



NEW CIVIC HOUSEBUILDING

— 2017 —

Rediscovering our tradition of building
beautiful and affordable homes

POLICY BRIEFING

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Acknowledgments

Shelter would like to thank the following people and organisations who attended round table discussions, commented on drafts or otherwise contributed to this report.

Christopher Weatherburn, *Princes Foundation*

Nicholas Boys-Smith, *Create Streets*

Matthew O’Connell, *CLA*

Katy Lock, *TCPA*

Chris Brown, *Igloo*

Tom Aubrey, *Centre for Progressive Capitalism*

Richard Blyth, *RTPI*

Jan Crosby, *KPMG*

Shamez Alibhai, *Cheyne Capital*

Daniel Bentley, *Civitas*

Andy von Bradsky, *Chair of the Housing Forum*

Alice Martin, *New Economics Foundation*

Adam Royle, *National Trust*

Alastair Parvin, *00 Architecture*

Stephen Hill, *C20 Futureplanners*

Martin Tett, *Local Government Association*

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Overview

In England we are not building enough homes – and haven’t for a generation. It’s at the heart of every housing problem we see: from homelessness to declining home ownership. For politicians it can often feel as though they are pulling on every lever available to them but housebuilding still fails to rise back to historic levels, and communities react negatively to proposals for new building.

This report argues that this problem exists because we have become reliant on one model of housebuilding: speculative housebuilding. Unfortunately, this way of building homes cannot deliver the number of homes our country needs on its own. It also fails to deliver the types of homes that most people can afford, or want to see built in their area. New housing supply remains unpopular in England, more so than in any other G8 country, despite housing also being the public’s top infrastructure priority.¹

Speculative housebuilding is constrained by the way land is traded. Speculative housebuilders buy land competitively with one another years before homes are built. From then on, the firm which bought the land is trying to reduce the risks created by such a major upfront investment. This means that firms cannot build and sell too quickly, or they risk undermining prices in their own market and making a loss on their investment in land. New build homes are now unaffordable to 84% of renting families across England, even with the government’s Help to Buy scheme.² A business model that relies on keeping house prices up to recoup the high cost of land will never build enough homes to bring prices down.

Tinkering with speculative housebuilding, which has been the approach of successive governments for decades, will not deliver the homes we need. If we continue as we are, rather than trying something new, then things will continue to get worse – homeownership will decline, homelessness will rise and eventually there will be another cyclical crash. Deeper reform is required to transform housebuilding so that it consistently meets what England needs.

In this report, three alternative strategies for reform are considered:

- **Planning deregulation:** first, opening up far more land for development under the speculative housebuilding model by deregulating planning. This might force firms to change their business model to focus on the volume of homes built, rather than a return on capital invested in the land market. This was broadly what happened around London in the 1930s when the capital doubled its geographic footprint. This report argues that this approach is politically infeasible and may not work now even on its own terms.

- **Public spending:** a second approach would be for the state to procure large volumes of housing outside of the speculative model to ‘top up’ development by speculative housebuilders. This was broadly the approach taken during the mass council housing boom of the 1950s and 60s. This report argues that this approach alone risks inflating land prices, creating a cost spiral, and can lead to poor quality homes when costs are squeezed. Equally, spending more public money subsidising home buyers in a constrained market will only lead to price inflation.
- **New Civic Housebuilding:** finally, a third option is to increase housebuilding outside the speculative model through land market reform – combined with targeted public investment. ‘Civic’ housebuilding starts by bringing in land at a lower, fairer cost and channels competition between firms into raising the quality and affordability of homes. It has been a model of housebuilding throughout our history, but never at sufficient scale to rival speculative building.

In the coming decades, New Civic Housebuilding offers the best prospect of building high quality, popular and locally affordable homes on a scale that can solve our housing shortage. Developers and landowners have their part to play in this, but without strong government leadership we will never achieve the scale required. The full weight of government should be put behind scaling up New Civic Housebuilding.

Ideas about how this can be done already exist. Shelter, Legal & General and KPMG developed an ‘equity partnership’ approach in our prize-winning entry to the Wolfson Economics Prize 2014. This model would see landowners put their land into a business partnership as equity over the long term, benefitting from rising values year after year – rather than taking a one-off windfall payment. We need to find ways to encourage and scale up these sorts of approaches to housebuilding: including on public land.

Ultimately, sticking with the status quo would just see housing choices get worse and worse. The main alternative options we face – such as planning deregulation or public subsidies – are unlikely to work, politically unfeasible or both.

But we must not despair. We can build high quality, popular and locally affordable homes with a ‘Civic’ approach. We’ve done it before. From the ‘model’ villages for factory workers at Bourneville and New Lanark; to the red bricks of the Peabody and Guinness estates; to Victorian and Georgian terraces in most major cities; to the ‘Garden’ cities of Letchworth and Welwyn – we have shown that we can lead the world in the quality and affordability of the places that we build.

This report argues that it’s time to get back into the habit of Civic Housebuilding at a scale that our housing shortage now demands. Only that way can we ensure that everyone in England has a decent, stable and affordable place to call home.

¹ Ipsos Mori, Base: 1,001 GB adults 16–65 (online), 26 Aug–9 Sept 2016 (Britain’s Infrastructure: Public Satisfaction and Priorities, October 2016). Ipsos Mori, Base: 18,517 adults (online), 26 Aug–9 Sept 2016

² Families in work only – the percentage rises to over 90% if all renting families are included. Shelter calculation based on ONS house price data and the Family Resources Survey.

Executive Summary

Part 1 of this report describes the speculative housebuilding model that has come to dominate housing supply in England, and explains why it cannot build sufficient numbers of homes to meet the nation's needs. Part 2 outlines the two most prominent responses to this problem – planning deregulation, and public spending – and shows how neither approach is capable of solving the problem. Part 3 explores the most viable alternative strategy – a revival of the Civic Housebuilding models that built some of Britain's most successful and attractive places. Finally, Part 4 sets out the policy reforms needed to unleash a new wave of Civic Housebuilding today, and to improve the speculative model so that both can contribute to solving England's housing shortage.

Part 1 The speculative housebuilding model

English housebuilding is dominated by one business model: 'speculative' housebuilding. Speculative developers take big risks in the hope of achieving big rewards. Their primary risk is their land purchases, which they must price based on their estimate of sale prices they will get for the homes they build. The market for developable land is very competitive: whichever firm is able to squeeze its costs the most is able to pay the most for the land.

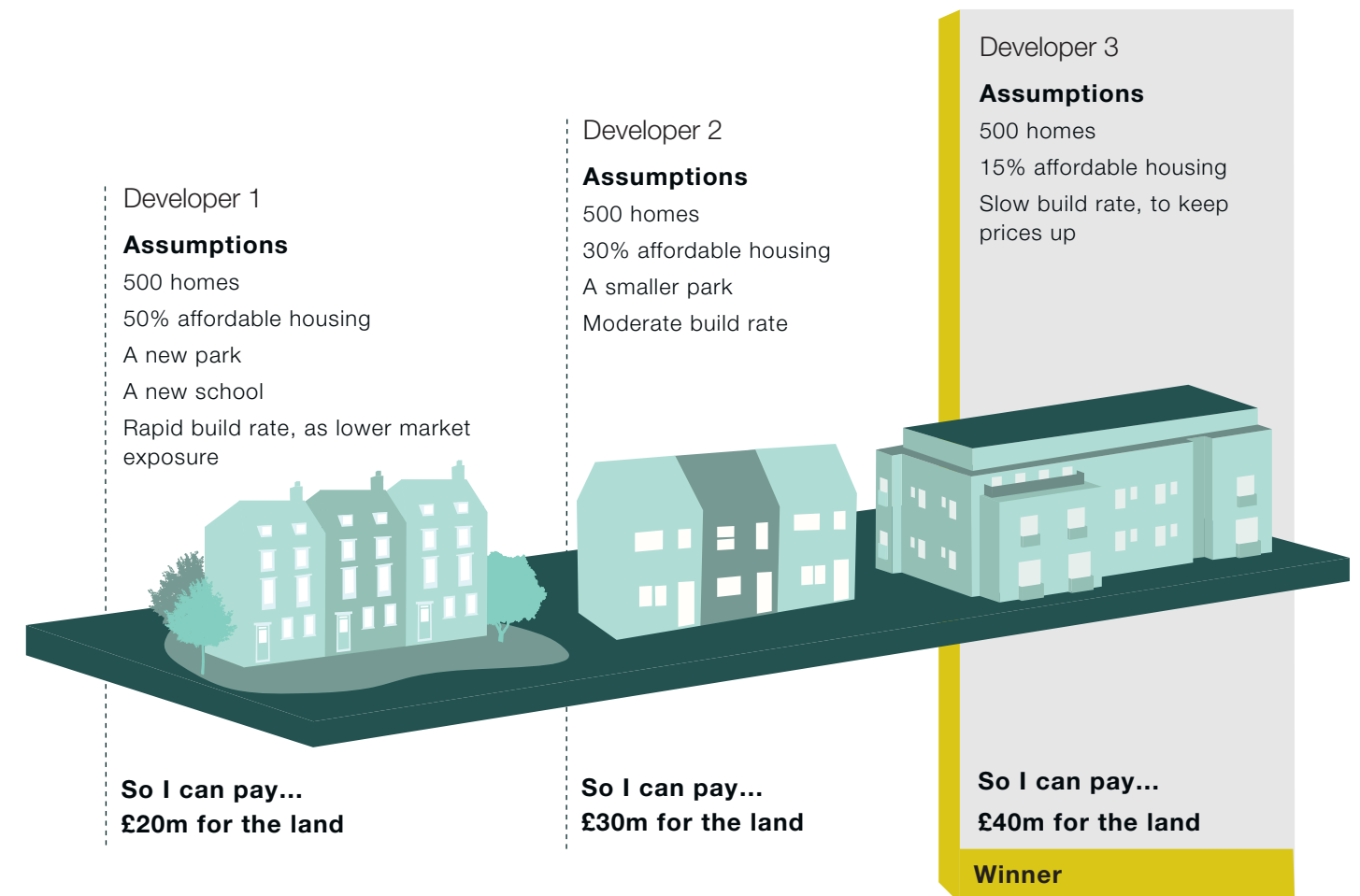


Image: three speculative developers compete to buy a piece of land

Speculative housebuilding reduces community benefits

The speculative model therefore systematically drives down the things communities value in development, such as build quality, infrastructure and affordable homes, and systematically drives up land values. This market mechanism is not the fault of the speculative housebuilding firms, whose job is to deliver returns to their shareholders. It is an inevitable consequence of competition for scarce land in a speculative market.

Speculative housebuilding doesn't make homes more affordable

Speculative developers cannot risk lowering the sale prices of their product, so only add gradually to the housing stock. Across England as a whole, new build homes are 25% more expensive even than second hand homes.³ This may be due partly to factors like size, location and energy efficiency – but it leaves new build homes as unaffordable to 83% of working families who rent privately, even with Help to Buy.

Affordability of new build homes to renting families⁴

Region	Average New Build House Price (ONS)	% of working renting families who cannot afford	% who cannot afford with Help to Buy
North East	£174,950	76%	72%
West Midlands	£206,950	95%	93%
London	£445,000	87%	81%
South West	£245,000	90%	89%
England	£255,000	88%	83%

Speculative housebuilding doesn't build enough homes

Speculative developers' output closely tracks the number of transactions in the housing market which is dominated by sales of existing homes, not new builds. As prices rise and affordability worsens, fewer transactions take place – which means fewer new builds too. And if house prices fall, speculative output drops rapidly. Over repeated cycles of the housing market, the total output of speculative development is ratcheting inexorably downward.

Speculative housebuilding squeezes out SME developers

The speculative housebuilding model also creates high barriers of entry for new firms and can squeeze out small and medium sized builders (SMEs), as they struggle to raise high risk capital to invest into the competitive land market. This limits homebuyers' choice of products and styles, and reduces industry innovation, capacity and flexibility.

The planning system only partly mitigates the problems of speculative development

Speculative developers are strongly incentivised to increase their margins by reducing the planning obligations that require them to deliver affordable homes and infrastructure⁵. Again, this is not the fault of individual firms but is the inevitable result of a negotiable planning system combined with

a highly competitive land market. The system of viability assessments, which developers use to negotiate down their obligations, was loosened in response to the 2008 housing market crash, but has remained loose even as prices, transactions and profit margins have recovered.

Conclusion: speculative development can't solve everything on its own

Speculative development still has an important role to play in delivering market priced homes, and local infrastructure and affordable housing via planning obligations. But we cannot expect speculative development alone to build enough homes, or to make them more affordable.

Part 2: Transforming housebuilding

There are three main strategies for increasing housebuilding beyond the level that the current speculative housebuilders can produce: planning deregulation; public spending; and land market intervention.

Option 1: Planning Deregulation

It is often claimed that the problems of speculative housebuilding can be resolved by releasing sufficient land to make it plentiful and cheap. In practice this would mean scrapping much of the current planning system. This view suffers from three serious drawbacks.

- First, if planning were the primary constraint on housebuilding, new permissions would rapidly translate into new homes. This is not the trend in England, where over the last decade the supply of permissions has run consistently ahead of their use.
- Second, planning system is not to blame for land scarcity. Land-use was tightly controlled before the modern planning system was born, but in undemocratic and inconsistent ways. The planning system does not create conflict over land use – it regulates inevitable conflict over an inherently scarce and essential commodity.
- Finally, land release would have to be done on a very large scale to work, such as scrapping city green belts, as marginal increases in land availability would be easily absorbed by the existing players. Deregulation on such a scale is undesirable and politically unfeasible: London's rapid expansion outwards in the 1930s could not be repeated every decade, and was swiftly followed by the tough green belt laws we have today.

Option 2: Public Spending

Another argument is that the government should simply pay for a huge

³ Land Registry House Price Index, October 2016

⁴ Source, Shelter calculations based on ONS HPSSA median new build prices, average regional first-time buyer deposits (or 5% for Help to Buy) and loan-to-income ratios from CML and households incomes (excluding income related benefits) from the Family Resources Survey. An overview of the methodology can be found in 'Forgotten Renters: Who Do Ownership Products Risk Leaving Behind?' (Shelter, 2016)

⁵ Tom Archer and Ian Cole: Profits before Volume? Major housebuilders and the crisis of housing supply; Sheffield Hallam, 2016

volume of housebuilding. Advocates of this approach point to the post-war period when housebuilding was consistently high, with more than half of all homes built by local authorities with central government subsidies. But while public investment certainly helps (especially to subsidise affordable housing or infrastructure), on its own it cannot be relied on to build enough good homes in the right places.

- Public subsidies for house purchases have an inflationary impact on house prices, and so become absorbed into the cost of land.
- Government spend a lot of capital and revenue subsidies on housing. For 2015 – 2021 government has allocated almost £50 billion of grants, loans and guarantees for housebuilding – more than half of which is for ‘market’ priced housing.⁶ The Exchequer is also spending around £21.5 billion per year keeping people in their homes with housing benefit in England, even after swingeing cuts.
- To take housebuilding up to 300,000 starts per year through public investment alone would cost between £3bn and £8bn per year extra, depending on the tenure, which would primarily flow to landowners.⁷

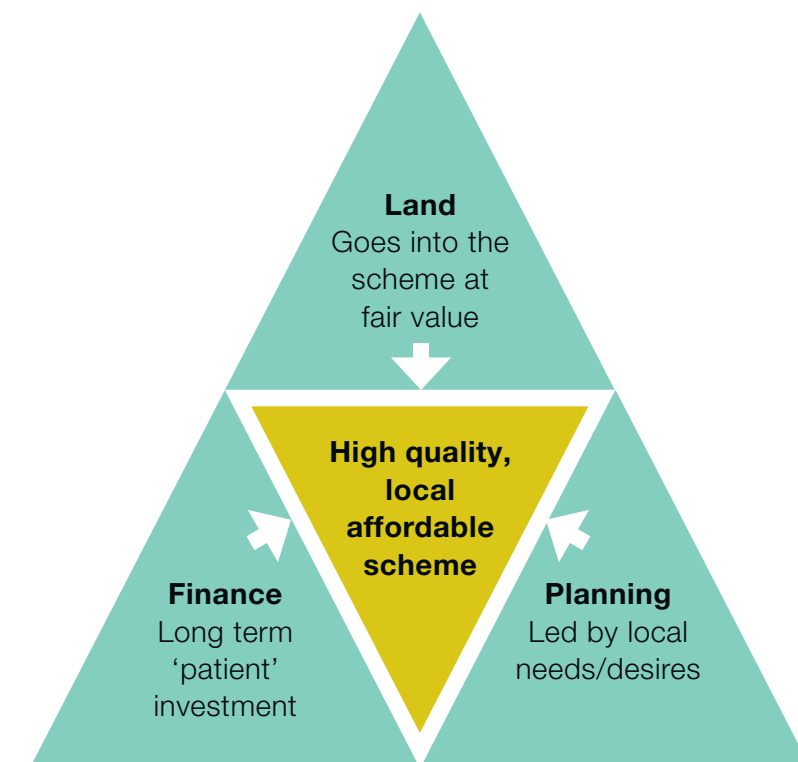
Even in its 1950s heyday, this model was supported by land market intervention as much as by public subsidies. Councils acquired a lot of land for social housing, and Development Corporations were able to build the New Towns by buying land at low agricultural values. Land costs in the early stages of Milton Keynes were just 1% of the final value of a house.⁸

Option 3: Land market intervention

A third option is to look beyond the eras of massive state spending and low density speculative building, to our history of using targeted land market intervention to build homes. Britain has a great tradition of Civic Housebuilding – high quality schemes led by public, private and voluntary organisations which prioritised the public good over speculative gain. Examples include the garden cities and garden suburbs, the New Towns, and the social housing estates built by Victorian philanthropists.

