Highbury Group on Housing Delivery

Housing Delivery: Policy Proposals

Introduction

The Highbury Group comprises an independent group of specialists from public, private and independent sectors with a membership drawn from housing, planning and related professions; it offers advice and makes representations to Government and other agencies on a variety of subjects, including responses to the recession, with the aim of maintaining and increasing the output of housing, including high quality affordable housing (see footnote for membership). The key purpose of the group is to promote policies and delivery mechanisms, which

* increase the overall supply of housing in line with need* ensure that the supply of both existing and new housing in all tenures is of good quality and affordable by households on middle and lower incomes.* support the most effective use of both existing stock and new supply
* ensure that housing is properly supported by accessible infrastructure, facilities and employment opportunities

The purpose of this paper is to provide a summary of key proposals on housing supply developed over recent months by the Highbury Group on Housing Delivery.

Low levels of housing delivery of both market and affordable/social rent homes have been of major public concern for several years. The supply of market housing has lagged behind demand, well before the current recession, indicating that housing delivery is held back by long-term structural problems that go above and beyond cyclical changes.

The supply of affordable social rented housing has also fallen, and there has been a well documented transfer of public funding from housing construction to housing benefit payments which has increasingly gone into the unregulated private rented sector - in effect a growing subsidy to private landlords and probably enabling market rents to rise.

While policy makers have suggested an outturn of 250,000 new market houses per annum (for England) is needed to meet demand, actual delivery has rarely exceeded 170,000 and is now only just over 100,000, implying a very large backlog. Completions of new social rented homes is now tailing off as national government funding for the programme has now stopped with the remaining funding being focused on sub market rented housing at higher rents and with lower security – the so-called ‘ affordable rent programme’. Despite a consensus that this is the reality, there is no agreed strategy to overcome it. Government has recently announced a series of measures to unlock demand, but there are few measures to accelerate supply.

The view of the Highbury Group is that the reasons for low market supply are located in the inter-relationship of the following factors each being in themselves complex, deep seated and often contested:

(i) Targets and Growth, House Prices
(ii) Land supply
(iii) Local democracy and planning
(iv) Infrastructure provision
(v) Finance for Housing
(vi) The structure and practices of the volume housebuilding industry

Some of these factors relate to patterns and behaviours of private land owners; others to local and national government relationships, or to public finance. A further group of factors relate to the investment market in land and property and the structure of the house-building sector.

Nevertheless, the current debate about future policy on supply has polarised around the narrow question of the role of the planning system in limiting supply, with the house builders suggesting that supply is restricted primarily by the planning system.

Before the property crash, there was concern expressed by Government and commentators not only about continued shortages of supply of new housing but also about the quality and sustainability of new development. Policy discussion since the recession has prioritised the quantity of new development (and its economic development implications) rather than the wider role of housing in place making, neighbourhood development and environmental sustainability and the role of housing in amplifying inequality.

The Highbury Group approach is to look beyond the clash between the housebuilders and environmentalists over targets and land use planning to examine the underlying structural issues, and to suggest reforms that might change both the quality and quantity of delivery, and the affordability of new housing output.

Policies on Targets and Growth

The Highbury Group strongly believes with many others that there is a need to substantially increase new housing supply of market, intermediate sub-market and social rented housing. Targets set by local and national government play a role in directing this effort but they should not be adopted slavishly or without consultation or negotiation.

Targets themselves can be useful to indicate the level of need, but when they are seen by local people as being imposed "top down", or unrealistic, they lose credibility and produce hostility from communities where a less crude approach might have been received more equably. If targets are set by negotiation between national, strategic and local levels of government with proper public consultation and a willingness to be flexible, they can be valuable in shaping the growth of towns and cities.

However, the view of Kate Barker and some academic commentators such as Geoff Meen that setting targets has another purpose - to engineer supply to a level where it will reduce or stabilise houseprices, appears on closer scrutiny to be an over-simplification of the relationship. Barker suggested that by substantially increasing supply, prices would stabilise (albeit in her analysis by only a small amount). However, experience indicates that overall levels of supply (for example during the boom of the 2000s) bore little relationship to price levels or price variations.

The reasons for this include (a) the localised nature of housing markets where prices in one area might be stable and in others highly volatile; (b) the pricing methods of the volume housebuilders and landowners which tend to keep prices on new properties high even when demand overall is relatively low; and (c) the geographical variation in prices due, not to the *volume* of new houses built, but to the *type and quality* of housing, the character of place and the provision of social and transport infrastructure.

