock social and economic capital, and broaden choice, as well as increasing the supply of housing. Both local and central government should recognise the value of housing providers that have a long-term interest in the communities in which they supply housing. One practical way in which these benefits could be supported would be for local authorities participating in the parcelling out of land to specifically set aside a proportion of plots for these alternative models.

These models include self-build housing, a range of community-level housing options such as housing co-operatives, as well as larger organisations providing homes for rent in an area (whether in the profit or non-profit sector). In each case, the person or body commissioning or carrying out the building retains a long-term interest in the community. This is typically not the case with the predominant housebuilding business model, where homes are built on a speculative basis.

This long-term commitment should have both community benefits and effects on the quality of the physical stock, which will typically be built to a higher standard if the developer expects to own it and be responsible for its maintenance for the long-term.

- **Government** should ensure that unnecessary barriers are not put in the way of less commonly found housing solutions. Where these can be provided at relatively low cost and with low impact on their surroundings, such as low-impact dwellings (including caravan pitches and boat moorings where appropriate), there may be a case for positively favouring their development.

Through the government's localism agenda, there is an increasing emphasis on local communities being able to make choices about the places in which they live and the services available to them. In order for this vision to be fully realised, this should include those individuals and communities that choose to adopt a more mobile or alternative lifestyle.

A broad range of supply should also deliver a range of housing tenures, each of which should serve its intended audience well, providing affordability, a quality physical product, and a reasonable degree of security of tenure, in a place that people want to live. The private rented sector in particular is in great need of improvement. Whilst at its best the private rented sector can provide high quality, well-managed accommodation, it invariably offers little

security, and many properties are characterised by poor physical standards or amateur, at worst wilfully neglectful, management.

- **Local authorities** need a more detailed understanding of the housing that is needed in their area. It is important that housing planners are able to rely on a robust evidence base when considering future land release and housing investment strategies. Housing market assessments tend to only provide a broad understanding of local housing needs and demands. Local authorities should seek to increase understanding of the range of housing offers that are needed and/or aspired to by different groups in their area. Furthermore, a rigorous understanding of a housing market would also reflect the situations of those who will in the future move into the area; this is naturally challenging, but should not be ignored, as otherwise plans made on the basis of current inhabitants may turn out to be inadequate.

The Scottish system for assessing housing needs and demands appears to offer lessons for the other countries of the UK. Local authorities are supported by a team within the Scottish government that aids strategic planning for housing with guidance and training. This support is intended to help local authorities to prepare evidence-based Housing Need and Demand Assessments and Local Housing Strategies that are based on analysis that looks across all aspects of the housing system and draw on rigorous data. They are also seek to identify both short- and long-term housing problems (and distinguish between them), and to measure housing need in a consistent fashion. The central team also validates all Assessments to confirm they are “robust and credible”.²³³ Although this model requires resources to deliver its robust assessments of housing need and demand, failure to invest can be a false economy if it leads to the wrong housing planning and spending decisions being made.

An understanding of the housing needs and demands of an area could also seek to gain an understanding of the appetite for self-build accommodation and other parts of the self-organised sector. This could provide a mechanism by which people who want to build their own homes could engage with local authorities. When compiling housing market assessments, local authorities should consider the range of community and individual options in the self-organised sector, to maximise their ability to draw on the sector’s untapped potential.

If local plans, and ultimately planning permissions, are to reflect the needs of the local community information about the present and future make up of that community will be necessary. The information will need to be robust and accessible, including being accessible to local people. It should include the

housing needs of children and young people in the area who currently do not have any expressed housing need, but will do so within the next 10-20 years. For example, many older households are likely to be ‘under-occupying’ family-sized homes; policies could be designed to free these homes up for new families to use by providing and promoting highly desirable alternatives. Consequently, identifying where older households currently live, what type of housing they would be attracted to, and what information and support might help them to move could help achieve those goals.