These models all share common features – in particular how they bring land into the development at lower values; use long-term patient finance; are planned in active consultation with the community; and are delivered by single-minded delivery organisations.

Versions of the New Civic Housebuilding model are still in use today, where civic-minded landowners are prepared to trade some of their windfall returns for a high quality legacy and a longer term return, or where public interest bodies like housing associations or community land trusts are able to acquire land. In other countries civic forms of housebuilding are common, or even the dominant way that homes get built.



The critical difference between civic and speculative housebuilding is the use of land. Savings on costs by speculative developers get fed in to higher land prices: civic housebuilding translates savings on land costs in to higher quality and affordability. Landowners can still make handsome returns, especially if they take a long-term interest and take revenues rather than a lump sum up front. But the objective is to maximise quality and affordability, not the land price.

Part 3: Towards a New Civic Housebuilding

Today we need a New Civic Housebuilding that responds to the needs of modern Britain: the chronic shortage of homes; the unaffordability of home ownership; and widespread disaffection with the quality of new homes and infrastructure.

The core principle of New Civic Housebuilding is very simple: **“The goal of building homes is to benefit the people who will live in them and the communities that they are part of”**. This is not to say that commercial motives cannot play a part, or that only philanthropists or the state can lead New Civic Housebuilding projects. It simply means that short-term profit-seeking cannot be allowed to completely override the wider public good in determining what gets built. This requires six central features to be in place:

1. A clear, evidence-based vision for high quality development

⁶ CIH, UK Housing Review 2016 calculated £44.75bn of grant, loans and guarantees and this was followed in the Autumn Statement 2016 by an additional £1.4bn for affordable housing and £2.3bn for housing related infrastructure.

⁷ The taxpayer would be paying the difference between what the landowner could achieve from a private market sale in our dysfunctional market and the level of a locally affordable rent.

⁸ DCLG, Transferable Lessons from the New Towns, 2006

2. A focused delivery agency, with the necessary powers and resources to implement the vision
3. Land invested or acquired at low enough prices to allow for the vision to be realised
4. Finance – particularly patient capital, that is prepared to take a long term position
5. Planning – a process of design that involves the community directly and ensures accountability
6. Construction – well built, by a range of builders and techniques, providing local jobs.

Ultimately we should be ambitious about what we can build. We are rightly proud in Britain of our heritage: our historic market towns, our universities, our pioneering Victorian engineering. We know we can build beautiful, genuinely affordable homes. We can connect them to places of work and build them along with good new schools, medical facilities, public spaces and high streets. None of this is impossible. We've just got to get back into the habit.

Part 4: Policy Recommendations

Housing policy should be aiming to unleash a wave of New Civic Housebuilding in England, by releasing land in the right places at lower values and getting it into the hands of those who want to build for the public good. There are two sets of recommendations in this report. The first is aimed at unleashing New Civic Housebuilding on both a small, local scale and for major new developments. The second set is aimed at improving the outcomes that communities get from speculative housebuilding.

1. To unleash a wave of New Civic Housebuilding across England:

- **Masterplan new high quality suburbs, urban regenerations and settlements.** Give city-regions and combined authorities the power to create New Home Zones where land can be bought at its existing use value plus a compensation.
 - New Home Zones should be included as form of nationally significant infrastructure under the NSIP regime.
 - Compensation for landowners under the 1961 Land Compensation Act should be amended to reduce the cost of land in these schemes to a level which reflects its existing use value plus compensation.
 - Section 106 and CIL should not apply to these sites, as they will have planned in the use of the planning gain from the start.

- **Deliver these new communities through development vehicles,** such as Development Corporations, with powers of land acquisition and assembly. The Corporations will act as master-developer: giving landowners the opportunity to invest their land as equity, putting in basic infrastructure, and selling serviced plots to local builders, housing associations, self-builders, Build to Rent providers and others.
- **Allow Neighbourhood Exception Sites** to be allocated in Neighbourhood Plans, based on the rural exception site model, for small housing sites not already allocated in the Local Plan. Neighbourhood Fora could specify aspects of design for the sites, and they would have to provide as many permanently affordable homes as possible. Neighbourhood Exception Sites should be allowed on green belt sites with no environmental protection status.
- **Public land should be invested into partnerships** to deliver both long term revenues for the public sector and high quality, locally affordable housing schemes, rather than being sold for the highest price to speculative developers.

2. To improve outcomes from speculative housebuilding, government should:

- **Introduce a national minimum contribution of affordable housing and minimum space standards for homes and rooms across England** (except for London, which has its own system). Above this minimum, Local Plans should be free to set more stringent affordable housing targets
- **Enforce transparent viability assessments.** If a developer claims that the minimum level is not viable then the viability assessment should be published and scrutinised, on the basis of a fairer concept of viability.
- **Create a balanced concept of viability.** The definition of viability in planning policy should be redrafted to be fairer to communities. Viability should not be judged on the basis of excessive prices paid for land, but on a fair price based on existing use values plus a premium.
- **Consider planning contracts, instead of permissions.** Government should consider how 'planning contracts' could be used to create agreements between builders and the community, specifying how quickly permissions will be built-out, with penalties for both sides if they cause the process to be unduly delayed.

Part 1: Speculative Housebuilding

“ I would describe us as speculative builders. We go out and we build to what we perceive a demand is...

David Jenkinson, Group Managing Director, Persimmon plc

“ ...we are very focused on not overtrading into uncertain market conditions and not always assuming that a goal of 200,000 houses can be met by market demand in the short term.

Pete Redfern, CEO, Taylor Wimpey plc

“ We are having to make assumptions about... where house prices will be in four or five years’ time.

...we are clearly not incentivised to sell at below market price. That is not the basis on which we bought the land.

David Thomas, Group Chief Executive, Barratt Developments plc⁹

If the current development market in England could deliver the number, type and affordability of housing schemes that people want and need then there would be no need to add an alternative into the mix. However, there is good reason to believe that it cannot. English housebuilding is dominated by the speculative housebuilding model of the major private developers. Under this model housebuilding has consistently fallen far short of what is required, both in terms of number and affordability.

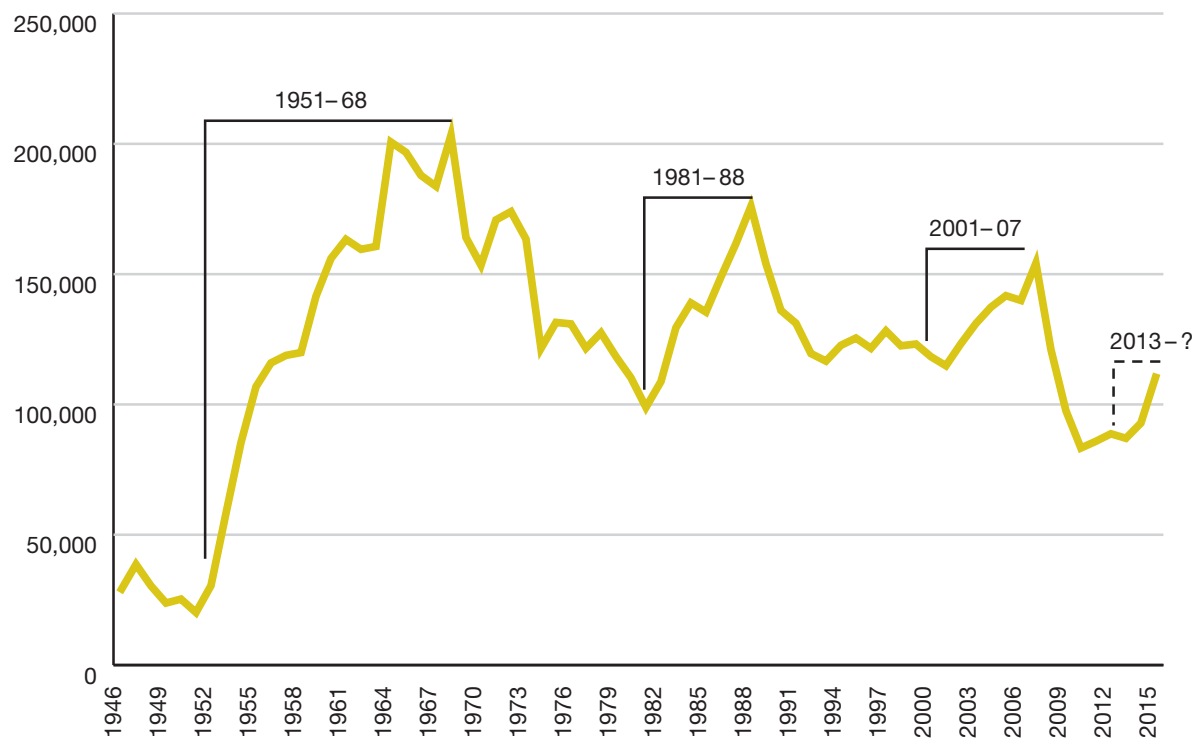
In fact, over the last sixty years market housebuilding has been ratcheting steadily downwards in England. Whenever the housing market has fallen, supply has been curtailed. And after each recession, the volume of housebuilding has failed to recover its previous peak. Even in the current policy context where the government provides huge subsidies to developers through the Help to Buy schemes, the market sector is producing far fewer homes than are needed. The homes the market does produce are also significantly more expensive (25%) than average second hand homes sold in their local market.

Region	New Build price 12mth rolling average	Second Hand price, 12mth rolling average	Difference, 12mth rolling average	Percentage difference, 12mth rolling average
England	£279,000	£223,000	£57,000	25%
East Midlands	£227,000	£165,000	£63,000	38%
East of England	£328,000	£260,000	£68,000	26%
London	£480,000	£466,000	£14,000	3%
North East	£178,000	£120,000	£58,000	48%
North West	£194,000	£143,000	£51,000	36%
South East	£353,000	£300,000	£54,000	18%
South West	£273,000	£230,000	£43,000	19%
West Midlands	£201,000	£155,000	£46,000	30%

Table: House prices new build vs second hand¹⁰

⁹ Quotations from oral evidence to the CLG Select Committee on capacity in the housebuilding industry, 31st October 2016.

¹⁰ Land Registry House Price Index, August 2016



Private market housebuilding: ratcheting down

SOURCE: DCLG Live Table 244

Many people argue that the reason for low private market output is the planning system, which holds back market developers and starves them of sites with permission to build. But over the last few years the number of plots with planning permission has risen far faster than the rate of housebuilding.¹¹ While there are lags in the system which partly explain this phenomenon, it is also evidence that – left to their own devices – speculative developers will expand supply only at the rate that is in their interest (balancing risk/reward), not at the rate at which land is permissioned. This is because they must minimise the risk of having to cut prices below what was expected when the land was bought. As the Land Director at Barratt Group puts it:

“Whilst in theory we could cut selling prices to accommodate a faster build but that would simply mean an unprofitable development – a highly unattractive prospect for our shareholders and the loss of capital to invest in other sites”.¹²

Equally, the idea of taking away planning controls entirely from local communities is a sure-fire way to make them even more hostile to new development. Most people don’t want a slow or unresponsive planning system, but they do want one which manages change in their community sensitively and effectively.

To truly understand why the current market isn’t delivering the type, price and quality of new developments that people want, we have to look under the bonnet of housebuilding. It is not the fault of the firms which operate in the market, but the rules and incentives of the market itself.

The critical role of land

The most important risk taken by a speculative developer is how much to pay for a plot of land. This is fundamental to the speculative housebuilding model as land is often the single largest cost in building homes, especially in the areas which need homes most. Even where land is not the largest cost, it is the most important. This is because its value is determined by everything else in the scheme, with the cost of land being the residual.

To decide how much to pay for any piece of land, speculative developers make a calculation – known in the industry as the “residual land valuation” methodology. This calculation, set out below, works out how much can be paid for the land, based on the maximum amount that could be achieved from the development of the site, minus the costs of developing it and the developer’s profit.

Residual land valuation

Gross Development Value

(how much the finished development is worth)

MINUS

Development Cost

(how much it costs to build, including contributions to infrastructure and affordable housing)

MINUS

Development Profit

(at a level reflecting risk)

EQUALS = Land Value (how much the developer can bid for the land)

This calculation is absolutely critical to understanding housing in England. Each speculative developer who is interested in a site will run this calculation to determine how much they are willing to pay for the piece of land. If they assume cheaper build costs, or fewer community benefits from their scheme, the price that they are able to pay for land goes up. Equally, if one developer assumes they will achieve a higher selling price for homes than another, then they will be willing to offer more to the landowner and will ‘win’ the site.

The price of land simply reflects what can be done with it. The price of land goes up if what can be built

is worse for the community (higher sales prices, fewer affordable homes), and the price of land goes down if the scheme delivers better community value. Land value is a direct trade-off between landowners and the wider community.

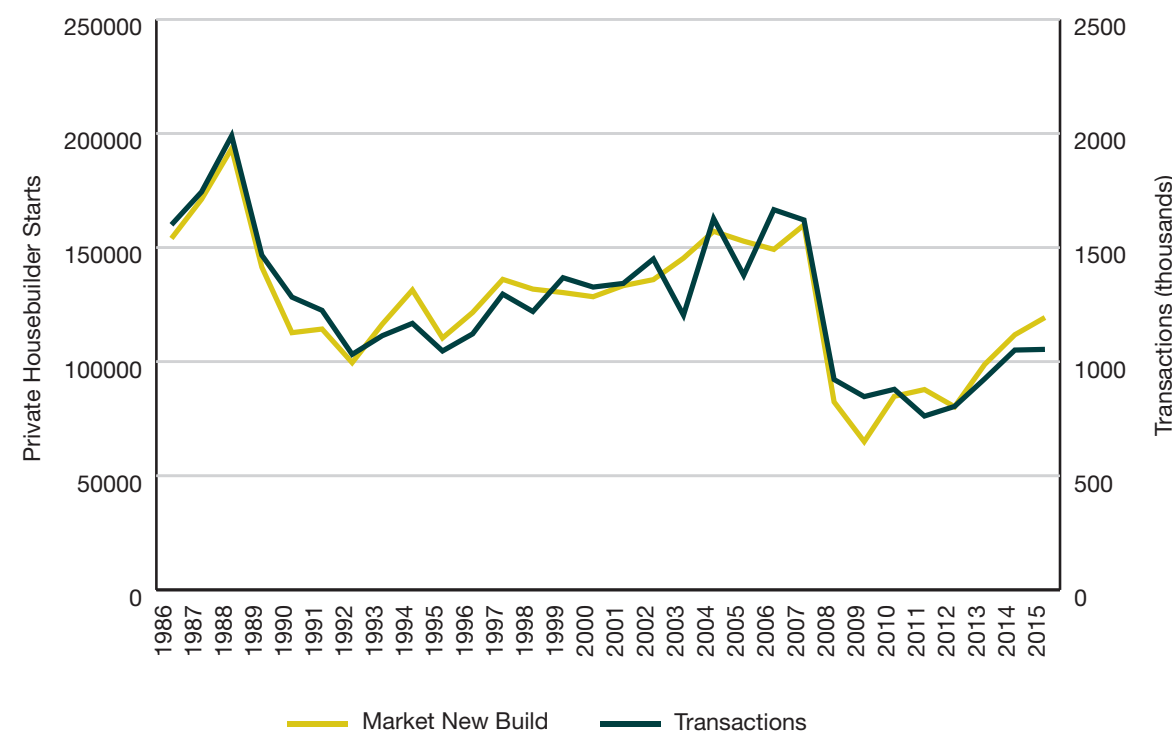
¹¹ Civitas, drawing on data from Glenigan/HBF, DCLG Live Tables 208, 120

¹² Philip Barnes blog, Delivery Gap Again, September 2016

Speculative developers build as quickly as they can sell homes at their target price

The residual land value calculation also determines the speed of housebuilding. Developers base their land price calculation on the house prices that people are paying in the local second hand property market. If they assumed a very fast rate of building then they would risk flooding the local market with homes for sale, meaning that they would need to drop their price to be able to sell the homes. Any developer which assumes too fast a rate of building would therefore become uncompetitive in the land market, and be outbid by another developer.

