

Housing Market Recovery & Institutional Transitions in UK Speculative Housebuilding

Dr. Sarah Payne
Department of Town and Regional Planning
University of Sheffield, UK
@paynesarah

Research Focus

- Very different ‘institutional’ characteristics of this housing market recovery
 - Facilitating demand assumes housebuilders will respond to price signals & increase supply
-
- Unpacks inherent assumptions around housebuilder behaviour
 - Asks what limits or stimulates supply as recovery phase takes hold
 - Questions whether price signals alone are likely to stimulate supply behaviours

Aim

“To investigate what changes housebuilders have made to their business behaviours since the onset of the recovery; and, evaluate whether they have the institutional flexibility to increase housing output as the recovery phase takes hold”

- Are institutionally-constituted behaviours constraining new housing output?
- What policy measures might be necessary to achieve UK Government’s building ambitions

Context: UK Housebuilding



- Government **outsources** housebuilding to the market
- Volume/super housebuilder dominance: Top 15 = c.50%
- Business success contingent on land acquisition & construction efficiency; not product design
- Policy **intervenes** but it's contested; exhibits bias; can be unresponsive; takes a site/house focus:
 - local/site-based externalities (compensated via plan system)
 - quality & minimum standards (through building regulations)
- **Emerging tension** over form / extent of intervention to increase supply & facilitate economic recovery & growth

Context: UK Housing Market



- In 'crisis' (Stephens 2011; Sarling 2013)
- Long standing supply / demand imbalance
- GFC exacerbated long established tensions:
 - shortfall in quantity when set against pop growth
 - high house price / income ratio; affordability issues
- Lowered 'effective' demand for owner occupation
- Shifting tenures; increase in private renting
- Presents **turbulent context** for housebuilders' speculative activity

Context: Impact on Housebuilding

- GFC & reduced sales (growth) has undermined financial health of housebuilders
- Hangover from debt & financial shock to system
- Stalled / mothballed sites
- Consented sites (c.350K units) may not be delivered; based on dense 'boom' schemes (flats)
- Strategic focus on **growing profits not volume**
- Output focused on healthy markets (SE)
- Worsening imbalance between supply & demand
(Whitehead & Williams 2011)

Framing: Housing Analysis 1



- Common fundamentals that characterise UK housing system (Whitehead & Williams 2011)
 - Fiscal system favouring owner occupation
 - Highly deregulated finance market
 - Volatility in house price & market activity
 - Continuing inadequate **supply response**
- Often used to frame analysis & shape policy responses

Framing: Housing Analysis 2



- Also, link between housing systems and macro economy emphasised (Brookes & Ward 2013 etc)
 - Puts fiscal measures centre stage in formulation of policy responses
 - Focus on ‘supply demand nexus’
 - Focus on fiscal instruments to improving housing supply & market stability

Solution?: Dealing with Volatility



Stephens (2011)

- Improve underlying balance between supply and demand to reduce volatility & underlying inflationary pressures
- Short term focus on fiscal measures
- Long term focus on supply increase
- Key delivery agents = market housebuilders

Solution?: Increasing Supply



- ‘Structural’ focus on planning system
- Fiscal focus on facilitating demand & supply
 - Help to buy, help to build, small scale finance initiatives
- But, the solution(s) still remains elusive
- Clearly, a step change in output (& business practices) of housebuilders is required...
 - What do we know about their capacity?
 - Will they respond to demand-led price signals?

Q: Housebuilder Capacity?



- Little reason to increase output whilst uncertainties remain (Whitehead & Williams 2011)
- Policy responses not yielded significantly increased output from builders (just profits...?)
 - Ongoing under emphasis on role of housebuilder behaviour in 'recovery supply'
 - Gap in understanding of complex interplay between builders, policy & market

Research Proposition: Framing Capacity in Recovery



- Understanding impact of increased institutional & development risk in housing model:
 - Demand side constraints (access to mortgage finance; latent demand not expressed as effective demand)
 - Supply side constraints (land supply; plan sys; landowner expectations; building finance, skills gap, materials supply)
 - Organisational pressures to grow profits - refocusing activities in healthy markets to build profits not volume
 - Policy pressures around ZCH, 'green growth' & quality standards
- Brings into question:
 - Role & effectiveness of (only) demand-led market signals
 - What stimulates or limits builder development activity in recovery

Application: Framing Capacity in Recovery



- Policy makers & planners need a more nuanced understanding of housebuilder behaviour than current forms of policy and engagement are able to provide
 - Do housebuilders have institutional flexibility / capacity to increase output as recovery phase matures?
 - Will price signals alone stimulate supply?
 - What institutional challenges unrecognised by policy might be constraining output?
 - What might prevent excessive impact on housebuilders from future market shocks?

Concept: Institutional Framework

- Housing provision does not exist in vacuum (Ball 1983)
- Market actors decisions embedded in & sensitive to change, esp. policy, economic & political change
- Influencing effect of broader social & economic forces (Cars et al 2002)
- Academic focus on new forms of governance capacity (Vigar et al 2000) & relations between actors (Healey, various)
- Approach emphasises social relations, networks, informal customs, conventions & relationships
- Focus on process, not theoretical end state (equilibrium)
- Impact of institutional 'shocks' & transition?

Summary Contribution: The Institutional Transition of Recovery in UK Housebuilding

- Recovery & transition imply change
- State's housing supply aspirations currently contingent on delivery capacity of market
- Reframes relationship between state and market in provision of new homes
- Housebuilder capacity contingent on specific institutional arrangements
- Challenge assumption that price signals alone will stimulate supply
-or have we been here before?

Any Questions?

s.payne@sheffield.ac.uk

0114 222 6939

@paynesarah