Lessons on creating new settlements

The UK has a wealth of experience of the purposeful creation of new settlements, often in waves, from the workforce villages of the 1800s (including Rowntree in York, Cadbury at Bournville, and Lever at Port Sunlight); to the Garden Cities of the early 1900s; to Abercrombie’s satellite towns around London identified in the 1940s; to later waves of New Towns.²³⁴

As well as learning the lessons from these experiences, it is also possible to look further afield, to successful new settlements that have been created elsewhere.²³⁵

The historic Dutch town of Amersfoort faced significant growth pressures, and the decision was taken to expand the town to increase the population by nearly 40 per cent. The aim was to do so whilst maintaining the attractive and historic character of the town. This was in part achieved through the development of Vathorst, a free-standing sustainable urban extension, with transport links to the town centre. The development consisted of 11,000 new homes, along with amenities such as a business park and community facilities.

“The appeal of Dutch new settlements like Vathorst comes above all from the quality of the public realm.” The development was carefully planned to maintain the existing local character and provide distinctive neighbourhoods. The settlement is also serviced by excellent public transport, with priority given to pedestrians and cyclists, to minimise traffic. Other environmental measures, such as a Ground Source Heat Pump for around 650 homes, were included. The settlement is well-serviced, but also has strong links with the town of Amersfoort and other major local centres.

Those involved in the development of Vathorst cite several reasons for the settlement’s success, including:

- **A clear vision and local leadership.** The vision for Vathorst came very much from the local authority, and the development was spearheaded by a

respected local politician. This vision was shared with the local community to demonstrate the benefits of the development.

- **Careful planning.** A strong masterplan was developed, which involved addressing the needs of the existing community, developing a design with distinctive character in keeping with the current town, and ensuring the development was supported by strong physical and social infrastructure.
- **An effective public-private partnership.** A Joint Development Company was set up, with the Council and five private companies as shareholders. The companies included both those that had invested in land locally and those that had previously had positive involvement in Amersfoort. This Joint Development Company then raised €750 million from BNG (the Dutch municipal bank) repayable over 15 years, which then financed the infrastructure and other upfront cost.
- **Diversity and competition.** Eight different developers and 50 different architects were involved in the creation of Vathorst. This created healthy competition among developers and a wide variety of designs, increasing choice for the new population.
- **Emphasis on social sustainability.** There was a significant proportion of social housing within the development, built to the same standard as market housing and interspersed to create mixed communities. A cultural programme was included in the project, meeting the needs of Amersfoort residents.
- **Continual monitoring.** A panel of experts evaluated the success of the Vathorst development against the masterplan over the course of the development. Alongside this, there has been monitoring through quantitative performance indicators and attitudes surveys.
- **Provision of serviced sites.** These were sold to developers, with prices calculated as a proportion of expected sales. This formula-based approach to land also contributes to the success of the development.

(Information on Vathorst, Amersfoort drawn from Falk, 2008.²³⁶)

Enhance delivery of land

Those who own or control land that is suitable for housing need to be encouraged to bring it forward for prompt development at values that will secure appropriate quality. Government policies, regulations and taxation structures create certain patterns of incentives, which may or may not support the prompt development of land. These rules and their consequent incentives should be aligned to ensure that they provide the maximum possible incentive for development.

The availability of land with planning permission for development is the limiting factor on the rate of development of new housing in many parts of the country; in others, developers could get permission but are not interested, for example because of uncertainties over infrastructure; in some further places developers have permission but are not building. Consequently, it is essential to ensure that landowners are encouraged to release land holdings, that local authorities ensure that there is a suitable supply of land with planning permission, and that once it has permission incentives act to encourage its prompt building out.

Supporting measures

- **Central government** should give local authorities the power to pilot creating small innovation zones where planning permission is relaxed. These powers may already be possible under the existing legislative tool of Local Development Orders and/or the Neighbourhood Development Orders being introduced in the Localism Bill, in which case support should be provided to promote innovative and appropriate use of the tools.²³⁷

In some instances, the delivery of additional land could be facilitated by limited deregulation of certain areas. This will empower local communities to develop more freely where appropriate. Obviously, whilst planning permission would not be needed, the presence of adequate infrastructure and building regulations would maintain minimum quality standards. The power to designate certain areas as “no plan” zones would be granted by central government to local authorities, permitting them to take certain steps, but not requiring them to do so if it is not appropriate for their community.

A localist approach to this measure would also permit a range of models to be adopted based on the local authority’s view of what would best suit the area. For example, in one area the authority may wish to provide just a design code, or just a site masterplan. In another area, there may be an

appetite to experiment with a planning system, but one that is lighter touch and draws its inspiration from, say, the German, Dutch or Swedish system.