To avoid this, developers will phase larger sites and sell the homes off chunk by chunk over many years. In doing this, they are balancing the need to get a return on their capital invested with the risk of releasing too many homes at once. What determines the pace at which they will build is the pace at which people in the local second-hand market are buying homes.

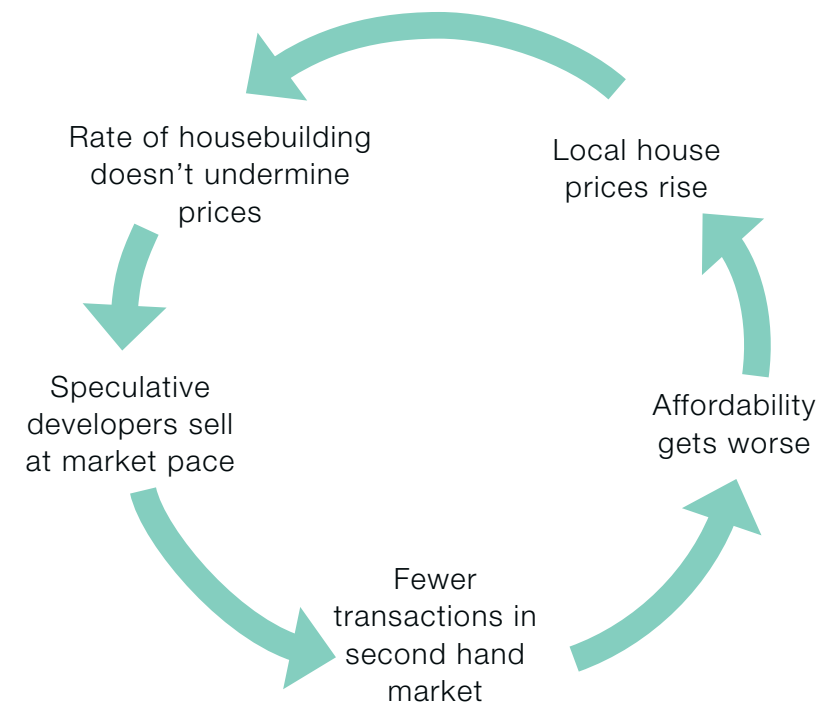


Graph: Transactions and New Builds¹³

Given that speculative developers build at a rate which does not disrupt local prices, their development will only rarely and unintentionally improve local house price affordability. If housebuilding is left almost entirely to speculative development (as it has been for a generation) then a negative loop is created. As affordability gets worse, there are fewer transactions in the market which feeds into fewer new builds by speculative developers, this then fails to counteract demand-side pressures that push up house prices, with affordability suffering as a result.¹⁴

¹³ CIH, UK Housing Review for transactions up to 2010 and then HMRC Property Transactions statistics and DCLG Live Table 244 for starts

¹⁴ It's important to add that rising house prices are not solely (or possibly primarily) a function of supply and demand. Credit, household size and earnings and other factors are critical too. However the negative loop shown is arguing the speculative development will not undermine locally rising prices.



Speculative development on its own: negative loop

What if developers did build faster than the market was buying?

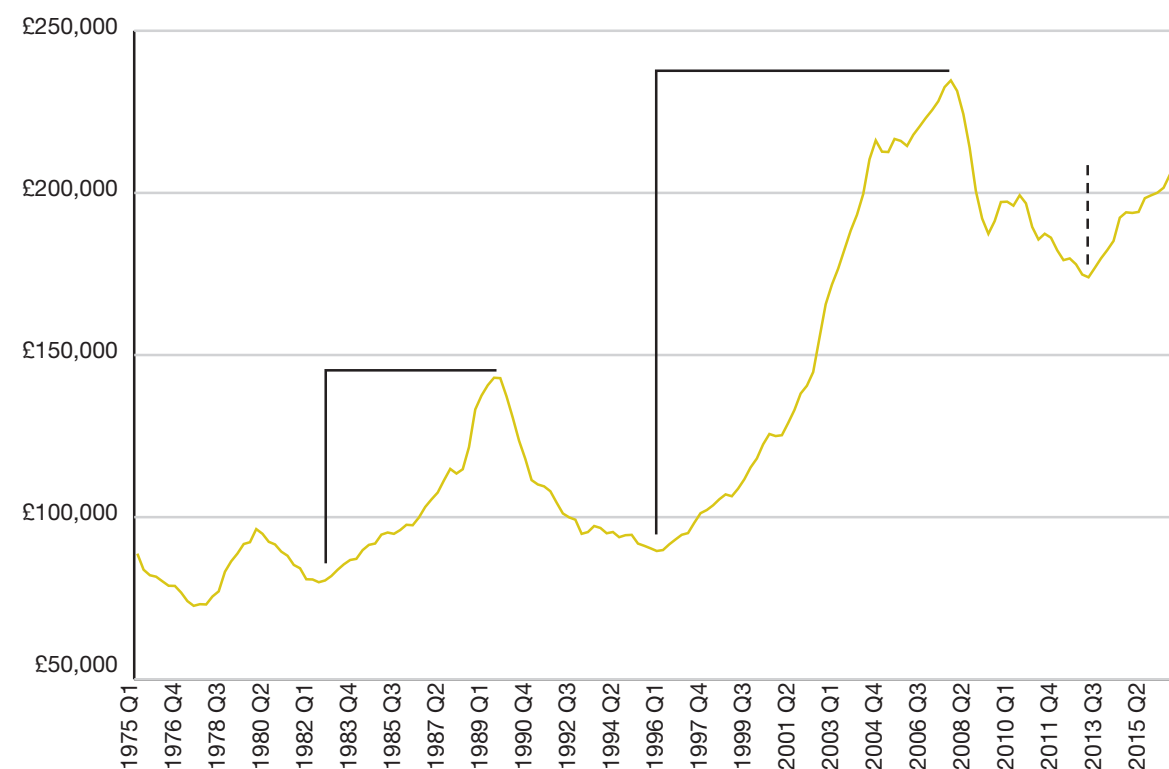
The only case where developers will over-build in a local market is where they are mistaken in their initial assumptions. Occasionally, speculative developers expect to be able to sell homes at a certain future price, but then find that the market falls away. This happened for example in some English cities in the late-2000s, as well as in Ireland and Spain. It may even be happening now in central London luxury schemes, following changes to stamp duty which may be having a deflationary impact on prices.

In cases like these, some of the larger and better capitalised developers are able to ride out the market cycle by mothballing sites, with support from major lenders (and in the case of the financial crash, the government) who are unwilling to crystallise a loss on that scale. Smaller developers however find themselves holding land on their balance sheets at a value which the market does not justify – while also holding liabilities to lenders or investors who want a return of their capital. These sweeping market cycles wipe out the smaller players whose land banks are bought up by the larger speculative developers as a distressed sale.

This boom and bust model is not a good mechanism for controlling or lowering house prices relative to incomes. Speculative development grows slowly and steadily during the boom phase – never fast enough to threaten house price inflation – and then falls away dramatically during a bust.

We end up with a development system that ratchets down production after each recession, and prices which ratchet up during each credit cycle, unchecked by housing production.

Boom and bust is also a terrible model for people within the housing market. In Ireland, Spain and sub-prime America millions found themselves in negative equity and unable to pay their mortgage as the housing and financial market crisis spilled into the real economy. None of this is the fault of speculative developers, but as a system overall it offers poor choices to new consumers in the boom phase and disastrous consequences for recent consumers in the bust.



House prices – upwards ratchet¹⁵

There is no low cost alternative in the speculative housing market

There is no speculative developer providing “low cost” homes for sale within a local market. Put another way: there is no IKEA, Primark or Lidl of housebuilding aiming to produce large volumes to lower margins. To be competitive in the land market you must make all the same assumptions as your rivals: about the sales prices of homes, about the speed at which you build and sell, and about the minimum contributions to planning and affordable housing you can ‘achieve’. If you tried to run a speculative housebuilding firm by offering homes at below local market prices but in greater volumes you would simply be outcompeted in the land market.¹⁶

¹⁵ UK House Prices, Inflation Adjusted for Retail Prices, Nationwide, 2016

¹⁶ The only way that homes can be offered at discounted prices or rents within the speculative housebuilding system, is when there is a subsidy which makes up the difference to the market price. That subsidy could be from government as a grant, or it could be forced onto land prices by the planning system. However no developer could offer “affordable housing” in a competitive land market without subsidy or compulsion. If they did that, they would be outbid for land.

When fully analysed, it is clear that the housing development market is closer in form to a scarce natural resource market (such as oil or mining) than a mass consumption market (groceries, unbranded clothes). Firms in these markets often prioritise maintaining margins over delivering volume, as far as they can: in other words, economic rents (due to scarcity) are critical to the dominant business models in these sectors. However housing markets are different even to these, as the main commodity, land, is essential to all economic activity, fixed and permanent.

While there are differences, you can see public policy struggling to grapple with similar problems in other scarce resource markets such as for oil and gas. Governments have long struggled to tax the economic rent on oil and gas production effectively¹⁷ – and these markets have witnessed the emergence of speculative intermediaries who exploit scarcity by holding resources and watching prices rise.¹⁸

The planning system’s role

The planning system plays an ameliorative role within this speculative housebuilding model. Local authorities set Local Plans, and now even local Neighbourhoods can create their own Plans, within a planning system that remains essentially discretionary. Plans therefore set out the sort of development that the community wants to see, but it is up to market actors to bring forward proposals for actual development in the form of planning applications. Plans should then set the terms on which planning applications are judged and approved. These Plans can include local policies for affordable housing, supporting infrastructure and even the style of development.

In theory, these Plans should set land prices. If all developers know that to get planning permission they will need to deliver a fixed percentage of affordable homes, or a particular quality or type of housing, then they will factor these costs in when they are pricing and bidding for land. So if the Local Plan sets a new, higher level of affordable housing, land values should fall and the proportion of affordable homes delivered should rise.

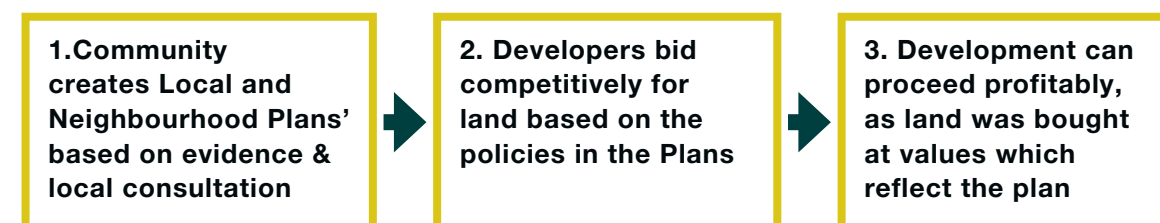


Image: How planning should work

¹⁷ Miller, Ireland, Cripps and Zhang; Collecting Economic Rents on North Sea Oil and Gas: A Proposal, 1999

¹⁸ The analogy here is not with developers but with intermediary land trading and promoting companies who bid up the price without any production.

In reality, England’s planning system does not work this way. Instead, land values are set upfront in the land market, and the obligations on development are contested and negotiated on the basis of those values. Growing numbers of planning permissions are determined through the appeal system, rather than through the local democratic process.¹⁹

Developers know that councils are under huge pressure to approve sites for housing and in fact will be obliged to do so if they don’t have enough sites already in the pipeline (5 years’ worth of identified land). Even seemingly rigid planning policies (like fixed affordable housing percentages) are expressly negotiable and flexible. This ‘flexibility’ is then inevitably factored into prices in the land market. Developers are incentivised to bid for land on the basis of negotiating down their commitments through the planning system – again, if they don’t do this they will be uncompetitive.



Image: How planning often works in England

The key concept in the process of negotiating planning obligations is “viability”. This has been defined in national planning policy as “[providing] competitive returns to a willing land owner and willing developer to enable the development to be deliverable”.²⁰ Originally, this concept was intended to allow pragmatic flexibility in the system, as it is impossible for planning policies to cover every possible eventuality in advance. As the use of Section 106 evolved it was held to be essential to preserve flexibility, so that an overly rigid interpretation of policy would not render beneficial development impossible.

Whatever the intention of this definition, it leaves enough room that developers and landowners can and do often claim that they are not receiving a ‘competitive’ return if a Local Planning Authority rejects a development on the grounds that it does not meet their local policy. A 2013 study by the Bureau of Investigative Journalism found that of 82 large developments across 12 UK cities, just 40% met local planning policies on affordable housing.²¹

¹⁹ Since 2010 the number of dwellings approved at appeal has more than doubled, from 16,000 to 36,000 (DCLG, Planning Inspectorate)

²⁰ DCLG, National Planning Policy Framework, 2012

²¹ BIJ, The Housing Crisis, 2013

The heart of the viability problem: expectations

At the heart of all this is of course land – and in particular the price expectations of landowners themselves. As the Planning Inspectorate has put it:

“...unless landowners can be persuaded that it is worth their allowing their site to be (re)developed then they will not make the decision to allow their land to be brought forward and the development land market will not function.”²²

Landowners will not sell their site willingly for development unless they feel that they are getting the best possible price (advised by their agents). This applies whether the landowner is a private individual, a company, a speculative housebuilder, a speculative land trading company or a public body. Price expectations are based on what is happening in the local market and the offers that they receive from competing speculative developers.

In 2012, Molior estimated that 45% of all residential planning permissions in London were on land controlled by firms that had never built anything. The implication is that these firms are speculating on future rises in land values. Two years later the position had improved, but the figure was still around a quarter of all permissions.²³ Firms that buy permissioned sites to sell them on are likely to try to secure more advantageous planning permissions by lowering their obligations before selling on the site, as this increases the value. The ‘flexibility’ around obligations that the planning system provides is creating a vicious circle of rising expectations, rising offers and the expectation of contested planning decisions and higher land values.

All of this happens within the context of a highly opaque land market, where information on land values, ownership, planning status and policy is often not easily publicly available. Information asymmetries mean that both landowners and local planners (whether at the LPA or Neighbourhood level) are often in the dark about what the right value should be for a plot of land – or how much affordable housing can reasonably be expected.

Ultimately, all the cards are held by landowners and their agents. If a landowner decides not to sell, but has a piece of land which is vital to the growth of a local area then all the intense competitive pressure within the system goes towards bidding up the price of that land. All that upward price pressure is at the expense of the quality and affordability of the scheme for the local community. If a landowner decides not to sell at all, but to wait for values to rise, then it is the community that suffers the blight and opportunity cost from the undeveloped site.

²² PINS report into Barking and Dagenham Economic Viability Assessment

²³ Molior for the GLA, Barriers to Housing Delivery, 2012

Landowners are therefore in a monopoly position – the “mother of all monopolies” as Winston Churchill described it. Until this is recognised and addressed, policy efforts to make homes more affordable risk simply inflating land prices, increasing expectations of future price rises, and ultimately pushing up housing costs even further. We need to disrupt that monopoly position one way or another – and in the next chapter we turn to one common answer: planning deregulation.

Conclusion: speculative development can't solve everything on its own

Speculative developers are very good at what they do. Primarily they are land buying, holding, trading and developing businesses who manage risk across a long period of time. In a volatile and competitive market for land they deploy their capital cautiously and ensure it achieves a large enough return to protect them if the housing market turns. This makes speculative developers very profitable when the market is rising, and helps them to weather the market fluctuations that they are so vulnerable to. It also means that consumers and communities are not the primary beneficiaries of competition in this market. The beneficiaries are landowners who are able to exploit their local monopolist position and extract windfall returns.

We cannot expect speculative development alone to make housing sustainably more affordable. It builds and sells at a rate which will not disrupt local prices. This is built into the model. To make homes more affordable relative to incomes we need to look beyond the current speculative housebuilder model. However speculative development does still have an important role. It delivers hundreds of thousands of market priced homes, which prevent prices rising faster than they would otherwise. It can also be a great source of local infrastructure and affordable housing through the planning system – if the rules are clear and the process fair and transparent. The challenge is how to sustain and grow the positive contribution that speculative development makes, while recognising its limitations and growing alternative sources of supply.

