Where is housing heading?

How do we build 200,000 homes a year?

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Grainia Long
Chartered Institute of Housing chief executive
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CIH begins a new series of policy discussions on the key issues facing housing over the next five years

Two years after the coalition government published its housing strategy *Laying the Foundations*, and 18 months ahead of the General Election, CIH is taking the opportunity to pause and consider developments since 2010: where we have ended up, what's worked, what hasn't, what we've learnt about the policy positions of the main parties and where things might be heading next.

We've commissioned a series of leading commentators to give us their views on these and other issues across different policy areas over the coming months. In this fifth essay, CIH chief executive Grainia Long asks how we can build 200,000 homes a year in England – the target set by Labour if it wins the General Election.

We hope you will enjoy the essays and that they will stimulate debate over the critical period we are about to enter.
5. How do we build 200,000 homes a year?

March 2014 marked the tenth anniversary of the publication of Kate Barker’s Review of Housing Supply. In emphasising the seriousness of the gap between need and supply, she said:

‘I do not believe that continuing at the current rate of housebuilding is a realistic option, unless we are prepared to accept increasing problems of homelessness, affordability and social division...and increasing the costs of doing business in the UK - hampering our economic success.’

It is remarkable but – reading the quote above, not surprising – that the report is still considered salient a decade after it was produced. The scale and nature of our housing crisis means that policy makers must look both to new and existing ideas to build the number of homes we need.

The starting point for this think piece is ‘the numbers debate’. While the coalition’s housing strategy, Laying the Foundations, did not set a target, it acknowledged the scale of need represented by the household projections. Since then, planning minister Nick Boles has said we should get back to building ‘220,000, 250,000 or 290,000 homes a year’. Ed Miliband set a target of building 200,000 homes per year in England by the end of the next parliament.

Any target can be criticised: it’s not enough, it’s too much, it’s too much of a focus on numbers and not enough on quality and so on. When Miliband announced his target, the Financial Times reported housebuilders as saying this was a ‘wild’ plan and that Labour ‘fails to understand how real markets work’. But critically I think that in this instance a target brings a focus and attracts attention and that’s important when we have so much to do.

So the task facing those of us who want to see the supply of new homes radically increased, is to set out practical steps to achieve the target within the lifetime of the next government. In my view, the target is not only achievable, but also absolutely essential if we are to address our national housing crisis, and should be adopted by the next government regardless of its political colour.

But is the target the right one? While some builders may say it’s unrealistic, campaigners say it isn’t enough. After all, we’re expecting 221,000 extra households each year in additional demand to 2021. The respected analyst Alan Holman has said we need to build more than 250,000 units annually of which 80,000 should be for social renting, albeit this was based on the previous, slightly higher, household forecasts. The previous government set a target in 2007 of achieving 240,000 annual completions. This all suggests that a 200,000 target is rather lower than what is required.

Yet the last time English housebuilding (briefly) topped 200,000 was in 1988. We have to go back three decades to find a period when this level of output was being sustained over a run of years. Even though the last Labour government achieved six successive years of increased building, the highest output – just before the credit crunch – was just over 170,000. As we know, we’ve now had four years when output has been only slightly more than half the target that Labour wants to set.
So, all parties are right to temper their ambitions on house building with some caution. The obstacles facing even a 200,000 target are formidable. Providing we get the mix right, building 200,000 new homes will be a very significant achievement, even if it is still less than is ideally required. We should adopt this target, plan now how to achieve it, and regard it as a staging post to a sustained and higher new build output in the future.

This think piece sets out ten key steps that I think we ought to take.

1. **Land**

Getting enough land with planning permission is critical. It’s significant that the [IMF called on Britain to reform its property taxes](https://www.imf.org/en) last May, including putting extra tax on vacant land. So there is broader backing for this reform.

The debate on land availability often includes proposals for placing penalties on non-use of development land. To characterise this as an attack solely on private developers is wrong – they are not the only holders of land with permissions and it is often other actors who are sitting on permissions. We should create a system that is sufficiently flexible to allow local authorities to distinguish between permissions that are not being used and those that are legitimately stalled due to viability or inadequate infrastructure. This is a challenge in terms of policy design, but it is not insurmountable.

A further step might be to tax all land with new planning permissions after a certain period – say two years – as if the development had already taken place. Again, there could be safeguards where there are genuine hold-ups.

A range of other measures that could be considered include:

- Re-establishing the regional targets that the last government used to set, and adapting the National Planning Policy Framework accordingly.

- Looking carefully at Labour’s ‘right to expand’ for cities – it makes no sense for local authorities to be blocking each other’s growth ambitions.