In order to evaluate the potential advantages and difficulties associated with this new approach, it would be worthwhile piloting this model in local authority areas where there is an appetite for development. One option would be for central government to give local authorities the power to extend permitted development rights in part of their area to all housing developments of fewer than ten homes. Another option might involve the development of pattern book arrangements where prior approval is granted for certain types of building.

- ➔ **Government** should seek to develop mechanisms that would allow local communities to capture some of the planning gain, the increase in the value of land which occurs when planning permission is granted.

Ultimately, the large increases in land values associated with the granting of planning permission are a symptom of constraints on land supply, and in the longer term a substantial increase in the supply of land would be expected to lower the amount that land values rise when planning permission is granted. In the meantime, capturing some of the gain for the benefit of the community has the potential to contribute to supply, in part because it may lower opposition to planning permission, if the existing community can see the local area will gain some of the benefit.

In the 2011 budget the government announced that a land auction mechanism will be piloted, which is one proposed mechanism for capturing planning gain.²³⁸ As the model is as yet untested it is sensible that it is being piloted, so it can be monitored for potential unintended consequences, rather than simply being rolled out. A pilot programme is essential to assess whether it undermines perceptions of transparency in the system. If it is found to cause problems of that nature, alternative planning gain capture mechanisms could still be appropriate.

Some planning gain captured in this way may be useful in establishing revolving funds for the creation of infrastructure etc. More generally, if a local authority has acquired land through a land auction process, it may seek to establish models like the local ventures described above, to undertake infrastructure works and parcelling out of the land.

Other related models are used in mainland European, and could be considered in the UK. These typically rely less on taxation or levies and instead on a mix of equity investment in infrastructure by municipal banks

and constraining the value of land received by landowners and developers, either to an agreed multiple of existing use value or a fixed percentage of outturn sales value. These have advantages of certainty for landowners, represent a fair but not exploitative uplift in value, and might be preferable, as being less complex, with lower transaction costs and less vulnerable to avoidance strategies, than taxation.

- **HM Treasury** should require public sector bodies to reflect a cost in their accounts as if they were paying market rent for their land and buildings. This 'shadow market rent' mechanism would increase public sector bodies' appreciation of the holding cost of those assets. At present the holding cost may be perceived to be near zero.

Appreciating the true holding cost of land and property assets will encourage efficient use, and in some cases may prompt disposals, making them available for other uses, including redevelopment to provide housing.

- **Government** should consider replacing some existing taxes, such as Stamp Duty Land Tax (SDLT), with a property or land value tax. A 'pure' land value tax may have particular features that would encourage efficient use of land. By making a charge on the value of land at its best permitted use rather than any buildings on it or improvements made, sites with planning permission that have not been built out would be taxed at around the same rate as if it were fully developed.

This change would seek to achieve for private sector organisations many of the same benefits the previous measure would achieve in the public sector. The holding cost of land or property is frequently not perceptibly borne by private sector landowners. A periodically-levied tax on land or property values would tend to encourage efficient use of the asset (including prompting disposals in some instances).

It seems particularly likely that this mechanism could be structured to incentivise prompt building out of sites with planning permission as these would be valued at their eventual use value and hence taxed on a substantial sum. Of course, much depends on the detailed design of any tax, not least the rates. It may make sense to trial the new tax in some areas, to check that it contributes towards the outcomes as expected.

SDLT is due to be devolved to Scotland, in the Scotland Bill currently before parliament. Various commentators have already started discussing how this might represent an opportunity for reform of the tax in Scotland, to achieve alternative objectives.²³⁹

- **Government** should encourage an informed national conversation on the role that Green Belt and other land protection policies ought to play, and alternative models, such as 'green fingers', as in Denmark, for example.²⁴⁰

The purpose and nature of Green Belt needs to be revisited and updated to ensure that it is meeting the needs of current and future generations. Many people believe that the Green Belt consists entirely of important ecological habitats and/or the most unspoilt countryside, whereas this is not the case, and there are many parts with little intrinsic environmental or aesthetic merit.²⁴¹ One of the primary objectives of Green Belt policy is to prevent coalescence and ensure 'openness' between developed areas.