Clerkenwell Borough of Islington, London



Part 2: Transforming Housebuilding

Option 1: Planning Deregulation

“

...arbitrary designations like “green belt” should be abolished altogether

Dr Kristian Niemietz,
Institute of Economic Affairs

“

We will protect the Green Belt

Conservative Party Manifesto 2015

“

As a diminishing resource, land must not be wasted.

10 Principles of Development,
Duchy of Cornwall

The speculative housebuilding model, underpinned by the distorted land market, is unlikely to provide high-quality, locally affordable developments on its own. However, there are many housing market commentators and experts who broadly agree with this diagnosis, but believe the best way to disrupt this broken model is to deregulate the planning system.

In practice this would mean taking away some or all of the ability of the planning system to prevent speculative development. In taking away this control of land use, advocates for reform hope that land prices would fall dramatically as there would be much more land which could be built on. After a period of (major) disruption, this would force firms to compete on their selling price and product, rather than just competing to buy, control and slowly develop land. It is a vision of a genuinely free market solving the housing shortage.

Advocates for this approach often point to London in the 1930s as an exemplar. In that decade the speculative housebuilders did build a huge volume of good quality housing that was broadly affordable to middle earners. It was the era of “metro-land”, when new tube lines and rising car ownership allowed the middle classes to live further outside the city in newly built suburbs and exurbs such as Bromley, Harrow and Enfield. London’s urban footprint roughly doubled. It was also a period when credit became readily available to consumers as Britain came off the gold standard and had well capitalised building societies willing to lend.

It is very important to take this line of argument seriously. It makes intuitive sense to many people and often the principles behind it (i.e. planning restricts growth) inform policy responses, such as the loosening of planning obligations under the viability assessment system, or calls to lift restrictions on building height or weaken space standards. It chimes with the narrative that selfish NIMBYs are using the planning system to successfully block housebuilding, and that only by bypassing them can we build adequate numbers of homes.

The case for planning deregulation

It is undoubtedly the case that planning restrictions reduce the supply of land for development and therefore raise its price. This has been confirmed in extensive academic research.²⁴ Without land use controls, land prices for development would be lower.

²⁴ i.e. Glaeser and Ward, The causes and consequences of land use regulation (Journal of Urban Economics, 2009); Gyourko, The Impact of zoning on housing affordability (Harvard, 2002)

“ This has led the Adam Smith Institute to argue:

...if we want to deal with the “housing crisis” what we need to do is reform the planning system. Probably to the one we had before it caused this particular problem which was, essentially, to have no planning system at all.²⁵

Adam Smith

Without any land-use planning system, any owner of a piece of land would be able to choose whether or not it was to be developed. The system advocated need not necessarily be a free-for-all: there might still be building regulations controlling the quality and the type of development that occurred. However, a local council would not be able to prevent homes being built in their area, should the landowner choose to develop.

Others do not even go this far, but instead target a particular control of land-use. Often this target in England are the city green belts: huge areas of land around the periphery of many of the largest cities, in which new development is largely prohibited. These green belts have strong status in national planning policy, where they are justified as means to prevent urban sprawl and protect distinct urban centres. Land in green belts does not, contrary to popular belief, have any inherent environmental value – in can be brownfield developed land, or greenfield undeveloped land. In practice much is intensive agricultural land.

Those who advocate the abolition of green belts claim they are the major land constraint on housebuilding, in exactly the places it is needed most. For example, Tom Papworth has argued:

“

The avenue of reform we favour is the complete abolition of the Green Belt, a step which could solve the housing crisis without the loss of any amenity or historical value – if only politicians and planners had the courage to take it.²⁶

Tom Papworth

²⁵ ASI, It really is planning that is the problem with housing and house prices, 2015

²⁶ London Forum, the Green Noose, 2015

Others have argued that along with deregulating national and local planning there should be a new form of control, directly on the shoulders of those most affected by development. Alex Morton, a former Number 10 adviser on housing, has argued:

“

Those who really have an interest in quality are those who own the neighbouring buildings to land or buildings being changed or developed. These people who have a direct interest and it is they who should form a check on quality, not the council. Planning permission should take account of this. With local plans reduced, this should be a key factor in the decision making process.²⁷

Alex Morton
A former Number 10
adviser on housing

He proposes that landowners should have permission to build on their land if there are no local objections, and should only be blocked in exceptional circumstances if more than half of local people object. There would be direct financial compensation for development on greenfield land to those close-by, to make up for the loss of local amenity. Morton further argues for the abolition of Section 106 – the system which provides low cost homes through planning obligations.

In summary, these approaches see the existing planning system as the core problem creating high housing costs. They all argue that lifting restrictions on land use would allow the market to operate freely, and so reduce land prices significantly, feeding through to more and better development. In the long run, increased supply would lower the price of homes too, obviating the need for affordable housing tenures.

²⁷ Morton, Cities for Growth, Policy Exchange, 2013

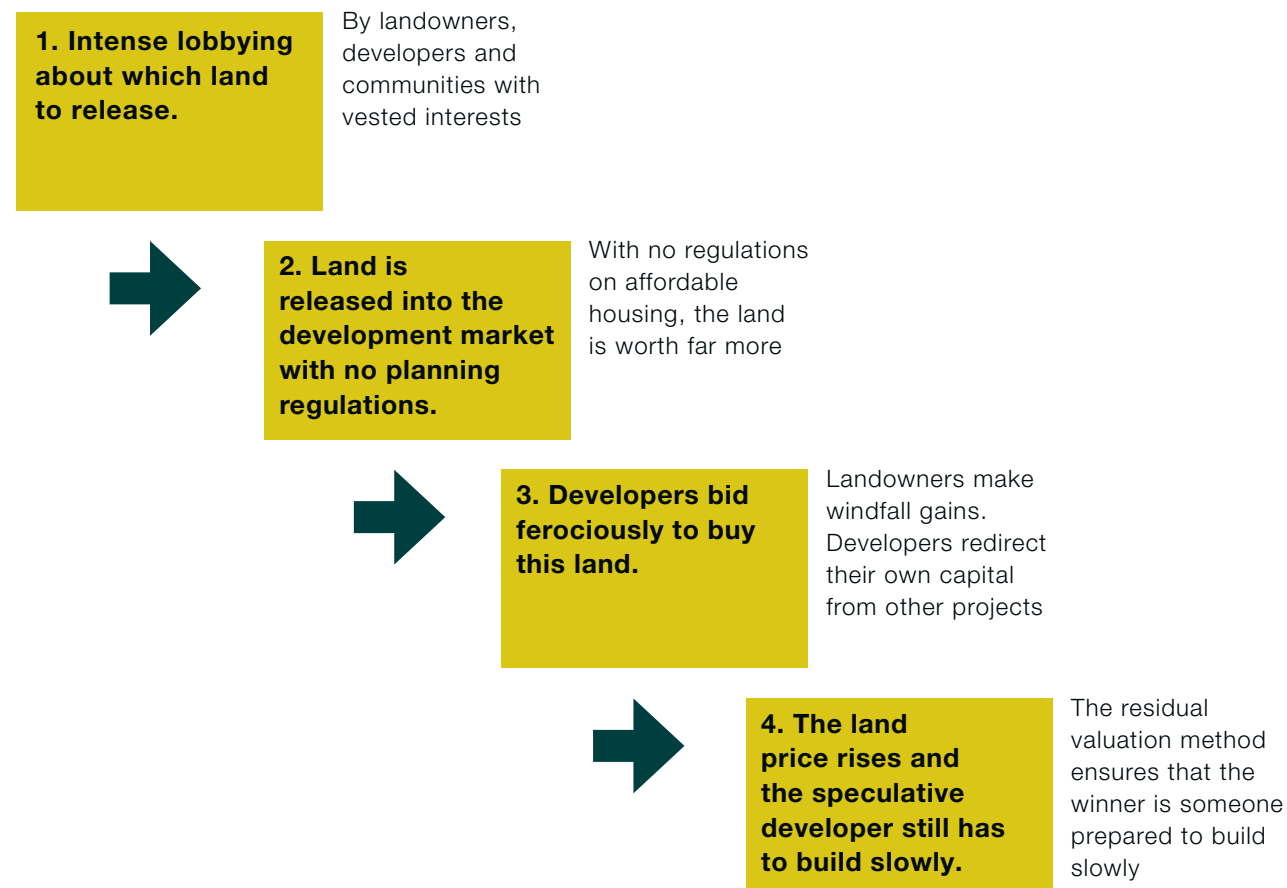


Image: 'Semi-skimmed planning deregulation'

Why can't we have our cake and eat it?

Before looking at the objections to full planning deregulation it is important to point out the flaws with any half-hearted approach to deregulation. This line of argument is that we don't need the wholesale planning deregulation advocated by free-market think-tanks, but can simply deregulate parts of the planning system (or planning in particular places) and therefore get more and better development, without too much backlash from NIMBYs.

Unfortunately, the nature of our speculative housebuilding system means that a bit of planning deregulation won't deliver the desired effects. Small deregulations that might release a bit more land than the planning system currently does would simply feed more land into a speculative system left otherwise unchanged. It would not disrupt the model in the way the liberalisers want.

To illustrate this point, imagine that councils were given the ability to designate "no planning zones" – areas of land within their boundaries where the planning system would not apply and landowners could do what they want, provided basic building regulations (for example on fire safety) are met.

The immediate impact would be that speculative housebuilders would ferociously bid for the land in these zones. This is because the lack of any planning obligations (S106, CIL, design codes) would make the land very valuable to them. Owners of land within these zones would reap huge windfall gains. The developers could then sell homes on these sites under the speculative model – slowly, maintaining margins – but not have to provide affordable housing or local infrastructure. The intense competition for plots of land in these zones would leave us with the market building much the same as it builds now, but without any additional community benefits. Other sites that did not benefit from this planning free-for-all would be neglected, as developers focused their resources and attention on the new zones. In fact, they would have to neglect sites outside the zones, as these would now deliver levels of return below those inside the zones, and so would be deemed 'unviable'.

The net results would be a similar overall level of development, but at lower quality. Once the planning free zones had been built out, landowners and developers would turn their attention to their other sites – but rather than build these out with all the costs associated with providing affordable homes and proper infrastructure, political pressure would be applied to designate new planning free zones.

This is what will happen if green belt land is released bit-by-bit, without any planning intervention to capture land value uplift: a speculative frenzy would drive the price of such sites up rapidly, undermining the quality of any development that could be built there, while more complex, brownfield sites would be neglected.

If policy-makers want to take planning deregulation seriously, then only full-fat planning deregulation makes any sense – otherwise the potential gains will simply be absorbed into land values by the speculative housebuilding model. Unfortunately, there are equally important objections to massive planning deregulation.

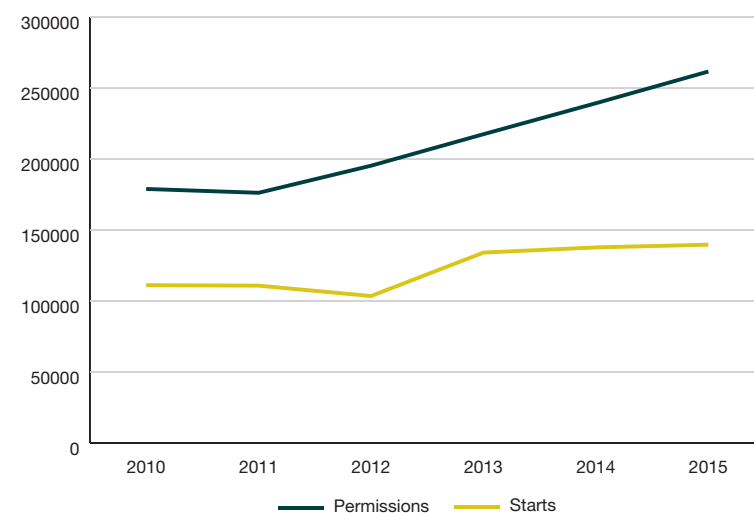
The problems with massive planning deregulation

At face value, there seems to be much to commend the approach of planning deregulation to tackle the housing shortage. By releasing lots of land into the development system at once, it tries to tackle directly what we have seen is the root of the problem – high land prices creating a dysfunctional housebuilding system. Moreover, the basic case is intellectually coherent and consistent with a strong theoretical framework around the merits of free markets.

However, there are strong reasons why this approach has not been undertaken and will not be undertaken in the future. Below are the main reasons why this approach has failed to gain any traction:

1. We already grant many more planning permissions than homes are built

If planning were the sole, or even the primary, constraint on housebuilding you would expect new permissions to rapidly translate into homes. The *demand for permissions* within the housebuilding market would exceed the supply of permissions and so the stock of unbuilt permissions would be under constant downwards pressure. However this is not the trend we see in England, where over the last decade the supply of permissions has run consistently ahead of their use. Since 2010 we've been granting over 60,000 more permissions per year than there were actual housing starts.



Planning permissions and housing starts, England²⁸

This imbalance between permissions and housebuilding is not an inevitable feature of any system. In Germany, a country which is more interventionist in the land market, the gap between permissions and builds is much smaller. A study by IPPR found that over the last three years around 80% of permissions became homes in Germany, whereas in England the equivalent proportion was around 50%.²⁹

The clear evidence is that the volume of speculative housebuilding occurs at the pace which secures the optimal sales price, not the pace which meets total demand, or the pace set by the rate of planning permissions. Market housebuilding rises when local demand (for new build homes at the optimal price) is rising. This is more of a factor of effective demand – such as the availability of government

subsidies and mortgage credit, and investor demand – than of the supply of planning permissions. Planning would only act as an overall constraint on speculative housebuilding volumes if permissions fell below this level of effective demand, which the data suggest is not currently the case.

2. Land-use is controlled, regardless of the modern planning system

While it is tempting to see the scarcity of land as a direct consequence of planning, the reality is the other way around: the land-use planning system exists because land is inherently scarce, fixed, permanent and essential for any economic activity. This makes land unlike any other commodity we use. Unlike most other commodities, land cannot be created or destroyed and most of its value does not come from its quality, but from its location and use.

This was noted by the classical economists. For example, Adam Smith wrote:

“

The rent of land not only varies with its fertility, whatever be its produce, but with its situation. . . . Land in the neighbourhood of a town gives a greater rent than land, equally fertile, in different parts of the country.³⁰

Adam Smith

There are many commodities which are rare and therefore valuable, but there are no others which are also essential to all human activity, fixed and permanent. Classical economics recognised this and identified three fundamental factors of production: land, labour and capital. Only relatively recently has the understanding of land as a fundamentally different factor been lost, with many modern economists treating land as just another form of capital. But land is not like capital and cannot be properly understood as such.³¹

Some think-tanks today often hark back to London's rapid expansion outwards in the 1930s³² as if there were a golden age before planning. But people will inevitably disagree about how land near them is used (and have done so for all human history). The current system, for all its imperfections, is just the latest in a long series of attempts to mediate competing social and economic interests over land use.

²⁸ Taken from Bentley, Planning Approvals versus Housing Starts 2006–2015 (Civitas, 2016)

²⁹ IPPR, German Model Homes, 2016

³⁰ Quoted in Watson, Land Use and Adam Smith, Scottish Geographical Magazine, 1976

³¹ Ryan-Collins, Lloyd and Macfarlane, Rethinking the economics of land and housing (Zed Books, 2017)

³² Even then it required a credit boom as the UK left the Gold Standard. A credit boom today would be far less likely if land values fell dramatically following massive planning deregulation, given the exposure of UK financial services to the housing (and therefore land) market.