- Building on the sub-regional partnerships in urban conurbations like Greater Manchester and the Sheffield sub-region, and create more, with a specific emphasis on planning for housing supply.

- Encouraging or requiring Local Enterprise Partnerships to take account of housing and housing investment needs in a more systematic way than at present.

- Making funding available upfront to LAs to buy land, for partnership schemes in which they recoup the land costs. For example, council joint ventures could enable local authorities to compulsorily purchase land that is impeding development and license it to builders through an auction, rather than selling the freehold. Auctions linked to house building are being tested in, for example, West Lancashire.
• Reviewing the future of the New Homes Bonus, since the National Audit Office has recently found ‘little evidence’ that has led to more planning approvals for housing. We need to reconsider the Housing Planning and Delivery Grant that the previous government introduced in 2008 – which the NHB replaced.

I am taking for granted that promises for release of more public sector land will continue, while having reservations about how much this will amount to in practice – we are likely to need a considerable amount of privately owned land too.

2 Need for new delivery options and new entrants to the market

Building the numbers of homes we need in the right places will require all of our current delivery models to do the maximum they can. But this alone will not be enough: we need to look at new and different delivery options.

Private developers are said to be willing to expand output by 20-30 per cent in response to recent incentives, such as extra bank lending and Help to Buy. But current private building levels are running at less than 90,000 units, so this means only reaching 117,000 at maximum each year. Barratt (for example) has promised to build 16,000 in 2017 compared with 13,600 in 2013: an 18% increase.

This increase in output is a welcome contribution, and will give a much needed boost to economic recovery, but it won’t be enough to respond fully to growing demand. Some of the other ideas we could explore to increase supply include these:

• Changing ‘Help to Buy’ to ‘Help to Build’, for example, guaranteeing finance to new entrants to the market to get them started.

• Aiming to restructure the market – typically in the past it was split 50:50 between big developers and lots of small ones, but small builders are now less than one-fifth of the market. Shortage of credit has most affected small and medium-sized builders because they are more dependent on bank loans and are less able to raise equity finance or to issue bonds. We need to get small builders building again, and help many of them to grow. Potentially there is a virtuous connection here with reviving the ‘self-build’ market (see below). Small builders are much more likely to accept commissions to build homes from individuals than the major large-scale builders.

• To encourage them, putting more emphasis on releasing small sites, alongside larger ones.

• Re-targeting Help to Buy so it underpins mortgages for self-build. Defined broadly, self-build has typically contributed about 10,000 units each year, making use of very small sites that bigger builders won’t touch.

• Looking at experience with FirstBuy and with the previous government’s HomeBuy, to see if they can become more attractive products to help buy a newly-built house (and act as direct stimulants to supply).
• Renewing the emphasis on small sites, including greenfield ones, to encourage smaller builders.

• Looking at how Build to Rent is working and building on the best models, together with implementing the remaining Montague report proposals – for example about ensuring that new housing for rent is kept in the market long term.

• Following up work currently underway to look at ways of releasing the financial capacity of small housing associations to support the development of new homes, alongside larger ones.

We need to look at what barriers to entry other enterprises face (such as housing developers from elsewhere in the EU): for example, access to land. What could be done to overcome them and make the market bigger and more competitive? How do we need to change the policy framework and how would that affect the housing sector?

3 Tackling the supply chain

Government can play a critical role in generating certainty and confidence – we should take a lesson on this from the rapid growth - then shrinkage - of the renewables industry: it was a powerful illustration of the influence the government can have on a market, for good or ill. A credible policy framework for ramping up supply in the longer term will help to provide confidence to the supply chain that the demand for products will be sustained.

There are key shortages at the moment, for instance in bricks, and we need to look at why this is the case and how to remedy it. Capacity will return if investors can be sure there is a long-term demand and higher average levels than currently obtain.

The construction industry in particular has experienced large-scale reduction in its workforce and therefore the availability of the right skillsets is also likely to be a barrier to ensure the delivery of new supply. Some workers will come back, but others, some highly skilled, will be lost and will need to be replaced.

Effective public private sector partnering will be essential to ensure investment in skills development is a priority, and to ensure professional standards across the industry. Promoting apprenticeship and training schemes by social landlords, linked to new build, is already a criterion for funding in the new HCA Prospectus. But there is clearly scope for more extensive action. There are already many local examples, of which here are two:

• Wolverhampton Homes has a range of activities to promote jobs in the building industry among its tenants, including a programme called LEAP (learning, employment and achievement programme) which offers 10-month apprenticeships, with training, in building skills. It created 69 apprenticeships in its first two years.