An alternative concept of Green Belts might suggest a different pattern for their placement and use. If they were considered to be part of the functional areas of towns and cities, they might enhance their places' ability to work as sustainable settlements, more able to draw on their hinterlands for more managed recreational space, food and fuel, water and waste management and urban cooling capabilities.

Whilst these issues are discussed amongst professionals,²⁴² a national discussion about the pros and cons of the Green Belt's boundaries is viewed as politically off-limits. This prevents a comprehensive debate about using some areas currently designated as Green Belt for housing supply.

Ensure that an appropriate range of finance is available to support development

Following the global financial crisis, there has been a fundamental change to the financing of housing supply and purchase, in addition to short-term credit constraints. Government and the housing sector need to ensure that these changes are adapted to, so that housing supply is not inhibited, and that funding is available for the infrastructure needed to boost growth, and cope with climate change.

The financial crisis led to a rapid reduction in lending for housing development and purchase by individuals. These restrictions are a result of the credit crunch – where funding lines for lenders came to a very abrupt halt – as well as the introduction of new regulation designed as a response to what is now generally perceived to be excessive lending on property, which contributed to the financial crisis and to inflation of house prices. The restrictions on finance are likely to remain for a number of years and may reflect a fundamental change in access to debt finance for both housing developers and individual house purchasers. For instance, debt lending periods have been greatly reduced: five years is now a common maximum for some lenders providing funding to developers and housing associations.

In order to increase housing supply there needs to be a sufficient quantity of development finance available: it should ideally be diversified (so as to be less sensitive to shocks in one part of the system) and there should be sufficient mortgage finance available so that people are able to purchase the private sector housing. An important balance needs to exist to ensure that finance is made available appropriately: reckless mortgage lending is not in the long-term interest of the borrower, the lender, or society. To tackle the affordability aspects of the housing problems, cheaper homes would achieve more sustainable outcomes than cheap credit. One method of making homes more affordable is to make them smaller; whilst not without their downsides, if carefully designed, small dwellings can provide an option that will suit some households. One firm that builds one-bedroom flats specifically with singles and couples in mind, Pocket, acknowledges that at 37 to 45 m² they are compact, but claims that through clever design they are suitable for modern living.²⁴³

Restrictions on finance do not apply equally to all types of developer or household. For example, smaller-scale models of development often face the tightest constraints, as they are viewed as inherently more risky by lenders, (or, equivalently, where lenders are required by their regulators to hold higher capital sums in relation to funds that have been extended to those in these domains).

Equally, first-time buyers, as well as subsequent buyers with low levels of housing equity, typically face the greatest barriers accessing mortgage finance. The current shortage of potential first-time buyers able to raise a sufficient deposit has a particular impact on demand for new build properties, so providing support for this group is likely to stimulate demand for new supply. Support for first-time buyers should be designed to support those people who are able to meet monthly repayments but may struggle to obtain a deposit. It should not be used to encourage overly risky lending.

Supporting measures

- **Local authorities** should create revolving funds to fund infrastructure development and, where relevant, land purchases. By taking a leading role in creating such funds, local authorities could draw in other sources of finance, such as from private companies. Local authorities' aims would be well-aligned to use these funds in a counter-cyclical fashion, supporting local economies and building infrastructure at times when other construction work is slower, acting to support growth where there is market failure and to pump prime markets until confidence and private sector growth and investment returns. Local authorities could also create loan guarantee scheme to support community based housing solutions who may struggle to gain access to finance.
- **Government** should investigate the barriers to adequate finance being available for a diverse range of housing models, including self-build and community-level models.

This could include a group version of the mortgage insurance proposal described below, to encourage commercial lenders to enter this market with government and/or borrower or other guarantor providing a premium to cover the marginal additional risk.

- **HM Treasury** should move to the internationally accepted "general government" system of classifying public sector finance. The current public sector net cash requirement (PSNCR) system of classifying debt (previously known as the public sector borrowing requirement, or PSBR) is an implicit form of regulation, as it brings local authority borrowing for council housing within the public sector debt calculation and therefore requires tighter control by the centre.

Moving to the internationally accepted General Government Financial Deficit (GGFD) standard would remove local authorities' trading activities, such as

housing, from the national debt, significantly increasing their freedom to borrow against their housing assets to increase supply.