Policy on Land Supply and Land Prices

Shortage of building land is frequently claimed by the house building sector as one of the main reasons for low levels of supply of new housing. Every major study of house building has reached the same conclusion that more land should be brought forward by the planners.

Yet on each occasion this claim is made, there is an equally strong counter-claim from environmental and housing campaigners that there is in fact no shortage of land for housing. They argue that landowners hold land off the market to keep up prices and developers sit on development sites, building them out very slowly to keep up prices. By this argument, it is not the planners who are holding up the market but the market itself because of its “cartel-like” approach to land banking and build-out strategies.

The Office of Fair Trading looked into the claims of land banking and price fixing in 2007 and reached the conclusion that there was no evidence of it. Yet a shortfall of supply persists and charges of land banking have been raised again by the CPRE, Shelter, and IPPR among others. There appears to be a fundamental difference of view between the housebuilding sector that says current land banks reflect normal market activity and its critics who point to large numbers of sites with planning permission as well as significant strategic land banks. There is also evidence that there are parts of the country where there are plenty of sites with planning permission, but low levels of new building .

It is, therefore, not the amount of land potentially available for housing that is the central problem but the release of land for this purpose. Land release is controlled by private landowners and developers whose interest is to limit its release to keep up their own rates of profit and, indirectly, land values. A controlled and planned release of land is needed to ensure supply. This can only be achieved if public authorities are able, either by taxation methods or by acquisition to release land in a measured way to ensure strategic delivery.

An additional factor which almost certainly keeps land and housing prices high, preventing them from falling, is that very large and unprecedented amounts of household and company debt are secured against 'valuations' of homes, land banks and property assets generally. Neither the financial sector nor governments are willing to contemplate major falls in prices because of the de-stabilising effects which would affect the financial system. Lenders have thus shown great forbearance in re-possessing homes and property assets where owners are in negative equity.

Land prices now comprise between 25-40% of the market price of houses in the UK, significantly more in the South-East. The reason for this are complex but include shortages of land on the market (and the fact that land itself is rarely “on the market” as such but is sold privately) and the strategies of land owners who bid up prices in a sellers market. The residual valuation method, that aims for “open market value”, itself leads to prices that are more about “hope value” (and the expectation that this can be passed on to the purchaser) than the intrinsic value of the land or its location.

Despite the long running campaign for some form of land value taxation and periodic calls in the media for a tax on wealth in land, there has been no political movement for many years on taxing the ever rising wealth in land and property. Land value windfalls resulting from planning permissions are taken by landowners or developers with only a small proportion captured as betterment through planning gain (Section 106). The result is market resistance to taxation or other schemes for redistributing land value.

In fact, the current policy of using “viability” as a test of whether plans are acceptable reinforces this inertia since it defines viability in terms of the expectations of the landowners. This gives landowners a hold over the development market, keeps prices at high levels, and reduces the capability of local authorities (or Government) to influence land release or build out rates.

There are now a number of consultants that give advice on how to reduce affordable housing contributions using “viability” assessments Viability assessment in its present usage can discourage mixed development and balanced regeneration.

<u>Strengthening the planning system</u>

Regulation of the housing market takes place through the planning system, which is much more than a set of rules governed by statute; it is a political and localised activity. Local Planning Authorities are in many ways the last vestige of real local democracy in UK local government because local people have by law to be consulted, many decisions are made in public, and central government does not wholly dictate local planning decisions.

The advantage of local planning is that it potentially reflects local opinion and locally gathered evidence (subject to national policies set down in the NPPF). The downside is that in the context of 'localism' it can be parochial, saying NO to infrastructure or planning schemes that have a wider geographical justification.   The balance between local views and strategic development should ideally be held by a strategic level of planning. But the absence of a democratic strategic planning level means that major infrastructure decisions are in fact imposed by central government

The Highbury Group view is that a democratic strategic planning system for transport, energy, industrial location, and large scale development should be reinstated. Above this level, National Government also has to take responsibility for national spatial planning of strategic infrastructure as they do in Scotland and Wales. For example, infrastructure for large scale housing or indeed the location of large scale housing cannot be planned at a local level but only by local, regional and national levels working together.

The Highbury Group has advocated sustainable new developments at a range of scales - sustainable suburban intensification, urban extensions, infill development and new 'garden city' type developments. Designations of large scale housing schemes to meet the level of outstanding demand will require a national and regional strategic planning framework, backed by mechanisms for land acquisition and infrastructure provision (capturing land values as in the Letchworth Garden City approach) along with high standards of design and best practice in housing mix and community development. Infrastructure and housing development should be planned and developed in parallel, as was the case in the post WW2 period.