• The i2i project at CIH Cymru, funded by the Welsh Government, reports that almost 3,800 jobs and training opportunities have been created through the application of their ‘Can Do’ toolkit principles.
There is an need to engage with the Construction Skills Council to understand skills gaps and how best to fill them. We also need to better understand the weaknesses in associated sectors, for example, transport and logistics.

These are complex problems and will need government to play an very active role alongside the building industry if we are to solve them.

4 **Private renting**

It can’t be right that private renting has grown so rapidly but almost solely at the expense of other sectors, with virtually no investment in new homes. We should recognise the value of the coalition’s £1bn rolling fund to support schemes for institutional investment. It’s set to support the building of 8,000-10,000 homes in its first phase. It does look like a good and sensible policy intervention. Can it be further developed?

The Montague Report made some very interesting suggestions about using the planning system to build in a commitment to homes being available for rent into the longer term. These are worth trialling at least, and implementing fully if they prove to be successful.

Much has been made of accessing pension funds, but with one or two exceptions there has been little progress. Yet some funds seem interested, for example Legal & General saying they actually want to build new towns. Again, active negotiation is needed with some key funds to identify the barriers and consider removing them.

Much more will be needed to get the private rented sector performing properly. For example, CIH has called on the government to look at incentivising higher standards through creative use of the tax reliefs available to private landlords.

We need to understand the pros and cons of regulating rents – UK experience has not been happy and work by the OECD suggests our experience has not been unique. [Writing in 2011](#) they concluded that:

‘Strict rental regulations are associated with lower quantity and quality of housing and their benefits for tenants are not certain. Indeed there is no clear evidence that average rents in countries with stricter controls are lower.’

But other countries, like Germany, seem to have got it right. So clearly detail is important here, even if this is perhaps not the first port of call.

5 **Getting the right housing mix**

There’s no point in more building if all we get are four-bed executive houses, marketed for sale. We need a proper mix of property sizes and – very importantly – tenure.

Much has been made recently of the obstacles created by section 106 requirements, where developers have to make a proportion of the new housing ‘affordable’, usually via housing associations. Section 106
supposedly stands in the way of getting Britain building. We should remember that a decade ago a very substantial proportion of housing association output was coming via planning gain, at a time when overall output was 50% higher than it is now. So those arguing that it stops house building need to be asked – if it does now, why didn’t it ten years ago? And we should also remember that properly constructed 106 agreements can give builders certainty and help to generate valuable cash flow.

Recommendations for change include:

- Fully restoring section 106 requirements.
- Insisting on the ability of planning authorities to require a proper mix of houses, tenure and price range.
- Ensuring that redevelopment of existing social housing estates genuinely produces housing mix and is planned in conjunction with residents, not imposed on them.
- Incentivising partnerships – mixed developments that result from partnership are better than ones that are imposed – and helping local authorities and other actors to get better at making partnerships work.
- Releasing land specifically for sub-market rented housing that combines public and ‘private’ sites, which could be assembled by strengthened local authority CPO funding and powers.

6 Financing capital grant to adequate levels

We need to rebalance welfare spending with capital investment. Currently a massive £23.5 billion a year is spent on housing benefit and only £1.5 billion on capital support. Capital spending to build homes let at social rents is more cost effective in the medium term than revenue support, and focuses on building homes, not on dealing with their consumption. Without new homes, housing benefit is just subsidising rents, with no guarantee of increased supply, especially in the private rented sector. Capital grant creates assets which in time can be used to support more borrowing and lever in more investment, plus it creates a long-term presence in an area with all of the potential neighbourhood benefits that can bring.

The current investment model for affordable housing is not sustainable in the medium to long term, if we are to increase the supply of housing across all tenures. Whilst it is arguable whether it could be repeated over the next spending period, its continuation risks completely exhausting housing associations’ long-term capacity. Also, the early evidence of lettings at Affordable Rent is that tenants are even more dependent on housing benefit than in current lettings and the homes produced are very hard to afford, especially for working households on low incomes.

Modelling by London & Quadrant and accountants PwC looked at three different scenarios for financing affordable housing beyond 2015: a continuation of the government’s Affordable Rent scheme; a return to higher capital grant plus lower social rents; and a move to full market rents with housing benefit taking the strain. The best value option for the taxpayer was higher grant with lower social rents.
We should also remember the powerful effect of injecting more grant: Labour’s ‘Kickstart’ scheme produced 44,000 starts in a relatively short time and something similar was achieved more recently by the Scottish Government.

Grant-led subsidy to produce social housing is essential. While Affordable Rent may have a role, it can’t do the same job as a social rent building programme and if we rely on it alone we will simply make the spending imbalance even worse and fail to address a large proportion of need.