Although local authorities' housing departments in England are to gain some freedom in their accounting in April 2012, this will be accompanied by the introduction of a cap on housing borrowing. The proposed change in the accounting standard would permit this cap to be relaxed, with prudent borrowing and asset management becoming the governing control focus for local authorities.

This move would also have the advantage of removing the risk that the debt of Registered Providers (such as housing associations) may become part of the national debt. At present housing associations are regarded for accounting purposes to be private bodies. However, because the state has a relatively high degree of control over housing associations it is possible that at some point the Office for National Statistics will revisit that classification and insist that they be considered as public sector for accounting purposes.

- ➔ **Local authorities** should prioritise having a senior role within the organisation with responsibility for inward investment and the securing of the common wealth of the area.

In some authorities this role will already exist, in others it will need to be created or developed. In the past, this role would often have been handled by the Borough Valuer or economic development departments, working with the chief planning officer and engineer. Much of the country's post-war reconstruction and early rounds of town centre redevelopments were managed by these three key local authority people. The chief planning officer role in local authorities is not, at present, a statutory post. It has been argued that remedying this situation would help to raise its status within authorities.²⁴⁴ Specifically, it would help to ensure that planning is more effectively integrated in corporate, operational and policy decisions of the local authority.

All chief officers should be required to take a broad view of common value, and be able to look beyond the narrow outcome of maximising cash returns from individual actions such as land sales, to ones that create long-term capital and social value in communities.

Placing this role within local authorities is vital, as authorities are uniquely well positioned to look at common assets and the physical realm. This should look to incorporate physical assets (such as land and property) and social capital. Chief officers should also have responsibility for communicating with

other executive officers and councillors: it should be a corporate priority for the council itself to understand what the community's assets are and to develop their community leadership role around this understanding.

In the longer term, stronger local authorities that are better able to draw investment into their areas will benefit central government, as they will make fewer calls on the central purse. Efficient local authorities should be able to develop local investment plans that maximise the use of public, community and private finance and assets, and thus ensure that calls on central government funds are calls of last resort.

- ➔ **Government** should investigate new mechanisms for helping potential first-time buyers in building up a sufficient deposit. The tightening of mortgage market restrictions means that obtaining a deposit is now perceived by consumers to be the major barrier to property purchase.²⁴⁵ This perception is supported by the fact that between the first quarter of 2007 and the same period in 2011 the median first-time buyer deposit as a proportion of income rose from 41 per cent to 87 per cent.²⁴⁶ Whilst approaches that increase households' access to debt by loosening lending conditions are not desirable, ones that achieve it whilst making the borrowing safer are potentially sound.

For example, the government could ensure that any home meeting A, B or C on its energy performance certificate would be eligible for an additional loan from the Green Investment Bank; this might be able to act effectively as a deposit, with the repayments being affordable due to the savings on energy bills. (This might be structured over an extended period, and could range from, say, £5,000 for a C-rated home to £10,000 and £20,000 for B- and A-rated properties respectively.) By providing additional finance, a loan from the Green Investment Bank would assist with the deposit requirement, whilst also incentivising green homes.

Local authorities could create loan guarantee funds that support first-time buyers. Some local authorities are already developing this type of approach to supporting first-time buyers.²⁴⁷ In Germany, self-builders can access low interest loans of up to €50,000 from the government to help them build eco homes.²⁴⁸ Government should also be considering measures such as Local Asset Backed Investment Vehicles and the issue of infrastructure bonds that are repayable after around 20 years from the uplift in land values as a result of new infrastructure and related development.²⁴⁹

Governments' powers to change the extent of credit rationing in the financial system are limited within a global system where regulation has moved to the

supranational level. However, they retain some tools that should be investigated further.

- ➔ **Government** should work with representatives from the mortgage industry to examine the potential for Mortgage Indemnity Guarantees (MIGs) to play a greater role in enabling access to owner occupation. MIGs can permit those with low deposits to access mortgages that would otherwise be unavailable, particularly if their presence reduced the capital required to be held by the lender.