Similarly, for neighbourhood planning, while the planning system must have strong local input, it cannot be entirely about what individual neighbourhoods want or don't want. It has to blend into local, city-wide and national requirements by a transparent process of negotiation.

<u>Reforming Infrastructure provision</u>

The funding and delivery of infrastructure for new housing developments is a major factor determining the amount and location of new housing that is built. This infrastructure falls into two categories; hard infrastructure for practical delivery (e.g. roads, sewers, energy); and so-called "soft" infrastructure for the quality (and sustainability) of the development (e.g. open space, community facilities, public transport facilities). Smaller projects of say 20-30 houses can often be bolted on to existing infrastructure and can be paid for within the confines of the project. Larger development schemes are quite different. They often require re-configuration of transport, energy systems, and introduction of sustainability measures that involve many agencies and a mix of public and private funding which can create political tensions about costs, standards, and phasing.

The concept of cross-subsidising infrastructure from the profits of development, though relied upon by successive Governments, plainly has major limitations because of the volatility of the property market and the difficulty of forcing land prices down to cover the infrastructure costs. For example, this approach was unable to deliver sufficient levels of infrastructure or affordable housing, particularly since the property crash, during the Sustainable Communities programme of the last Labour Government.

However, the present Government now recognises that many large schemes cannot be viable without public funding of infrastructure, hence the Infrastructure Fund operated by the HCA aimed at accelerating the development of major housing schemes of 2000-plus homes. This HCA initiative is welcome but the number of sites (and the pot of funding) is far less that the number of schemes requiring support, and secondly, the question for the general public is what are they getting for this public investment ? Is this a subsidy for the big housebuilders and landowners or is there a pay back to the community in terms of assurances about affordable housing, community facilities, reduced housing prices, or land for not-for-profit housing organisations?

The introduction of the Community Infrastructure Levy (CIL) is intended to fund strategic level infrastructure from planning obligation fees raised from developers and landowners across a local authority area. In principle, CIL is a reasonable idea if sufficient money can be raised for forward funding and if there is equalisation between high and low value areas. Yet none of this is yet clear; evolving CIL schemes have complex rates for different types of development with many exemptions and exceptions. Moreover the development industry regards CIL as potentially a burden and a cost unless there is certainty that it will fund infrastructure that will benefit their own developments. Many parts of the country will not have a sufficiently active housing market to set rates that will fund infrastructure. In addition, Government has announced that CIL is to be top sliced for communities, arguably a “sweetener” to solicit public support for new housing development. The consequence is that CIL will not meet the “infrastructure gap” in many areas of the country.

The Highbury Group supports the ambition to use surplus public sector land to increase housing supply at a time where capital subsidy is constrained. We are however concerned at an approach which focuses on maximising receipts without a requirement that new homes will be affordable by those in housing need. In addition, the Buy Now, Pay Later scheme is an inducement to developers to buy, but it is hard to see why housebuilders should be offered this subsidy when they have thousands of unimplemented permissions of their own. Public land bought by them may disappear into their land banks unless conditions on the timescale of build out are imposed.

An alternative strategy is called for. Selling off of public land should be halted unless it is aimed at affordable housing providers. As for upfront infrastructure investment, there should be much more direct central government investment through a National Investment Bank. It would have a central role in long term strategic infrastructure investment underpinned in part by land value uplift. Another option is to recycle the proceeds of a Land Banking Levy into strategic infrastructure.

A new approach to Finance for Housing

Public funding for both infrastructure and for affordable/social housing has to be a central part of any strategy for increasing supply. These elements cannot be funded from site-by-site negotiation with landowners and developers. We must learn from development models commonplace in many European planning and development systems, where there are established mechanisms for strategic public land acquisition and infrastructure funding to enable development to take place and be delivered more swiftly. Where there is best practice in the UK this should be promoted as the standard the public expects.

Use of CPOs to buy strategic housing land (at existing use value) backed with infrastructure funding on an investment basis to capture land value over the long term is essential to speed up supply, and ensure quality standards. There is a place for Development Agencies with land acquisition and development powers to give local authorities access to powers and finance to get the job of development done.