For example:

- **Feudal land ownership** was a system in which aristocratic control over huge areas of land was granted through Royal patronage, and passed on through inheritance. Some people were tenants to a freeholding Lord, while many more were villeins (akin to serfs) without tenancy status. Their ability to use land for sustenance or to build homes themselves was dependent on the will of their freeholder: so land use was regulated by feudal overlords. Most people had only limited rights over the land they lived on and farmed. This was shown dramatically during the period of “enclosures” when millions of people were forced from their homes as tenanted and common land was consolidated into single ownership fields, as a way to raise productivity and yields.
- **In 1589, Elizabeth I passed a statute against ‘erecting and maintaining cottages’.** The law was passed “For the avoiding of the great inconveniencies which are found by experience to grow by the erecting and building of great numbers and multitude of cottages, which are daily more and more increased in many parts of the realm.”³³ The Act came in response to a growing population and made it illegal to build a cottage, or convert a building to a cottage, without four acres of land, as this was deemed to be spoiling the enjoyment of open land. Elizabeth I also created London’s first “green belt” in 1580, by banning the construction of buildings within three miles of the capital’s boundary to stop the spread of plague and preserve farmland.³⁴
- **Municipal Corporations** ran key functions in many English towns and cities in the 18th and 19th Centuries. Most of the urban poor lived in slums throughout this period, as do the urban poor in many developing countries today. Slums – which are very poor dwelling conditions proximate to city economies – are one of the most profitable uses of land, because they maximise the number of rent payers per acre. Conditions were so poor in London slums that the city’s death rate exceeded its (high) birth rate throughout the 19th Century. The city only grew so fast because of in-migration.³⁵ Slums were only systematically phased out of English cities through planning intervention and rebuilding in the 20th Century.
- **Victorian landowners** had much personal control over the use of their land. For example, in 1875, Parliament debated a new Bill to improve public health by tearing down inner city housing and building new homes on the edge of towns. Lord Robert Montagu pointed out however that in his part of Kent:

“

The whole land outside the town belonged to Lord Radnor, and he either could not or would not sell an inch of ground, and would only grant leases for a very short period. Only noble mansions, which were almost palaces, were allowed to be built, and for these a high ground-rent was charged. It was not likely he would give his consent to the building on that land of cottages for the humble working classes.³⁶

Lord Robert Montagu

- **In 1909 a Housing and Town Planning Act** was introduced, which established the principle that the “use of land for building purposes shall be subject to control in the public interest, as well as for the profit of the owner.”³⁷ The Act banned back-to-back housing, which was seen as synonymous with slums. The Act gave greater powers to buy land and control land use to local government.

These examples show that forms of control over land use (and land value) were not new to the 1947 or 1990 Town Planning Acts. They have existed for centuries. Modern planning systems – which exist in every post-industrial country on Earth – are simply a way of bringing local democratic accountability to the inevitable conflict over the use of land.

Scrapping the planning system would simply shift these power structures away from democratically elected bodies into other power relationships. These other relationships may have much less interest in delivering widespread affordable housing than a locally elected planning authority. This may particularly be the case now, given that many of the prime plots of developable land around major cities are owned or optioned by none-other than the speculative developers themselves. There is little evidence from England’s history that such a shift in power would be of great benefit to those on lower incomes.

³³ Tankard, The regulation of cottage building in 17th Century Sussex, Agricultural History Review

³⁴ Nelson, Dawkins, Sanchez; The Social Impacts of Urban Containment, (Ashgate 2007)

³⁵ Ackroyd, London: The Biography (Vintage, 2001)

³⁶ Grant, J, Old and New Edinburgh (Cassells, 1880)

³⁷ Thompson, Handbook to the Housing and Town Planning Act 1909, (National Housing Reform Council, 1910)

3. Massive planning deregulation would be very unpopular

Aside from theoretical underpinnings, there is a far simpler reason why planning won't be massively deregulated: public opinion. While there has been a notable shift in attitudes in favour of more housebuilding locally,³⁸ there is consistently very little support for taking away planning controls to a large degree.

A good proxy for massive planning deregulation is the abolition of green belt status. Not only would this be required for sufficient land to disrupt the speculative housebuilder model, but it is in fact often the target for those who advocate this sort of approach (see above).

Around two-thirds of the public oppose building on green belt land, with concentrations among important voter groups such as older people.³⁹ Building on green belt land was the least popular potential housing policy of ten tested in another poll, for the Home Owners Alliance.⁴⁰

While a strong case can be made for development on small portions of low-environmental value and highly accessible green belt land (as is recommended in this report), the deregulation case relies on total abolition of green belt status. This is simply a highly unpopular policy choice and it should therefore be no surprise that no mainstream political party endorses such a position. Despite the housing crisis being Londoner's top political priority, successive Mayors of London have strongly ruled out any deregulation of green belt land – precisely because of the view of their electors.

Conclusion

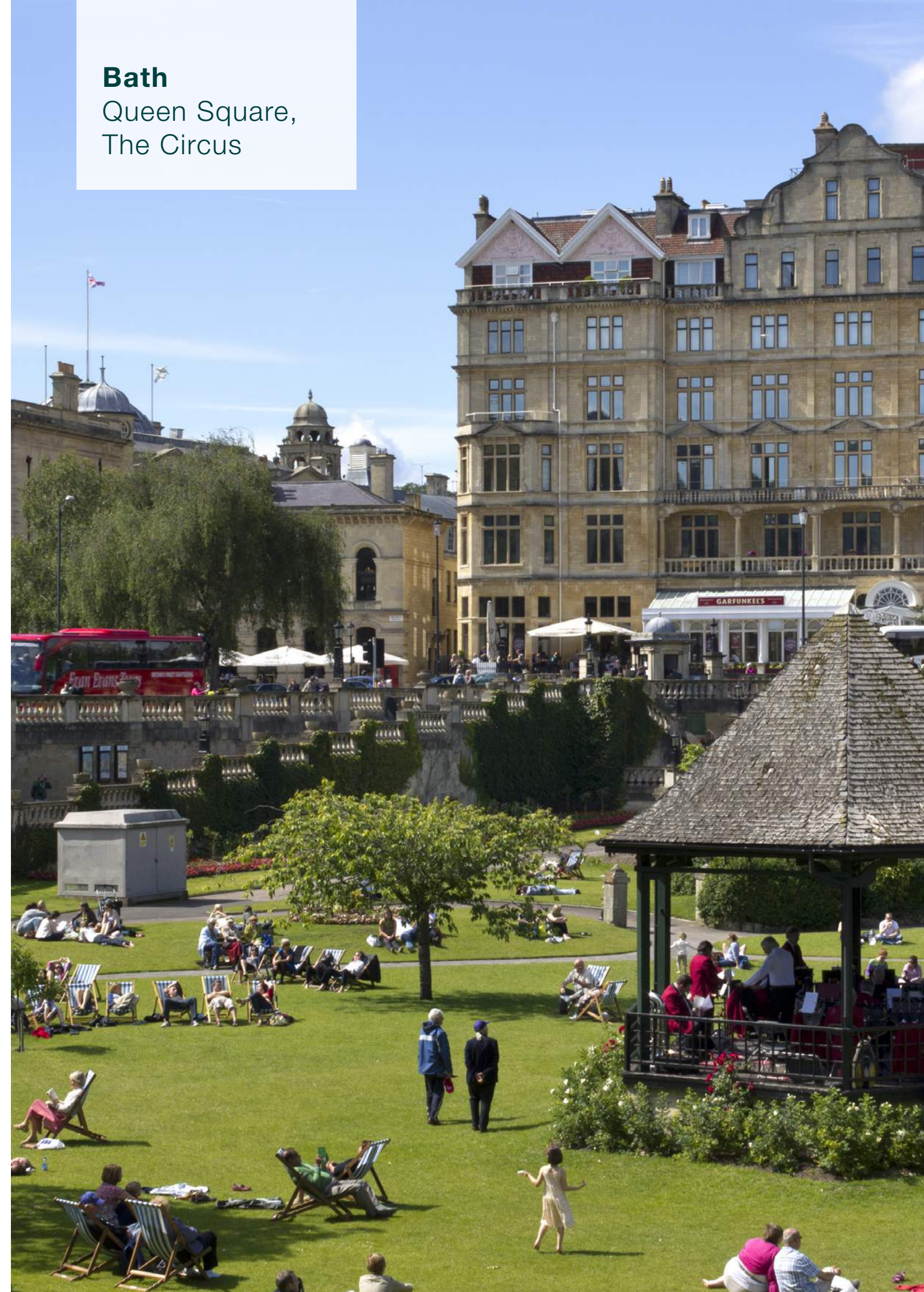
In the absence of a change of public and political opinion, a better option is needed than massive planning deregulation. While some tweaks to the planning system could be beneficial in the short run, they are ultimately absorbed into land prices within the speculative market. Only massive planning deregulation could disrupt speculative housebuilding to the extent that it becomes competitive on price and quality to middle and low earning consumers. Such a scale of deregulation is politically impossible and a risk, given that other forms of less democratic land use control are possible.

³⁸ NatCen, British Social Attitudes Surveys

³⁹ YouGov for BroadwayMalyan, 50 shades of green belt, 2015. Sample: 4,510. Ipsos Mori, Attitudes to green belt land, 2015

⁴⁰ YouGov for the Home Owners Alliance, 2015. Sample: 2184

Bath Queen Square, The Circus



Part 2: Transforming Housebuilding

Option 2: Public Spending

“

“...foreign currency to obtain soft wood; a special increase of nine per cent in the output of the cement industry; almost one million tons of coal; and about 2,000 million bricks

Conservative Research Department
briefing on whether 300,000 homes
could be built, 1950s⁴¹

“

Housing benefit is there to take the strain for those who cannot pay

Sir George Young, Housing Minister,
1993

“

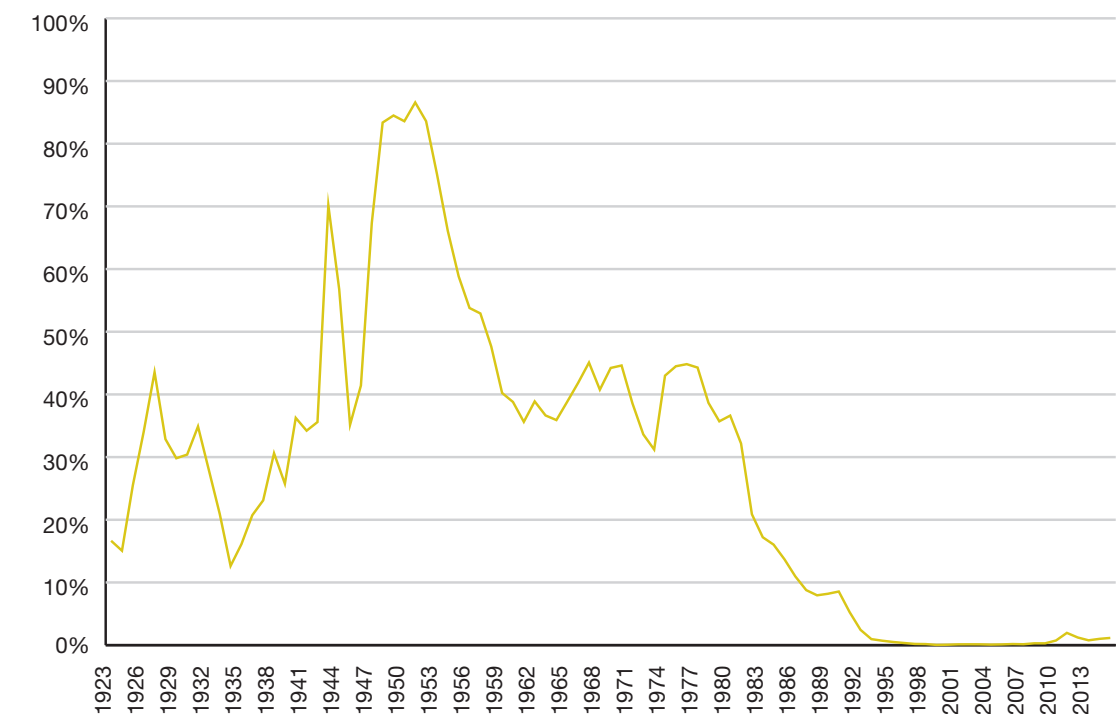
From the beginning of next month, we will offer an equity loan worth up to 20% of the value of a new build home – to anyone looking to move up the housing ladder

George Osborne, Budget 2013

As well as those who argue for massive planning deregulation to unleash private building, there are advocates for the opposite approach. Public spending could be scaled up and ‘take the strain’. This could be done through public investment (grants), revenue spending (housing benefit) or financial transactions (Help to Buy loans).

In particular there are many policy advocates for local and national government directly building or commissioning housebuilding at scale. Usually this approach is associated with building low rent housing (such as council housing) but in theory public spending could be used to deliver homes for sale too.

Advocates for this approach point to the high levels of building in the 1950s – 1970s when there was more clearly a mixed economy within housebuilding. Over those two decades, councils built or commissioned between a third and three quarters of all homes, using government grants. Even in the 1930s – the decade feted by advocates of planning liberalisation – councils were responsible for building one in four homes.



Council building as a % of all housebuilding, 1923–2015⁴²

Equally, there have been advocates for public spending to take the strain, but not through grants to build homes. Instead payments to individual households could increase their ability to access housing in the market, or low rent housing where the household has a very low income. The main policy tool for this is housing benefit, which now costs around £21.5 billion per year in England. The aim of housing benefit is not to stimulate supply,

⁴¹ Cooke, Tory Policy-Making: The Conservative Research Department 1929–2009

⁴² DCLG Live Table 244 (for 1945–2015) for England and Mitchell, British Historical Statistics, Cambridge Press (for 1923–1945) for UK.

it is to provide access, but it does also have an impact on supply – as many housing associations borrow against expected future housing benefit levels.

However in recent years a spate of other demand-side measures have also been introduced, targeted primarily at first time buyers who have been priced out of market housing. These include ‘financial transactions’ such as the Help to Buy Equity Loan scheme which do not count as public spending, but do count as public debt.⁴³ More recently they also include the Help to Buy ISA, for which the government has provisionally allocated £2bn. The discounts under the Right to Buy scheme could also be included within this conception of public spending to help individual households access a type of housing which they cannot otherwise afford.

So what is the case for using public spending to take the strain of the dysfunctional housing market?

The case for public spending

- **Capital subsidy: grants**

First the public sector can borrow and invest in building new homes. Historically, this approach has been used to build low rent homes, although more recently public borrowing has tended to subsidise the building of low cost homeownership products such as shared ownership too (or more often instead).

The concept is very simple. The government can usually borrow at favourable interest rates and is able to take a long term view on its debt – after all, the state expects to still exist in 25, 50 or 100 years’ time. The government therefore provides a ‘grant’ subsidy to a council or a housing association that can borrow the remaining cost of building the home (from a variety of sources) and charge a lower rent than the market rate. In shared ownership homes, the grant subsidy is used to reduce the rent portion of the buyers’ monthly cost. These forms of subsidised housing, especially when targeted at those on lower incomes, have additional economic benefits. They reduce the amount which needs to be spent on revenue subsidies like housing benefit and provide a certain pipeline of work for the construction industry.

As SHOUT and Capital Economics have put it:

“A programme of building 100,000 new homes each year for social rent part-funded by government grant will deliver a sustained structural improvement to public sector finances — by reducing spending on welfare payments and stimulating higher tax receipts from a more vibrant home building industry.”⁴⁴

⁴³ As a ‘financial transaction’ Help to Buy Equity Loans are in effect the government creating an asset on its balance sheet which will be converted from an equity stake to cash when the buyer sells the home, or pays it back over time. Home buyers must repay the loans after a maximum of 25 years.

⁴⁴ Capital Economics, Building New Social Rent Homes, 2016

The government can also borrow to subsidise selling homes at a discount to market prices. This is largely what is happening with the ‘Starter Homes: Unlocking the Land Fund’. This £1.2bn fund is available to local authorities to help them bring forward schemes which include Starter Homes (homes sold at a 20% discount to market prices). Councils are assessed in part against the “level of subsidy per starter home”, which shows that government is making up the difference for a landowner from what market housing could achieve.

Subsidising homes to buy at discounted market prices would allow more households to be able to access homeownership. The government has argued for this approach as it reflects the tenure that people most want to live in. As the former Secretary of State argued when defending Starter Homes:

“We know that consistently 90% of people aspire to own their own home, and for many years now home ownership has been in decline”⁴⁵

- **Revenue subsidy: welfare**

The other major option for using public spending to improve people’s housing options is through individual payments to households. The government does this through the housing benefit system, which provides support to around 4.5m households in the UK, of which the majority are in the social rented sector.⁴⁶ The annual expenditure on housing benefit in England doubled in nominal terms from 2000/01 to 2015/16, from just under £10 billion to over £21 billion.⁴⁷

There are some clear advantages in using individual payments to households over grant subsidies to build homes:

“Demand side subsidies tend to be efficient and progressive, being targeted at an individual and means-tested. They also have the advantage of being portable, allowing a household to move without losing its subsidy. This mobility is particularly useful in encouraging work, as it enables a household to move across whole towns or regions in search of employment. For those unable to work, it can also allow people to move near to care networks.”⁴⁸

Equally, housing benefit will always be needed for some households who have no earnings or a very low income due unemployment, age, disability or other circumstances. However, much of the growth of housing benefit spending in recent years has been targeted at working households in the private rented sector, unable to meet expensive local rents.