One option worthy of further attention is the potential to create a hybrid MIG and Mortgage Payment Protection Insurance (MPPI) product. This might offer an improvement over other forms of PPI as it would create a product that benefits both mortgage lenders and individual policy holders. A MIG protects the lender (in spite of typically being paid for by the borrower) and covers the lender if the mortgage fails and they repossess the property and do not recoup their losses. MPPI protects the borrower by covering their payments if they lose their job, for example. A hybrid product covering, say, £20,000 of capital loss and £500 per month of repayments could pay out the monthly sums, to be deducted from the amount available to cover capital losses; if, for example, the borrower was out of work for 12 months, the amount available to cover capital losses would have been eroded to £14,000. As most mortgagees who lose their job return to employment relatively quickly (albeit not necessarily at the same salary), such a product would tend to benefit both parties as the lender would be able to forebear for an extended period, and only facing a relatively small increase in exposure. Further development is needed to determine how such a system could work for those who fall behind on their mortgage for other reasons – typically relationship breakdown, loss of hours at work or overstretching. It would also be important to determine how such a system could complement, rather than undermine, state support such as Support for Mortgage Interest (SMI).

Maximise the use of the existing building stock

The existing stock of buildings, including empty homes and some commercial properties, represents a potential source of additional housing. Where possible this should be brought into use to help to meet housing needs.

At present there are almost 914,000 empty homes in the UK,²⁵⁰ with around 300,000 in England that have been empty long term.²⁵¹ This represents an untapped resource in increasing housing supply, although it is important to note that there is a regional mismatch between housing need and empty homes and that additions to the stock through this route will be offset by newly arising empty homes. Empty homes are largely privately owned and can be vacant for any number of complex reasons, so it is important to be realistic about the contribution they can make. In addition to residential properties, there are many disused commercial properties, some of which may be suitable for providing housing. These can be brought into use through a variety of mechanisms, including community-based models. As well as making use of vacant properties for housing, existing stock can be utilised financially, as assets to raise additional finance for new development.

Supporting measures

- ➔ **Government** should continue to investigate the potential benefits and problems of permitting commercial or industrial properties to be converted to residential or live/work use without requiring permission for change of use.

The government is currently investigating potential amendments to the change of use rules. This has the potential to free up a significant amount of existing property to help contribute to supply. Such a move may, however, also have negative effects in some areas, where plans may have been developed with an assumption that the existing properties would remain in a particular use. The need for homes should be balanced against local need for commercial and industrial space. Any additional homes will need to be supported by a sustainable local infrastructure including public transport. Consequently, careful consideration of the potential impacts is required.

- ➔ **Owners of housing stock (including a variety of public sector organisations)** that has been vacated pending demolition should strongly consider the potential for 'homesteading'.

Homesteading is where properties are sold for very low or nominal sums on condition that they are brought back into use. Where plans for demolition are currently on hold, and where there is no alternative viable proposal a property owner could make use of the asset by selling it for a nominal or very low sum. It would also be possible to make renovation and upkeep of the property a condition of its use to bring them back into a habitable state.

- ➔ **HCA** and its counterparts in the devolved administrations should maximise the potential for use to be made of empty properties by making data more widely available.

In England, the HCA has already collected and mapped data, and these could be made available to the general public through accessible channels such as web-based mapping and mobile apps. This could be further enhanced by linking the data to information such as the VAT breaks that are already available for bringing empty homes back into use. VAT discounts are already given for renovations on homes that have been empty for two or more years. Specifically, the data in the HCA's new SIGnet mapping tool, which is currently available only to public bodies, should be made available publicly.

- ➔ **HM Treasury** should move towards harmonisation of the respective taxation treatments of refurbishment and new build work. Specifically, the cost of reducing the rate of VAT on repair and maintenance work to five per cent should be calculated, to allow consideration of whether its benefits would outweigh this cost. Refurbishment work on properties that have been empty for a period of two years or more is already eligible for a discount.

As a general principle, a taxation system should seek to place a lower burden on those activities that we are seeking to encourage. Whilst, VAT on new build is zero-rated, refurbishment maintenance normally attracts the full 20 per cent rate. Under EU rules a VAT rate cannot be reduced to zero where it currently exists, but it can be reduced to the bottom five per cent band. Reducing VAT on all refurbishment would assist in meeting the challenge of retrofitting the existing housing stock, and by establishing the cost of making this tax cut it would be possible to analyse whether this is outweighed by the benefits.