7 The role of local councils

The potential for local authorities to contribute was amply demonstrated by the report by NFA, CIH and others, *Let’s Get Building*, issued a year ago, which called for the borrowing restrictions that apply to them to be lifted. The case for changed rules was enormously boosted by the reforms which all major parties supported, that allowed council housing to become self-financing in April 2012. Partly as a result of the reforms, they are now building at a rate of 1,800 new units per year; but they could produce an extra 12,000 per year if the borrowing caps imposed on them were to be raised or removed. As an illustration of the potential, it’s worth remembering that Scottish councils’ housebuilding performance is similar to that of England’s, even though Scotland only has one-tenth of England’s population.

The case for new borrowing rules to boost investment is just as powerful in other industries, such as transport. Why should borrowing for HS2 and for council housing both count towards the national debt when both will pay their way? And when neither would be treated that way in France or Germany? Why should foreign-owned transport companies like Arriva and SNCF compete against British ones, but with more favourable rules? Why shouldn’t a successful public enterprise like the East Coast Mainline work to the same rules as its European competitors? It’s high time these illogical rules were brought into line with international accounting standards, and a wholesale change made which would benefit not only housing but other industries.

8 The potential role for new towns and garden cities

To get effective long-term supply in balanced communities that are environmentally sound, new settlements or major extensions will be essential, as many politicians have recognised recently. However, we must learn from the mistakes in the relatively recent plans for eco-towns, even though the motivation behind them was good. Much more concerted efforts are needed, with the equivalent of the old New Towns Commission and the development corporations, with upfront finance in place and the ability to buy land at agricultural values. This will take time and long-term commitment.

There is also much to be learnt - good as well as bad - from the New Towns experience – what worked then, what didn’t and what the long-term lessons have been.
It would also be wrong to expect New Towns to make a significant contribution in the next parliament – but they are vital to future housebuilding in later years. Here, too, is a key point where housing and planning strategy need co-ordinating with a national transport plan – to ensure both that new settlements work and that they are models of environmental sustainability.

9 We must maintain standards

It would be a gross mistake to sacrifice standards to achieve higher output. And this applies both to new build standards and to keeping up the standards of the existing stock. The decent homes programme was a major achievement that needs ongoing investment if social housing isn’t going to slip back into the condition that much of it was in in the 1990s.

We should aim to get the best out of the government’s recent standards review, especially in terms of space, accessibility and environmental standards, that can give us new homes that will serve for many years. If there is any temptation to cut back on environmental standards, that should be driven by the need to face climate change, recent floods are a reminder of the severe risks we face and which are likely to intensify.

And what is true for social housing is true for private housing too. Just on the issue of space standards, Gentoo has shown us with their swing a cat website that Britain achieves the lowest average floorspace in new build in Europe, and that we are the only country without minimum standards. Short-term cost savings during development can often lead to increased costs over the life of a property, higher costs in use for owners and residents and homes that are less enjoyable, less flexible and less liveable. This is not a sensible course of action.

10 Make the economic case for investing in housing

We need to argue the case that housing drives growth with a speed and effectiveness that few industries can match. It therefore has a crucial role to play in this country’s economic recovery, quite apart from our wish to meet housing needs. Research by the Centre for Economics and Building Research for the NHF found that every affordable home built creates more than two jobs and generates an additional £108,000 in the wider economy. For every £1 of gross value added as a result of investment in new affordable homes, an additional £1.41 is generated in the wider UK economy:

- the total GVA multiplier of 2.41 represents one of the highest multipliers in the UK economy.
- 90% of the benefit is retained in the UK economy as housing is a highly domestic industry
- for every one full-time equivalent job supported by investment in new affordable housing, an additional 1.51 jobs are supported in the wider economy.
An additional economic advantage of building houses is speed – housing production is made up of lots of small individual schemes and they consist of individual units – it’s much easier to begin to take action to build houses than to get on site with massive infrastructure projects.

**Conclusions**

If we are to build the homes and places that Britain needs there is much to be done. And importantly there is no silver bullet.

We need to concentrate as much on maximising the output from existing players and delivery models as much as on searching for new models and approaches. It will take a combination of both if we are to get anywhere near the target of 200,000 homes, let alone the higher levels that are truly needed.

We must therefore see that target as a stepping stone towards a longer-term ambition to get to a point where we are actually building the homes we need to house all of our people in decent, affordable accommodation, built in places where people want to live. Surely this is not such an outlandish aspiration?

It will not be easy to get there, but the alternative, a continuation of the misery produced by our national housing crisis, and the drag on our national economy that it produces, is simply not an option.