⁴⁵ Greg Clark, quoted on the BBC News Website, 4th January 2016

⁴⁶ DWP, Caseload Statistics, August 2016

⁴⁷ DWP, Benefit Expenditure and Caseload Tables, 2016

⁴⁸ Shelter, Bricks or Benefits? 2012

- **Buyer subsidies: discounts**

The final area of government spending to improve people's housing options are the raft of demand-side schemes launched in recent years to help people access homeownership. These include:

- **The Help to Buy Equity Loan Scheme (ongoing):** the government provides an equity loan to an eligible buyer of a new build home. The loan can have a maximum value of 20% of the purchase price outside London, or 40% in London. The buyer must pay back the loan at its future equity value (so if house prices go up, the amount to pay back goes up) either when the home is sold, during the term of the loan, or after 25 years.
- **The Help to Buy Mortgage Guarantee Scheme (ended December 2016):** the government guarantees a portion of mortgage debt taken out by a buyer of any home under a threshold price, so that mortgage lenders are more prepared to offer high Loan to Value (LTV) mortgages.
- **The Help to Buy ISA (ongoing):** A savings account option that may be merged into the new Lifetime ISA, in which first time buyers saving for a deposit can receive a 25% annual boost to their savings up to a limit of £3,000 (on savings of up to £12,000).
- **Right to Buy Extensions (ongoing):** Discounts on the Right to Buy were increased in 2011 and can reach over £100,000 in London for some council tenants. The government has also started piloting an extension of the Right to Buy to housing association tenants.

These measures and others like them increase the ability of households to purchase homes. For some, the schemes might take them from a position where homeownership would be impossible to one where they are able to own. For others it may be that it simply speeds up the process of them buying a home.

Of particular interest is the Help to Buy Equity Loan scheme which is responsible for up to a third of new homes built by some of the speculative housebuilders. This scheme increases the effective purchasing power of first time buyers for a specific type of housing (new build). Speculative housebuilders are therefore strongly in favour of the scheme and would suffer financially if it were suddenly withdrawn, because they will have paid for land in the expectation that they can sell homes with buyers using the subsidy.

The limitations of public spending

While there is a very strong case for housing benefit to be readjusted to meet actual housing costs and for extra investment in new social housing, should we rely on public spending alone to solve the housing shortage and meet what people want and need? There are several arguments which suggest we need more than just spending to achieve what is needed.

- **Fiscal limitations**

Without including planning interventions, Capital Economics estimate that the average level of subsidy per home required in England would be £59,000 (or well over £100,000 in London). To raise housebuilding to 300,000 starts per year (from the current level of 164,000) would therefore cost around £8 billion per year in perpetuity. However, Capital Economics estimate that a more modest programme of building, combined with some planning intervention, would peak in net expenditure at around £2.9bn per year before eventually going into surplus after around 20 years.

While there is a very strong case for increasing investment in low rent social housing, not least the long term savings from housing benefit, it must also be acknowledged that using this tool on its own would be costly. Assumed savings from housing benefit which show social housing investment paying for itself over the long term tend to rely on an assumption that expenditure on housing benefit will increase over time, or at least not fall. However the government has strictly capped and now frozen large elements of housing benefit expenditure. When you combine this assumption of ever growing welfare payments, with steady state high levels of grant and the risk of inflating land values (see below) you can end up with an ever inflating cost to government.

- **The risk of inflating land prices**

As well as having a high upfront cost, a solely public spending approach could also suffer from inflating land prices pushing up the cost of building homes. This would be a risk from either a capital, revenue or financial transaction approach to increasing investment.

In short, the risk is that by increasing the amount of money available to build homes without a comparable increase in the supply of land or control of land price inflation, we would simply see the price of land rise faster. Developers (including councils and housing associations) would compete for land with the additional subsidy baked into their model. At least some of the additional subsidy cost would be lost to land price inflation.

This problem was seen in the past when governments attempted to increase subsidy levels:

“...a lot of money was poured into building homes. The problem was that because land values were accelerating at the rate they were through the (pre-crash) 2000s, more and more money was being applied, even with increased pressure on grant rates that wasn’t being reflected in similar growth in housing numbers”⁴⁹

Clearly there is a question as to what extent government subsidy is influencing rising land prices, rather than just rising to reflect higher land prices caused by speculative development. However, without any control over development land values or adequate land supply, any additional demand would translate into higher prices.

This is not just a recent concern. In 1960 as council housebuilding surged towards its highest post-war volume, the Leader of the Labour Opposition Hugh Gaitskell lamented *“a sensational and shocking rise in the price of land”*.⁵⁰ Gaitskell blamed this rise on the Prime Minister Harold MacMillan who, as Churchill’s Minister for Housing, had *“[thrown] away the compensation and betterment provisions of the Town and Country Planning Act, which, at least, would have ensured that the benefit of these increased values came to the community.”*

One response to these higher land prices at that time was to switch to ‘modern methods’ of housebuilding, such as the massive system-built council estates. From 1955, more generous subsidies were awarded for buildings of more than 10 stories, and by 1968 more than half of the (peak year) council building was of flats not houses. Perhaps ironically, the majority of the high rises were built by just seven major developers including George Wimpey, John Laing and Taylor Woodrow – who offered councils cheaper per unit costs for their system-built products.⁵¹

Other types of demand subsidies – such as subsidies for higher rents or higher prices (Help to Buy) – could have a similar impact on land prices as grants. In short, putting in investment without also controlling land prices risks ‘leakage’ of public subsidy to landowners, which was intended to support those on low incomes. It also focuses the debate onto reducing costs in other areas – such as on the quality of construction – which can lead to development which not only fails to stand the test of time, but also may have turned people against the very concept of publicly subsidised housing.

• The risk of poor quality

Related to the risk of inflating land values is the risk that a public spending only approach would create poor quality, locally unpopular homes which may even turn public attitudes against housebuilding for another generation.

Poor quality is of course not an inevitable feature of a public spending only approach. However, our history perhaps provides a warning as to how it can happen. The late 1950s through to the 1970s saw the emphasis on public intervention shift from the land market (the popular New Towns), and towards grant subsidies for high-rises. Some of these developments, such as the notorious Ronan Point, were so quickly and cheaply produced that they partially collapsed or were unliveable. This is the opposite of what Nye Bevan, the Minister for Housing in the 1940s, had intended when he said: *“we shall be judged in 20 years’ time not by the number of homes that we have built but by the quality of homes”*.

The problem was that politicians came under such political pressure to deliver numbers of homes, that they stopped worrying about quality of life for residents or legacy for the community. The aim was to deliver as many homes as possible from the public funds available – which inevitably led to sacrifices on quality and the appeal of system-built construction from concrete.

As Chris Holmes, former Director of Shelter, put it:

“When the old neighbourhoods of houses, shops and small businesses were razed to the ground, they were replaced by monolithic single tenure estates of council flats, many in high rise or long deck access blocks. Amidst all the powerful pressures, there was little room for the choices and aspirations of tenants to be heard. The merits of industrialised housing never matched the promises made for it...”

“...the subsidy system, made too little provision for the community infrastructure that was needed. As a result too many estates were built without adequate provision for schools, shops, health services and public transport and other facilities essential for successful communities”⁵²

“

We shall be judged in 20 years’ time not by the number of homes that we have built but by the quality of the homes.

Nye Bevan, Minister for Housing in the 1940s

⁴⁹ Matt Leach, former Director of Policy at the Housing Corporation and former Private Secretary to Nick Raynsford. Quoted in SMF, The Politics of Housing, 2014

⁵⁰ Hansard: HC Deb 18 July 1960 vol 627 cc31-169

⁵¹ Holmes, Housing equality and choice (IPPR 2003)

⁵² Holmes, Ibid

Conclusion

If we rely on public subsidy as the sole mechanism for delivering housing, there is a strong risk that the conversation will be dominated by value for money: getting as many homes as possible for the cheapest price. Combined with expensive land, this will mean those who live in publicly subsidised homes will have poor choices, poor quality homes and few community facilities. This isn't good enough.

We should be planning for high quality, locally affordable homes in well provisioned communities. Public subsidy will be vital to making this happen, but it cannot be the sole mechanism. We need to plan-in quality from the start and listen to the needs, desires and concerns of those who will live in the homes, and the communities in which they will be.

Southwark Guinness Trust Buildings, Snowfields



Part 2: Transforming Housebuilding

Option 3: Civic Housebuilding

“

That, when they should have occasion to enlarge their city by purchasing ground [outside] the town... not only were the proprietors of such lands obliged to part with the same on reasonable terms, but when in possession thereof, they are to be erected into a [borough] in favour of the citizens.

Duke of Albany (later King James II), establishing Edinburgh New Town, 17th Century

“

We have not the slightest intention of making profit ... We shall get our profit indirectly in the comfort of the town and in the health of the inhabitants

Joseph Chamberlain, as Mayor of Birmingham using compulsory purchase powers, 1870s⁵³

“

...land planned for major development should be bought well in advance by a public authority for disposal to private enterprise or to public enterprise as required, both to control and phase the development and to help in meeting the cost of bringing it into development.

Sir Keith Joseph MP – Conservative Minister for Housing, 1963

We cannot rely purely on the speculative housebuilding model, or the dead-end of massive planning deregulation. Nor can we expect bottomless state subsidy to make up the difference between what is needed and what the current system can provide. Instead, we should look to our history to find ways to build more and better homes. For centuries, British leaders, politicians and social pioneers have understood that building beautiful and affordable homes is possible, provided that the right model of development is used. We call this alternative way of building homes Civic Housebuilding.

The central principle of Civic Housebuilding is not complex, or indeed controversial. It is just that development should be primarily about benefiting those who live there now, and will live there in future. Development should be “in favour of the citizens”, as King James II decreed when the first proposals for the New Town in Edinburgh came forward (now a World Heritage Site). For this to happen, he argued, landowners must be required to sell their land “on reasonable terms”. That in a nutshell is Civic Housebuilding: the price paid for the land should be limited to a level that allows for a high quality development, in accordance with local plans. This simple principle contrasts directly with the realities of the speculative housebuilding model, where the quality of the scheme is limited to a level that allows for the highest possible land price.

“

Development should be “in favour of the citizens”

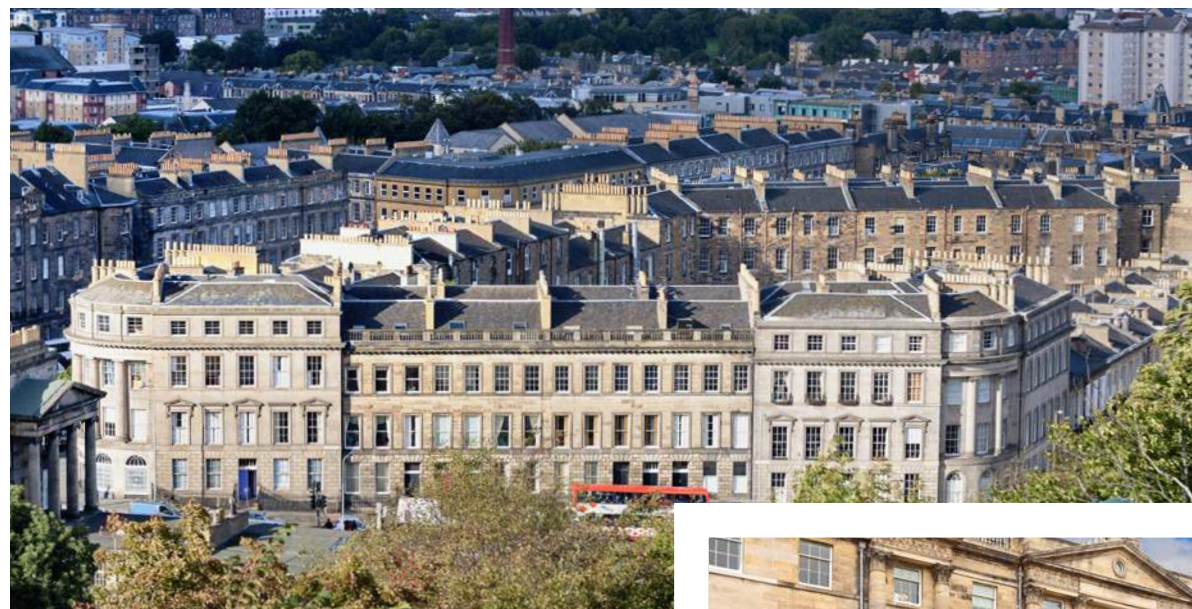
Duke of Albany
(later King James II)



The Civic Housebuilding tradition

Many of the most attractive and successful places in Britain were built using Civic Housebuilding principles. While this has happened over the centuries in a haphazard and idiosyncratic way, with the benefit of hindsight we can see the outline of a rich tradition that still lives in our built environment.

⁵³ Quoted in OECD, Social Capital, Human Capital and Health: what's the evidence (OECD, 2010)



Edinburgh New Town

The original vision of a ‘New Town’ to extend and improve Edinburgh was laid out in a grant by the Duke of Albany in the late 17th Century. He decreed that land outside the city boundary should become available on ‘reasonable terms’ to allow an extension that would be ‘in favour of the citizens’. However action to deliver the New Town did not immediately follow – not least because the Duke himself soon after left his post and became King James II of England and VII of Scotland in 1685.

By the 1750s the idea was reignited due to the appalling living conditions of citizens who were crammed into tenement buildings on polluted, unsanitary streets, and the risk of economic stagnation as wealthier residents were increasingly lured to London following the Act of Union. The city council, under the direction of George Drummond, announced an architectural competition to design the extension. The competition was won by a 26-year-old, who proposed a simple grid pattern linking two garden squares. It has been suggested the pattern was initially designed to reflect the Union flag: an act of Hanoverian civic patriotism also reflected in the street names (George Street, Queen Street, Princes Street)⁵⁴. The New Town was built over several decades from the 1760s onwards and was the largest planned development in the world at the time.⁵⁵ It is now a UNESCO World Heritage Site.



Bath

In the 18th Century, visionary architect John Wood was frustrated by the vested interests of landowners and the town council in Bath, who he saw as blocking the city’s rightful restoration to former glory. He therefore did a deal with a single farm owner (who owned land outside the city walls) in order to develop his plan. His approach was a speculative one – but one based as much on his desire to see Bath as the most significant city in England as his own financial reward.⁵⁶

The deal done was to develop the land under one unified style, with Wood himself designing the famous frontages of Queen Square. Sites were then divided into individual plots to be sold to different local builders and masons, who were given a two-year limit to complete their plot before being hit by a substantial rent increase (to incentivise fast and unified development and reduce risk to Wood). He thus pioneered a form of early custom build while strongly influencing the architectural style of those who came after him. The City of Bath is now a UNESCO World Heritage Site.

⁵⁴ Edinburgh World Heritage, resources: the New Town

⁵⁵ Stana Nenadic, The Rise of Edinburgh, BBC History 2011

⁵⁶ Amy Frost, Obsession: John Wood and the Creation of Georgian Bath, 2004



Bourneville, New Lanark, Port Sunlight

For over a hundred years from the beginning of the 19th Century, several generations of industrial philanthropists built new settlements, now known as ‘model’ villages. These settlements, of hundreds or even thousands of homes, were built for the company workers around newly built mills or factories. They were typically built on low value agricultural land or disused sites acquired for the purpose by a single industrialist, near to existing industrial towns and transport infrastructure. For example, The Cadbury Family bought rural land for Bourneville four miles from Birmingham, near both the railway and the canal.

Although these settlements had a sound economic rationale, they were also rooted in an explicit commitment to building for the public good, based on the religious or moral convictions of their patrons. As a result, many benefited from the reinvestment of a portion of the company profits back into the community. This included building high quality and affordable housing for the workforce and their families, as an escape from urban slums where many had previously lived.

Some were built to an extremely high architectural standard. For example, at Port Sunlight different architects competed to design each distinctive block of homes. Community facilities were also heavily invested in: Robert Owen’s project based on co-operative values – New Lanark – featured the world’s first infants’ school, and other model villages have hospitals, schools, art galleries, concert halls and community centres.



Peabody, Guinness and Octavia Hill

As well as those building new settlements for their workers, other prominent Victorians built homes in existing urban areas for philanthropic reasons: often reacting to slum conditions. Among these were George Peabody, Edward Guinness and Octavia Hill. Their estates – often in high density mansion blocks – are still popular today, and many have been maintained as affordable housing.

George Peabody was an American born financier; whose businesses partnership went on to merge into JP Morgan & Co. He established the Peabody Trust in London in 1862 to provide homes for the urban poor and the Trust rapidly began to build and acquire estates for that purpose. Peabody said that the aim of the organisation would be to “ameliorate the condition of the poor and needy of this great metropolis, and to promote their

comfort and happiness”. The homes were built to a system called “five per cent philanthropy” which combined charitable objectives with a long term steady return on capital for investors.