There are, of course, competing priorities in setting taxation rates (including raising sufficient funds, removing bias and distortion, and lowering overall rates), and there are downsides to reducing VAT on a particular sector (such as the so-called deadweight loss associated with households that could afford the VAT). However a full consideration of the costs and benefits should be undertaken,

Appendix A: Summary of housing supply reviews

In recent years there have been several detailed reviews of housing supply or related areas. Some of the most relevant are summarised here:

Title of Review	Author	Main focus	Key issues	Key recommendations
Review of Housing Supply. Delivering Stability: Securing our future housing needs ²⁵²	Kate Barker (2004)	“Demand for housing is increasing over time, driven primarily by demographic trends and rising incomes”. “Volatility in the housing market is striking”. “A weak response of housing supply to demand changes has been one of the factors underlying this instability. In addition, there is growing evidence of a persistent inadequate supply”.	1) The housebuilding industry in the UK derives much of its profit from land. 2) Volatility in house prices makes timing the production of houses and their release for sale critically important to housebuilders. 3) The housebuilding industry’s aversion to risk manifests itself in a reluctance to make long-term fixed commitments such as investments in new technologies, innovation and workforce skills.	1) Improve planning, particularly by strengthening the regional level. 2) Deliver sufficient land for development, even where there are market or government supply failures. 3) Create a windfall tax on the development gains that come from granting planning permission. 4) Provide significant numbers of new social and affordable homes. 5) Housebuilders should adapt by, for example, improving service quality and investing in skills and production techniques.

Title of Review	Author	Main focus	Key issues	Key recommendations
The Callcutt Review of Housebuilding Delivery ²⁵³	John Callcutt (2007)	“England’s housebuilding industry is in shape to deliver the homes we need for future generations and is capable of delivering 240,000 homes a year by 2016. Our challenge is to deliver a supply of housing where it is needed, for those who need it, at a price which is affordable for the homebuyer, which is commercially viable and which contributes to our ambitious zero carbon targets.”	<p>“Land is key to housing delivery. Our Review has reached the conclusion that given sufficient land, and subject to our recommendations, the industry and its supply chain has the capacity to meet the Government’s objectives on volume, quality, environmental performance and affordability.”</p> <p>“The housebuilding industry is answerable only to its investors and shareholders and not to the public interest. This is why most of our recommendations are addressed to central and local government. It is their business, not that of the industry, to deliver public goals.”</p>	<p>Thirty seven detailed recommendations were made including:</p> <ol style="list-style-type: none"> 1) Provide small plots for self-builders 2) Make land holdings more transparent 3) Lower levels of developer contribution on marginal sites 4) Develop an annual, independent customer satisfaction survey 5) Provide a strong commitment to achieving zero carbon homes by 2016 6) Simplify initiatives to improve construction skills

Title of Review	Author	Main focus	Key issues	Key recommendations
Planning Applications: A faster and more responsive system ²⁵⁴	Joanna Killian and David Pretty (2008)	“Planning decisions still take longer in the UK than in other countries with which we compete internationally. And alarmingly, it is often the developments which could do the most to boost local economies, provide much needed-homes or help tackle climate change that are subject to the greatest delays.”	<ol style="list-style-type: none"> 1) Proportionality – in particular, that the requirements and process in relation to many smaller scale developments were not proportionate or reasonable in relation to the scale of development or its impact; 2) Process – some stages in the process, such as the pre-application stage, were particularly problematic; 3) Engagement – that the involvement of some key parties was not working effectively; 4) Culture – the current target regime is having some harmful, unintended, effects on behaviours and outcomes; 5) Complexity – in particular, the national policy framework. 	<p>Seventeen recommendations were made including:</p> <ol style="list-style-type: none"> 1) Reduce the number of minor applications that require full planning permission 2) Improve the critically important pre-application stage of the application process 3) Government should clarify and improve the process for consulting on applications 4) Government should substantially overhaul and simplify both the National Planning Policy Framework and the legislation for the processing of planning applications.

