Building the homes we need

A programme for the 2015 government

17 April 2014
To set out:

• Why the current house building system is failing to deliver, despite consistent high demand and government support

• How we could reach a target of 250,000 annual housing completions by the end of the 2015 – 2020 parliament

Within the constraints:

• Any level of new investment recommended is realistic

• Reform can work broadly within the current planning system, to avoid further major planning upheaval
Consulted widely with:
- Private developers
- Local authorities
- Housing associations
- Experts and national stakeholders

Bespoke research commissions:
- Europe Economics: competition and diversity in the housing supply sector
- Capital Economics: long term investment models
- IPPR: land market interventions in a localist context
Project Analysis: current market failing to deliver

- Supply does not respond to demand
- Pattern is entrenched, and worsening
- Need to tackle some of the fundamental dysfunctions.

Graph 2: Private sector house building, England 1946-2012

Sources: DCLG
Housing supply is determined a set of interconnected markets

The land market, the second hand sales market in homes and the building market

All currently push up land prices

Project
Analysis: current market failing to deliver
Project Analysis: current market failing to deliver

- The land market not only concentrates the market & delivers fewer homes
- It also delivers smaller homes of variable quality

Graphic: Land prices are set through competition to squeeze other costs

The full sale price of a new home is determined by the amount second-hand homes are sold for in the local housing market.

In competition, the developer who pays the most for land will usually win. This means, to achieve the full sale price as determined by the second-hand market, infrastructure provision and the build quality and size of the new homes has to be squeezed.
Project Analysis: current market failing to deliver

- This volatile land market is the site of competition for developers

- Competition for land concentrates the market & delivers poor results for consumers

[Diagram showing the flow from Volatile land market to Concentrated development market to High cost, low output housing market, with labels like High returns to land owners, Big firms outcompete SMEs, Buyers speculate on price, and Competition happens here.]
What's our vision?

We need to:

- **Provide more land at lower cost**
- **Make competition drive higher quality and lower cost**
- **Increase public and private investment**
- **Lead change at the local level**

![Diagram showing the relationship between stable land market, diverse development market, low cost, high output housing market, and their respective outcomes such as low gains from land value, SMEs compete on price/quality, and consumers buy homes to live in. The diagram highlights the intervention points where actions are taken to achieve the vision.]
To deliver this vision we therefore need:

1. Land market reform
2. House building market reform
3. Public & private investment in affordable housing
4. Strategic local leadership
Our vision is for a land supply system that is transparent, efficient and stable and most importantly provides much more land at lower prices.
To ensure more land is available for homes at better prices:

1. “New Homes Zones” & new garden cities

- Use strategic planning as in Europe
- Joint public–private models to deliver quickly & capture land value

Image: HafenCity Hamburg
Credit: www.kcap.eu
To encourage sites to be built more quickly:

2. Infrastructure deals & stalled site tax

- **£250m for infrastructure deals**
- Council tax levied on the site if not built out, equivalent to if the units were built
To make the entire land market more efficient:

3. Open up the land market with far more data

- Land market is non-transparent which is one barrier for new firms to enter the market

- We recommend data is collected and released in a universal, accessible form on:
  - Land price by site and per hectare
  - Land ownership in a format that can be mapped
  - PP granted in a form that can be mapped
  - New units granted by floor space
  - Ownership of new build by tenure and nationality
Our vision is for a house building sector with many more local builders and more innovative models of development such as custom build. We need the big players running at full throttle, but alone they won’t be able to solve the housing shortage.
Help small builders access finance:

1. Help to Build guarantee scheme

- Local builders struggled to access credit since financial crisis
- £40m guarantee could unlock £435m lending

Since the financial crisis, banks have limited the availability of credit to developer SMEs.

Government guarantees on lending to developer SMEs could make these loans as attractive to banks as lending to groups which have not suffered credit rationing to the same extent.

End result:
1. Greater credit availability means more developer SMEs can borrow
2. Guarantees also lower cost of finance for developer SMEs
To increase the diversity of house builders

2. Provide serviced land for custom builders

• Up to 20% of new plots from land interventions for custom build

• Boost consumer offer (mortgage access, advice)

Image: Custom Build Scheepstimmermanstraat, Amsterdam
Credit: Jones the Planner, Blog
Investment in affordable housing

Our vision is for an affordable house building sector that’s well funded, has a variety of developers and produces high quality homes for a wide range of income groups, including social rented homes for those on low incomes and shared ownership for those on middle incomes.
To build genuinely affordable homes & kick-start entire programme

1. Prioritise investment in affordable housing

• Capital Economics recommend £3.6 billion per annum additional capital investment as fiscally responsible given current government finances

• With our wider programme, just £1.22 billion per annum additional investment would be needed. Primary aim to increase low rent tenures to meet objectively assessed need.

• Extra investment is also necessary to substantially increase affordable home building and kick-start other elements of the programme.
But with money tight, we need to look to new models too:

**National housing investment banks & use of public land**

- Model developed by Capital Economics
- Long term, low cost finance to HAs and other affordable home builders across the sector

Diagram:
- Government issues gilts to fund housing bank
- Housing bank could also pay government dividends if publicly owned bank
- Housing bank issues its own debt in capital markets
- Housing bank repays creditors with interest
- Deposits from households, e.g. Livret Accounts
- Government guaranteed long-term loans at cheap rates
- Affordable housing providers
- Housing providers repay loan with rental income stream
Strategic local leadership

Our vision is for cities and towns which plan strategically: linking jobs, services, transport and homes. Local leadership will be vital to get us building the new places we need.
We need to plan the growth of our cities and towns strategically:

- **Enhanced City Deals**, with devolution of the HCA house building budget and strategic land powers. Devolution should be tailored to city regions in such a way that incentivises cross boundary working.

- **Integrate major infrastructure and new homes**, use development corporation models that capture land value along new transport routes and make large new settlements a category of nationally significant infrastructure.

- **Green belt flexibility**, give city leaders more powers to swap ugly or marginal green belt land out in exchange for new green belt elsewhere.
Project Programme for the next government

Investment AND reform needed, to achieve:

• Tenure
• Speed
• Credibility

Tenure mix to meet locally assessed needs
Nationally, need 40-50% to be affordable

Dynamic city economies outside the south east power ahead with new construction jobs and homes
The housing market is more stable, with prices not inflicting dangerously

More and more people sign up for custom build, with local builders booming
Continue to raise local authority borrowing cap while monitoring value for money

The 2020 government commits to maintain house building for the next parliament

With intervention
By building 250,000 houses per year the next generation will have a chance of a home of their own.

Without intervention
If nothing more is done then house building will recover slowly, but not enough.
Families will be priced out, rents will rise and the risk of homelessness will increase.