Another five per cent philanthropist was Octavia Hill – a driving force behind early social housing and also the founder of the National Trust. Hill built up a series of housing projects based on a 5% return to investors, with any additional profit reinvested into the homes for the benefit of the tenants. She advocated a philosophy of close relationships with tenants to avoid rent arrears, and by 1864 was responsible for 15 estates and 3,000 tenants.⁵⁷

Sir Edward Guinness, heir to the brewery fortune, set up the Guinness Trust in 1890. Due to the substantial funding put in, the Trust moved fast – building 2,500 homes in eight estates over the first decade. The early estates were built with “health, morality and social stability” in mind and aimed at housing low paid, working families. The distinctive red-brick style was popular then, as today, and blocks were designed to include communal facilities.

⁵⁷ Mark K. Smith, Octavia Hill: Housing, Space and Social Reform, 2002



The Boundary estate

Opened in 1900, the Boundary Estate in Tower Hamlets in East London was the world's first council estate and was built on the site of the Old Nichol slum. Conditions in the Old Nichol were dire. The slum was overcrowded; families of eight and above occupied single rooms. The condition of the buildings was also exceptionally poor, and demonstrated the worst of unplanned housing responding to need. Homes were built with poor quality, adulterated building materials, poor sewerage and no foundations. Ill health and disease were rife. One in four children were not expected to make it to their first birthday.

Despite these terrible conditions, the slum was some of the most profitable real estate in London. The density of persons per room combined with low maintenance cost meant high returns. However, ownership of the slum was complex and opaque. Multiple parties held freehold and leasehold interests in the land and properties. These included several senior politicians and members of the local body responsible for maintaining sanitation, the Bethnal Green Vestry Sanitary Committee.⁵⁸

To clear the slum and build the new estate, the newly established London County Council used compulsory purchase powers to assemble ownership of the site. In its place they planned the world's first council housing, in an estate of modern tenements. Although built for a similar number of tenants, these homes were built to a higher standard, originally planned with private toilets and bathrooms. While strict rules on overcrowding meant few of the residents of Old Nichol could afford to live on the Boundary once completed, today many of the homes provide low rent housing for families in housing need. The majority remain within Tower Hamlets Council's ownership and are let at social rents.

⁵⁸ Sarah Wise, *The Blackest Streets: The Life and Death of a Victorian Slum*, Random House, 2009



Letchworth

Letchworth was the world's first garden city. At the turn of the Twentieth Century, Ebenezer Howard sought support to turn his vision of a new kind of settlement combining the benefits of town and country into practice. He used his personal connections and manifesto *Garden Cities of Tomorrow* to persuade private investors to invest over £100,000, promising dividends of up to a maximum of 5% a year. Any surplus profit was to be ploughed back into the community.⁵⁹

Howard knew that delivering his vision depended on being able to buy the land at low values. In 1903, when the rural Letchworth Hall estate came up for public auction he saw an opportunity and bought it. Adjoining sites were subsequently bought privately. Able to act without revealing his future intentions, he was able to assemble the land at agricultural values.

The development of Letchworth remained in line with Howard's vision of a healthy combination of town and country. The town was masterplanned with broad tree-lined streets and the town was at the centre of innovation in designing high quality cottages for workers, holding annual competitions.

Today, ground rents in Letchworth are still reinvested into a significant number of local community facilities such as a cinema and museum, which are owned and managed by the Letchworth Garden City Heritage Foundation.

⁵⁹ *Garden Cities*, Sarah Rutherford



The New Towns: Milton Keynes

In the 1940s the government identified places for additional settlements to provide better homes for those who had lived in city slums or faced bomb damage after the War. Each location had a New Town Development Corporation created in order to coordinate planning and drive forward delivery. These raised bond finance via the Public Works Loan Board, acquired the land under CPO at agricultural value (a fraction of its value as development land), masterplanned the towns, and gave planning permission. They successfully delivered homes and infrastructure for over a million people, much of which was built over a short period of time in the late 1940s and 1950s.⁶⁰

Sites were delivered under a range of models, including direct commissioning of builders and partnering with developers. Upfront funding was provided by the Treasury, but the early New Towns successfully moved into profit by capturing land value uplift through the rents, and repaid the construction debts. **The land cost in the early stages of Milton Keynes were just 1% of the final value of a house.**

Milton Keynes, the largest and most recent of the New Towns, saw the building of 2,500 to 3,000 homes per year at its peak and is still growing, today, thanks to its thriving economy. Despite being within commuting distance of London, the city now has more people commuting into it each working day than leaving, and a high degree of employment for its own residents.

⁶⁰ DCLG, Transferable Lessons from the New Towns, 2004

Lessons from our past

What unites all of these very different schemes is first and foremost their deliberate focus on building beautiful, successful places that would give the most benefit possible to the people who would live there. While commercial motives and private money were often involved, these were secondary to the preeminent goal of building attractive, thriving towns that people would love for generations to come.

Second, these developments were all marked by a unity of design and delivery. Delivery was generally controlled by a single body – be it public, private, or voluntary – but even where multiple players built out parts of the scheme (such as at Bath or Letchworth) they did so under a unified masterplan with tight conditions, set down by a single body. This was essential to ensure that the quality of the design was actually delivered on the ground – and to prevent speculative pressures undermining rapid and efficient build-out.

Finally, the ability of all these schemes to deliver quality at scale and speed rested on the land being acquired at reasonable prices, and the lead agency having sufficient financial resources to lead the masterplanning and delivery process.

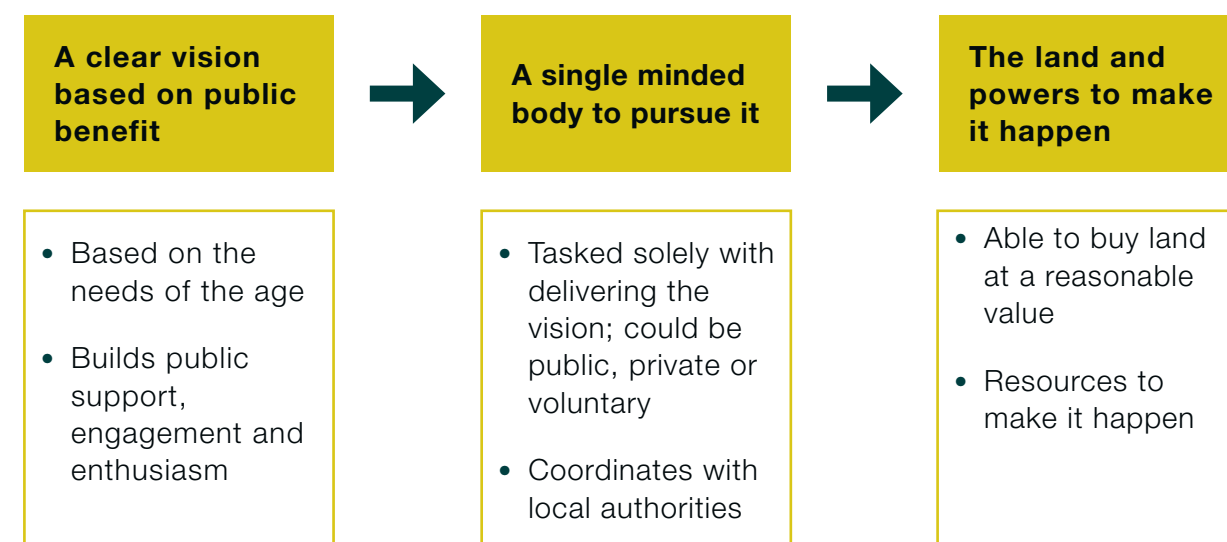


Image: The common features of our Civic Housebuilding tradition

In prioritising quality, the Civic Housebuilding schemes of the past were all responding to the housing problems of their day, and reflected the enthusiasms of the age. The Regency developments were a response to the incoherence and ugliness of unplanned city growth – by capturing the neo-classical interest in beauty in design. The Victorian philanthropists and garden city pioneers were responding to the pollution and squalor of the

industrial city, based on a belief that the new working class should be able to enjoy health, clean air and nature. The New Towns were a response to the inability of the private sector to solve the severe shortage of homes quickly enough, and utilised the methods of the directive state that had been so effective in the war.

Each response was a bold vision of what a new place could look like – designed to meet the needs of current and future residents. These visions were able to be implemented because the right agencies were in place to organise development efficiently. Most importantly, these agencies were able to acquire the necessary land cheaply enough to enable their visions to become realities.

Letchworth Arts and crafts houses



Part 3: Towards a New Civic Housebuilding

“

...where markets are dysfunctional, we should be prepared to intervene... it's just not right that the housing market continues to fail working people either... We simply need to build more homes. This means using the power of government to step in and repair the dysfunctional housing market. It means using public sector land for more and faster housebuilding.

Theresa May, Prime Minister giving her party conference speech in 2016

“

All the volume housebuilders said it couldn't be done. They wouldn't be able to sell their houses next to people on the lowest incomes. But it has worked and I think that approach has helped to add social as well as environmental and, funnily enough, commercial value.

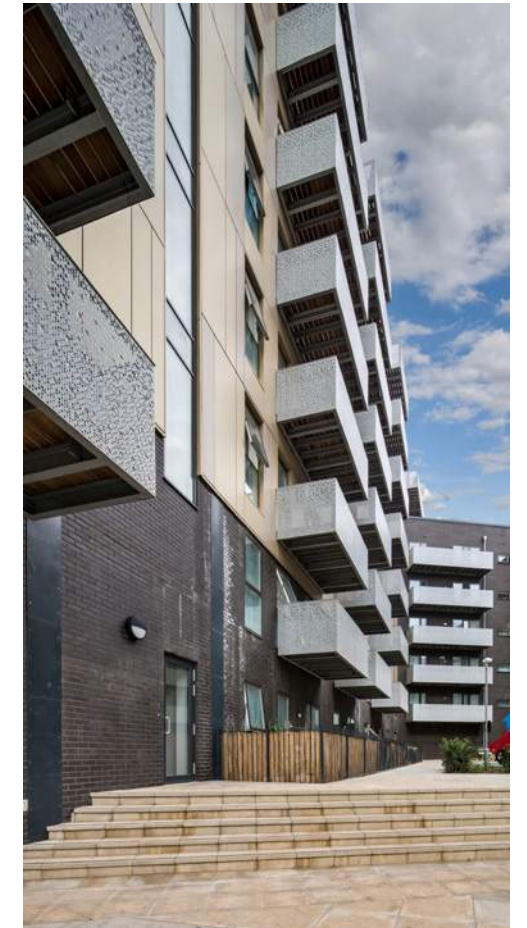
Prince Charles, interview in the Financial Times, 2014

“

To keep our rural communities thriving, we urgently need to find a way to get more affordable homes built... By investing in affordable housing on their land, landowners can help provide places for local people to live – as well as benefiting from a steady, low-risk investment stream.

Campaign to Protect Rural England (CPRE) blog, 2016

Today we need a New Civic Housebuilding that responds to the needs of modern Britain: the chronic shortage of homes, the unaffordability of home ownership, and widespread disaffection with the quality of new homes and infrastructure. In responding to these challenges, New Civic Housebuilding must draw on the lessons of the past – while also incorporating the new priorities of the present, like the need to reduce carbon emissions and car dependency, or provide for an aging population.



Fortunately, the seeds of this new movement already exist. They can be found in pioneering development schemes that are showing that it is still possible, in the right circumstances, to build attractive, sustainable and popular places. And they can be found in the minority of companies, landowners, investors, community groups and public bodies who are prepared to challenge the orthodoxies of speculative development. This emerging movement is what we call New Civic Housebuilding.

The principles of New Civic Housebuilding

The core principle of New Civic Housebuilding is very simple:

“The goal of building homes is to benefit the people who will live in them, and the communities that they are part of.”

This may sound like an obvious truism, but it is important to remember that public benefit is explicitly not the goal of speculative housebuilding. As the Callcutt Review of Housebuilding Delivery stated bluntly: ‘housebuilders are not in business to serve the public interest, except incidentally. Their primary concern is to deliver profits for their investors, now and in the future’.⁶¹

This logic of profit-seeking drives the incentives of the speculative housebuilding model, and lies behind the suboptimal results it achieves. Simply put, the public benefit generated by speculative housebuilding is determined by how much value is left in the scheme after profits have been extracted. New Civic Housebuilding starts from the opposite premise: that the level of profits made will be determined by how much value is left after the public interest has been served.

This is not to say that commercial motives cannot play a part, or that only philanthropists or the state can lead New Civic Housebuilding projects. The historical record shows that private, market-orientated developers have played a critical role in instigating and delivering some of the best examples of urban development. And there is plenty of scope for commercial returns to be made from high quality development. The core principle of New Civic Housebuilding means simply that short-term profit-seeking cannot be allowed to completely override the wider public good in determining what gets built.

Achieving these goals requires six central features to be in place:

- 1. A clear, evidence-based vision for high quality development**
- 2. A focused delivery agency, with the necessary powers and resources to implement the vision**
- 3. Land invested or acquired at low enough prices to allow for the vision to be realised**
- 4. Finance – particularly patient capital, which is prepared to take a long term position**
- 5. Planning – a process of design that involves the community directly and ensures accountability**

6. Construction – well built, by a range of builders and techniques, providing local jobs.

All of these elements need to be in place for development to be truly successful, and there are countless examples of unsuccessful development whose failure can be traced back to the absence of one or more of these six features. For example, the most exemplary masterplan, with full community backing and access to sufficient investment, is unlikely to be taken forward if the landowner believes they can secure a higher price by sale to a speculative developer. Even where landowners can be persuaded to take a long term investment position instead, in the absence of a focused delivery agency to lead the process there is a high risk that diverging interests or market fluctuations will lead to the masterplan being watered down and vital features abandoned.

1. Vision

The best housing developments are based upon clear, ambitious visions for the future of their local place, and rooted in an understanding of its past and current context.

There is a wealth of research and practice guidance on how to design and articulate a positive vision for development, from a range of organisations including:

- **The Housing Forum**
- **CABE**
- **RIBA**
- **Create Streets**
- **The Academy of Urbanism**
- **The Wolfson Economics Prize, 2014**

This report does not seek to replicate this extensive body of research: in any case, each place, each community, and each housing development is different – and the vision for each project must reflect these local specificities. But some general points can be made about what housebuilding must achieve to be deemed successful today.

For a housing development to meet the core principle of public benefit it must provide high quality homes at affordable prices, in attractive neighbourhoods, well supported by infrastructure and services. All of these features are essential for a development to be considered successful, and we should not allow them to be traded-off against each other by the pressures of the speculative housebuilding system. It is a damning

⁶¹ The Callcutt Review of Housebuilding Delivery, DCLG, 2007

indication of how inured we are to poor quality housebuilding that these basic demands may sound like a utopian vision.

a. Quality – beautiful, spacious and environmentally efficient homes in attractive neighbourhoods

The finer details of architectural style may be a more subjective matter, and one that reflects specific local conditions and traditions. But there is a strong evidence base and clear published standards on what constitutes quality in many aspects of housing design, such as the physical need for adequate space and light, and environmental performance⁶². There is also good polling evidence on the enduring popularity of certain built forms.⁶³

Most importantly there is plenty of evidence on what makes for popular and successful places: for instance, the Prince's Foundation for Building Communities have described 14 features that make for enduringly successful development – from public space and connectivity, through to scale, materials, and sustainability.⁶⁴ By drawing on this evidence base to design homes and neighbourhoods in direct partnership with local communities (see below), New Civic Housebuilding schemes can ensure that the majority of people would acknowledge the quality of the scheme – in contrast with the poor quality scores achieved by much speculative development.

b. Infrastructure – supported by good transport and public services

For development to succeed it must be accompanied by sufficient infrastructure – from roads, utilities and public transport through to education, health and social services. Without proper infrastructure provision, new housing risks entrenching long commutes, car-dependent lifestyles and can put excessive pressure on existing services. Concerns about road congestion and overloading public services are frequently cited by local people as reasons for resisting new development.

Local authorities produce detailed lists of infrastructure needs as part of their Local Plans, and for the purposes of Community Infrastructure Levy setting. The NPPF specifies that Local Plans should be 'aspirational but realistic', evidence based and regularly updated in consultation with neighbouring authorities and service providers. If such plans are in place, and there is proper community involvement in design and planning (see below), the infrastructure requirements of any development should be clear.

c. Affordability – which cost no more than a third of household incomes to rent or buy

The affordability crisis is without doubt the most severe consequence of England's housing shortage – so all new development must help meet the need for genuinely affordable homes.⁶⁵ At a national level the evidence of housing needs shows that half of all new homes should be in Affordable Housing tenures (social rent or intermediate).⁶⁶ Local planning policies vary on the percentages of Affordable Housing that development should deliver, and should be based on Objectively Assessed Need studies. As a rule, local policy should be taken as the minimum requirement for New Civic Housebuilding, rather than as aspirational maximums to be haggled down through the planning process, as tends to happen under speculative housebuilding.