Title of Review	Author	Main focus	Key issues	Key recommendations
Homebuilding in the UK: A market study ²⁵⁵	Office of Fair Trading (2008)	<p>“Our study was launched partly in response to the suggestion that competition problems might lie behind the sluggish response to rising prices, and partly in response to the 2004 Barker Review. This suggested that the industry should increase levels of homebuyer satisfaction by developing a code of conduct. The Callcutt review recommended that...the Government and public agencies should cease dealings with any homebuilding firm which did not meet a predetermined standard of customer satisfaction.”</p>	<p>“We found no evidence that individual homebuilders have persistent or widespread market power, that they are able to restrict supply or inflate prices or that homebuilders have the ability to anti-competitively hoard land or own a large amount of land with planning permission on which they have not started to build.”</p> <p>“Homebuyers are not able to accurately assess the quality of a new home in advance of purchase and the importance of price and location means that homebuilders may not compete as fiercely as they might on some aspects of quality and customer service.”</p>	<p>1) “Make more public sector land, which is suitable for development, more readily available to homebuilders.”</p> <p>2) “In terms of ensuring that land which is already available for homebuilding is used efficiently and output maximised, it is important to maintain a vibrant small and self build sector.”</p> <p>3) A number of “organisations have said that they are now committed to the introduction of a code of conduct which meets the consumer protection concerns raised in this report.”</p>

Title of Review	Author	Main focus	Key issues	Key recommendations
The Housebuilding Industry: Promoting recovery in housing supply ²⁵⁶	Michael Ball (2010)	<p>“Despite the already relatively low levels of housebuilding, the current recession has affected UK housebuilding much worse than most of the rest of Europe.”</p> <p>“The recovery in private housebuilding was muted for ten years following the major crashes in both the 1970s and 1990s.”</p> <p>Key questions included:</p> <p>1) Do barriers exist to expanding housing supply?</p> <p>2) How can they be overcome?</p>	<p>1) A lack of viable sites with emphasis on viability in existing market contexts.</p> <p>2) A high and growing regulatory burden related to land-use planning and to building and other regulations, including Zero Carbon Homes.</p> <p>3) Finance problems, partly for house-buyers with regard to mortgages, but also with respect to development finance.</p> <p>4) A loss of skills capacity in the industry – trades, professions and managerial; firm competences; supply chains; etc.</p>	<p>1) Increase the supply of land and speed up the planning system.</p> <p>2) Simplify regulations and restrict growth in them.</p> <p>3) Improve access to development finance.</p> <p>4) Sustain and increase innovation and diversity in provision.</p> <p>5) Boost land assembly processes and utilities' provision.</p>

Title of Review	Author	Main focus	Key issues	Key recommendations
Tackling Housing Market Volatility in the UK ²⁵⁷	Mark Stephens for the Joseph Rowntree Foundation's Housing Market Taskforce (2011)	<p>"The UK has one of the most persistently volatile housing markets, with four boom and bust cycles since the 1970s. These cycles distort housing choices, drive up arrears and repossession rates, inhibit housebuilding and heighten wealth inequalities."</p> <p>"It is vital to ensure that there is a sufficient supply of the right kind of housing in the right areas."</p> <p>"Increasing housing supply in all tenures is the key to promoting access and affordability"</p>	<p>"The tighter the underlying housing market conditions, the more likely a sudden increase in demand is to result in a rapid increase in prices, setting off another house price boom. In this way underlying supply constraints and volatility are linked."</p> <p>"Improving housing supply is the key to reducing the risks of market volatility in the longer term but cannot remove them altogether. Moreover, a substantial increase in housing supply is required just to maintain current affordability levels."</p>	<p>Three areas to improve supply:</p> <ol style="list-style-type: none"> 1) The housebuilding industry, with particular reference to how access to finance affects the type of housing that is built. 2) Financial incentives for local authorities to support private sector development. The New Homes Bonus may fail to deliver a "material improvement in supply." 3) The supply of affordable/social housing should be increased through greater government subsidy, although this is unlikely to happen at present.

Appendix B: Participant List

BSHF is grateful for the contributions made by participants at the Consultation. This report does not claim to represent a consensus opinion of all those present, although in preparing it we have drawn heavily on the discussions held. Responsibility for any remaining errors rests, of course, with the authors.

The Consultation was chaired by **Steve Douglas**, Partner, Altair Ltd.

Participants at the Consultation were:

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The following people contributed to the Consultation as panellists:

Mark Easton, Home Editor, BBC News

James Tickell, Director, Campbell Tickell

Caroline Thorpe, Deputy Editor, Inside Housing

Appendix C: References and notes

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³ See Impact on wider society (p. 27).

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