Similarly, the Highbury Group is quite certain from its experience that, without new funding mechanisms, the supply of affordable/social housing will continue to fall behind need with more and more people pushed into the highly expensive private rented sector. It agrees with the calls from many commentators that Government should "Build, Build, Build" and part of this programme must be a new large scale local authority house building, allied to a Fair Rents Strategy for tenants both public and private.

The Highbury Group also rejects the idea that public subsidy for new house building should be directed to new private rented sector provision since without rent controls and secure tenancy agreements, private rented provision will not create a long term stock of social or affordable housing.

The development industry is closely linked to banks and other financial institutions from which it borrows money for land acquisition and development. This funding relationship has been criticised for being conservative and often short-termist. The question is whether there are new funding mechanisms allied to pension funds and insurance companies that will take a long term investment view of housing development. It has been suggested by Savills that this potential exists but up till now there are few examples in the UK of such a long term approach, and some recent cases involve purchase of private sector rented blocks rather than construction of new build for sale or affordable rent. Nevertheless, these mechanisms need to be explored (looking as well at evidence from other countries) along with exploring the potential of bond finance and the role of government guarantees (for example by longer pay back periods for loans funded by capturing land value over the longer term).

Reforming the Housebuilding Sector

There is an urgent need to bring in, and scale up, a wide range of new housing providers to introduce competition and range of supply into house building. The sector is currently dominated by a handful of very large firms who own or have control over a high proportion of the potential house building land in the UK. The large builders are now much more than house building companies; they are also commercial developers, land traders and landowners, every year acquiring or buying options on large areas of potential building land. They have the power to determine market conditions including land prices in a way that was impossible 20 years ago.

There is a debate about whether concentration of building and development power in such a small number of firms is desirable given the consistent shortages of supply of new housing. If it can shown that there is a quasi-cartel arrangement in place which is not in the public interest then some break-up of the sector is needed. At the very least as the IPPR and Shelter have suggested, new entrants to the house building market are urgently needed to introduce more competition and choice.

Conclusions

The list of mechanisms above is daunting but any strategy for supply that hopes to work will require action across several fronts, and in case, because they are interrelated, they must be tackled together.

What is evident is that the existing mechanisms for both demand and supply are insufficient, and in many ways avoid tackling the key blockages. Focus on the planning system alone is certainly wholly insufficient and counterproductive in terms of meeting the wider social, economic and environmental objectives of the NPPF. The arguments over planning have diverted attention from market mechanisms of land supply and build-out practices, and from the scale of the infrastructure gap. These need urgently to be addressed through new mechanisms if there is to be a significant increase in supply.

The Highbury Group also believes that only a small proportion of the supply of affordable housing can be met from planning gain. The majority must be directly provided by the full range of affordable housing agencies (Local Authorities, Housing Associations, Co-ops, Community Land Trusts and Self Build groups), working together, with support for land acquisition and finance from central government or local agencies.

Footnote

The Highbury Group is an independent group of specialists from public, private and independent sectors from housing, planning and related professions which prepares proposals for Government and other agencies on policy options for optimising the output of housing including affordable housing.

The group was established in 2008. The group now meets at the University of Westminster, 35 Marylebone Road, London NW1. It comprises the following core members: Duncan Bowie - University of Westminster (convener); Stephen Ashworth – SRN Denton ; Julia Atkins - London Metropolitan University; Bob Colenutt - Northampton Institute for Urban Affairs ; Kathleen Dunmore - Three Dragons ; Michael Edwards - Bartlett School of Planning, UCL; Deborah Garvie - SHELTER ; Stephen Hill - C20 Futureplanners ; Angela Housham - Consultant ; Andy von Bradsky - PRP ; Seema Manchanda - L B Wandsworth; Kelvin McDonald - Consultant ; Tony Manzi - University of Westminster; James Stevens - HomeBuilders Federation ; Peter Studdert – Planning consultant ; Janet Sutherland - JTP Cities; Paul Watt - Birkbeck College ; Nicholas Falk- URBED; Catriona Riddell – Planning Officers Society; Richard Donnell – Hometrack; Pete Redman – Housing Futures; Richard Simmons- University of Greenwich; Richard Blyth – RTPI head of policy; Pippa Read – National Housing Federation; Stephen Battersby- Pro-Housing Alliance; Roger Jarman – Consultant/ housing quality Network; Richard Bate- Green Balance; Eric Sorensen

The views and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of individual members or of their employer organisations.

Contact: Duncan Bowie
Convener, Highbury group on housing delivery
University of Westminster

d.bowie@westminster.ac.uk
Tel 020 7911 5000 x66568

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