Of course, what is actually affordable to any one household will depend on their income and housing requirements. A well-established rule of thumb is that housing costs should take up no more than a third of household income to be considered 'affordable' in this sense.⁶⁷ As shown earlier, speculative housebuilding targets output at the upper end of the market, where homes are only affordable to a minority of households (depending on the location), as this maximises returns on investment. New Civic Housebuilding offers the potential to provide homes for market sale at lower prices than speculative housebuilding does, as it is less dependent on maximising returns on capital employed (see below). It can therefore improve the affordability of the homes to buy or rent in the market sector, which should be an explicit objective of all good housebuilding projects.

2. Delivery

Having a clear and well-articulated vision for housebuilding means little if it cannot be delivered, and history is littered with beautiful designs for developments, and even entire cities, that never made it off the drawing board. Countless projects have been stymied by competing interests coming to loggerheads, without any one of them being able to drive forward delivery. Others have become mired in overly complex governance arrangements – like the London Thames Gateway – or been deprioritised by agencies with very broad agendas.

Again, there is no single delivery mechanism that New Civic Housebuilding requires – but the historical record provides⁶⁸ some lessons from which general principles can be drawn. For smaller scale developments, dedicated teams within existing public bodies or private companies may be sufficient, but for large scale schemes the clearest example of effective delivery agencies are Development Corporations. Those created under the New Towns Programme were powerful, time-limited bodies with extensive powers to deliver the vision set down by central government. Similar corporations

⁶² See for example: DCLG's nationally described space standards; The Mayor of London's Housing SPG 2016 on light, play space; the Building Research Establishment Environmental Assessment Method (BREEAM) for fuel economy, waste and pollution, environmental diversity and transport.

⁶³ Nicholas Boys-Smith, Heart in the Right Street, Create Streets, 2016

⁶⁴ Building A Legacy: A Landowners Guide to Popular Development, The Prince's Foundation for Building Communities, 2016

⁶⁵ For clarity, we use the term 'affordable' here to refer to the ability of a household to afford its housing costs (which depends on the household's situation). We follow planning law in using 'Affordable Housing' to denote non-market tenures like social rented or shared ownership homes. <http://blog.shelter.org.uk/2015/08/what-is-affordable-housing/>

⁶⁶ John Bibby, In the Mix, Shelter, 2014

⁶⁷ Vidhya Alakeson and Giselle Cory, Home Truths: How affordable is housing for Britain's ordinary working families? Resolution Foundation, July 2013

⁶⁸ See in particular DCLG, Transferable Lessons from the New Towns, 2006

were later created to lead the redevelopment of the London Docklands, and to deliver the 2012 Olympic Games. Other examples include First Garden City Limited, the private, philanthropic company set up to build Letchworth Garden City, or local authority owned development companies, like that leading the custom build project at Graven Hill, Bicester (see below).

Partnership models can also be effective – if the interests of all the partners can be properly aligned with each other and the public interest.

To be able to deliver the vision effectively agencies should be:

a. Focused – solely tasked with and interested in delivering the vision

Being given a clear task, distinct from other aspects of public service delivery, helps delivery agencies to focus exclusively on the primary objective, and avoid the complexities of multiple agendas that more general purpose agencies must deal with. Having a clear and logical spatial focus is essential – ideally agencies should be defined within a contiguous red-lined zone of control, plus a wider area of influence. Being time-bounded, with a clear timetable for dissolution on completion of the task helps maintain momentum and prevent institutional self-preservation motives from distorting the focus on effective delivery.

b. Resourced – with sufficient capacity to deliver

Delivery agencies need the staff and financial resources to carry out their task effectively. Their operational financial position needs to be secure so as to be able to plan for the long term, across market cycles, without being subject to short run financial pressures that could undermine delivery of the vision.

c. Powerful – able to act independently and decisively to deliver the vision

The time for deliberation and external consultation is in the creation of the vision. Once the task has been set and the vision agreed, agencies need to be empowered to get on with job, without excessive levels of external control or sign-off. Strong powers are essential for delivery agencies to secure and deploy resources efficiently (see below), to marshal partnerships with other actors, and to attract high calibre staff to leadership roles. In particular, successful delivery of the vision requires the agency to have the power to raise finance, acquire land at (or close to) existing use value, and to grant planning permission. These three elements are the critical building blocks of successful New Civic Housebuilding.

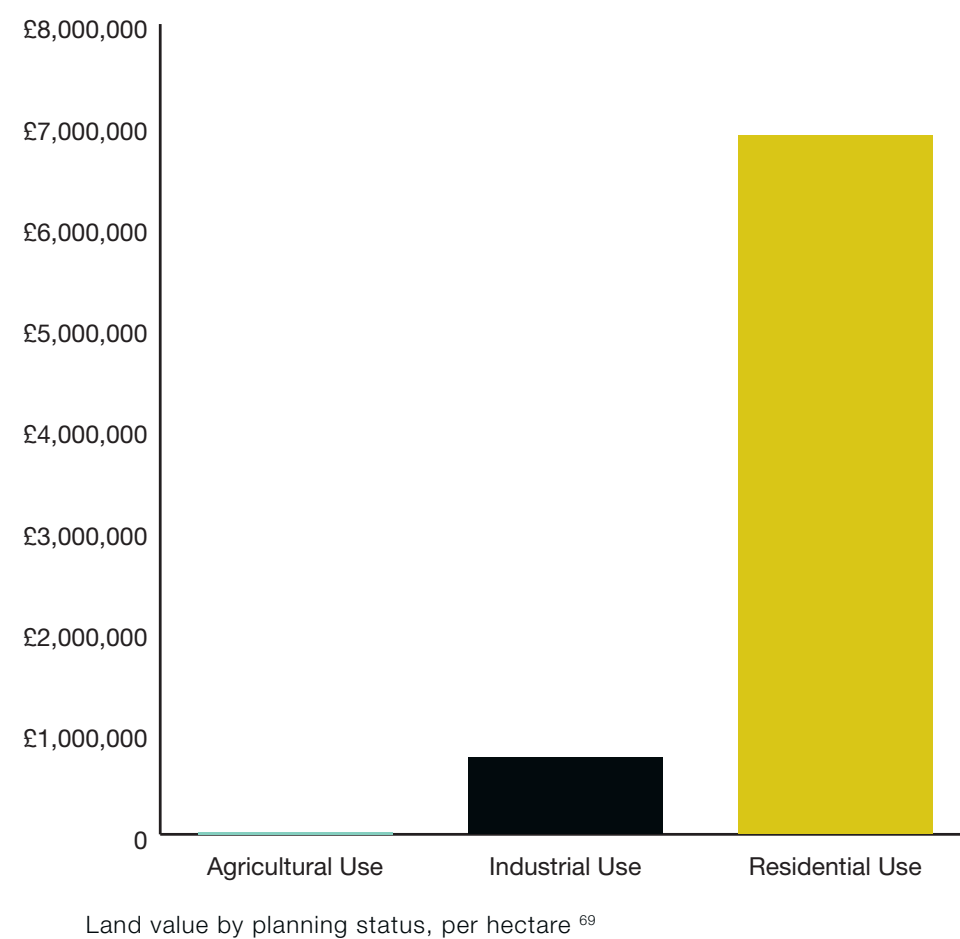


3. Land – take out the speculation

For a housing development to be Civic rather than speculative the most important element is the way in which land comes into the scheme. Most importantly, the land's value should be driven by a level of quality and affordability of a scheme that reflects local needs and desires – rather than minimal affordability and minimised build-costs of a scheme setting a maximum land value.

Planning and land value

To see how crucial the cost of land is for development you only need to see how much its value changes when it's planning use changes. The values in the chart below are for an equivalent hectare of land in England under three different planning classes: agricultural, industrial and residential. Crucially, it assumes that there are no planning obligations on the residential land (i.e. for affordable housing or infrastructure). It is therefore the pure 'market' value of the land: if a speculative developer were to build 100% market homes slowly, and sell for maximum prices.



⁶⁹ DCLG, Land Value Estimates for Policy Appraisal, 2015

The data shows that if an agricultural field is given planning permission for an industrial development, then the value of that piece of land increases (at the stroke of the planner's pen) by around 36 times. If the field is given a residential planning status (with no conditions), its value increases by around 328 times. If a hectare of agricultural land in London's green belt was given residential planning status, then its value would increase around 1,000 times.⁷⁰

The incentives of the speculative housebuilding system push the majority of that uplift in value, created by the planning system, into the hands of the landowner. The landowner may have done little or nothing to earn this change in value. They may not even be promoting the development: they are simply winning the lottery.

Landowners should of course receive a fair price for their land, but in most modern planning systems around the world this fair value is a balance between a windfall for the landowner and benefits to the local community. That balance is being highly skewed by the speculative housebuilding model in England, which systematically increases the reward for landowners at the expense of the community, unless the planning system manages to step in.

Land should come into the scheme at prices which allow for all aspects of the vision to be delivered, and under rules that limit speculation. In essence, this means that land needs to be brought into the scheme at more reasonable prices than competitive bidding by speculative developers can achieve. Lower upfront land costs then mean that more of the uplift in value can go to the quality and affordability of the scheme.

Lower land prices for New Civic Housebuilding projects can primarily be achieved in five ways, which are not mutually exclusive:

- 1. **Investing public land** into schemes, rather than selling such sites to the highest bidder. The public sector should lead by example, using its assets to support high quality development and affordable housing. The values at which such land should be invested must reflect the desired scheme, not what the site might have fetched if sold on the open market (see Recommendation 4 below).

⁷⁰ Based on Enfield residential value of £19,264m. DCLG, Ibid.

2. Acquiring land at a fair value and contracting builders to deliver high quality schemes made possible by the lower land cost. Public spirited landowners can donate land for development, but this is rare: it is more realistic to expect landowners to accept a fair price, instead of a speculative one. A fair purchase value might be the existing market value of the land (it's agricultural or industrial value), plus a degree of compensation. This can be achieved by agreement with landowners (as typically happens on rural exception sites), or by acquiring land in the open market without revealing the intention to develop it. This was how Hamburg city council built the Hafen City urban extension, and how the first garden cities were built by the Edwardian philanthropists. In the modern land market such subterfuge is difficult, so this would probably need to be done via equity investment deals with landowners, backed by the fall-back of compulsory purchase. For compulsory purchase to deliver land at lower prices, the compensation code will need to be amended via legislation (see Recommendation 1 below).

3. Strong masterplanning, backed up powerful incentives to bring land forward. The same principle can be achieved if a strong masterplan is produced for a site which reflects local needs and aspirations, and the landowner is then prepared to bring the land forward at a price that reflects the masterplan. Incentivising landowners to do this, rather than hold out in hope of a higher land price in future, is likely to require changes to the incentives on them – such as imposing costs on the holding of land in the form of an annual tax on undeveloped sites. Alternatively, a willingness to use compulsory purchase powers can provide a credible threat that the landowner may lose out more if they do not co-operate with the agreed plan (see Recommendation 1 below).

4. Incentivising landowners to sell at lower values by pooling land. Another incentive based approach is to offer landowners on a large site a single value based on the plan as a whole. The idea here is that the masterplan could be changed so that any particular landowner might have a high value use (residential) or a low value use (a public park). Landowners are therefore incentivised to sell at a common value reflecting the scheme as a whole – including infrastructure. This approach is used on occasion here, and is common in the Netherlands, where infrastructure costs are also included in the price paid to landowners.

5. A fixed tax on the uplift in land value. This could be an entirely new tax, or a strengthened version of the S106 and Community Infrastructure Levy (CIL) system. Making the system clearer and less negotiable would mean that planning policy would shape land prices more effectively and transparently than it does today, but

it also risks disincentivising landowners from bringing their sites forward. In the past there has been strong resistance to such taxes from both developers and landowners, and many chose to delaying development to wait for the repeal of the tax.⁷¹

Of these options, the first three have proved the most successful in practice at delivering affordable schemes in England – including the garden cities and the New Towns. The fourth option is used in the small but important case of Rural Exception Sites, which allow land on the edge of villages that would not otherwise be permitted for development to be used for affordable housing. This approach is used at a bigger scale in the Netherlands, but this relies upon a tougher approach to compensation valuations under compulsory purchase than that of English Law.⁷² The fifth option (which is closest to the system used now) is theoretically effective, but in practice it has proved vulnerable to weakening under the huge pressure of the speculative development model.

4. Finance

The way that speculative development schemes are financed is driven by the risks of the land market and housing sales market. Schemes are financed individually to avoid risk contagion. Usually the funding mix on a scheme will include equity from the developer, debt from a lender and mezzanine finance (higher risk/reward) to bridge any gaps. Large developments also often depend on public subsidy, particularly to support necessary infrastructure. All these sources of finance rely on the estimates of expected sales prices made under the residual land value calculation method, and in most cases will want to exit as quickly as possible. The finance is therefore by definition speculative and high risk, and therefore relatively high cost.

New Civic Housebuilding can be financed by traditional means – including debt and equity – but the much lower risks incurred by securing land at lower prices mean that longer-term, lower cost sources of finance can also be attracted.

For example, the New Towns were financed with very low cost bonds, backed by the government, which enabled the Development Corporations to invest in land acquisition, infrastructure and masterplanning. They therefore captured most of the uplift in land value, and were able to repay the bond finance promptly⁷³.

Today, there is a major opportunity for New Civic Housebuilding to attract finance from institutional sources of capital, which can be ideally suited to large-scale development – particularly for long-term rented housing and infrastructure finance. Patient finance (like pension funds), typically seeks reliable, long-term yields that track inflation – which are hard to find in the current macroeconomic environment.

⁷¹ Ambrose. What Happened to Planning? (Routledge Revivals; [1986] 2014)

⁷² Needham, Ibid. The value of CPO under the Dutch process is determined including the infrastructure needs of the scheme and a plot value which is not specific, but across the development as a whole.

⁷³ DCLG, Transferable Lessons from the New Towns, 2006

To date, institutional investors have struggled to gain a toe-hold in the speculative housebuilding market in the UK, but forms of New Civic Housebuilding could offer a way in for them.

5. Planning

For some communities, the most attractive feature of New Civic Housebuilding is that it can involve a more inclusive approach to planning than speculative development. The core principle of New Civic Housebuilding – that development is primarily about benefitting those who will live there and the community in which it is built – makes an inclusive planning process essential.

There are already some very good examples of Civic approaches to local planning. For example, The Prince's Foundation has developed an 'Enquiry by Design' process:

*"An Enquiry by Design includes architects and urban planners, local agencies and authorities, landowners, the local community, voluntary groups, retailers and other interest groups. These stakeholders are actively engaged in the planning and design of their community, helping to build confidence and collective enthusiasm for the vision to be taken forward beyond the workshop."*⁷⁴

The process they have developed can take several working days, but with the purpose of bringing in multiple viewpoints and needs – and ultimately creating a shared vision for development which is attractive across a broad section of those involved. The Foundation have run this process for several Neighbourhood Plan processes since their introduction in the Localism Act 2011.

Having won community buy-in through these painstaking community-led processes, it is vital that the resulting Neighbourhood or Local Plans do actually come to fruition. One of the problems of speculative development is that it does not always produce outcomes in accordance with agreed plans, as 'viability' arguments can and do overrule local plans and policies.

More detailed Enquiry by Design-type processes can even be used for individual developments under the Civic model – for example where a Neighbourhood Forum designates an exception site (see recommendations below). By clearly stating the sort of development that they want to come forward, local people can help set expectations within the land market and development system, as long as there are credible penalties for those landowners or developers who refuse to play ball.

6. Construction

Finally, strong delivery agencies which assemble land and masterplan sites are able to commission construction from a range of providers in the public, private or community sectors, that are capable of building to high quality standards and strict delivery schedules.

Most importantly, the New Civic Housebuilding model creates opportunities to support the growth of builders which meet other policy goals, such as local employment, off-site manufacture, traditional construction techniques, or green building methodologies. The control of land and the preparation of the masterplan allows sites to be parcelled out in small chunks to multiple different builders, including those that are usually excluded from speculative housebuilding schemes, depending on local priorities. These might include local SME builders, firms specialising in local materials, or those with strong training and apprenticeship programmes.

Self builders, custom build firms and community housing groups find it notoriously difficult to secure land, finance and planning permission in a market dominated by the speculative model. New Civic Housebuilding agencies can tap into this huge source of latent demand, to increase the diversity of the housebuilding sector and help boost local support for development. Agencies can grant plots to these builders on preferential terms, such as deferred payment, enabling them to pay for their plots once construction is completed and mortgage finance is more readily available.

Construction contracts for homes on New Civic Housebuilding schemes can be highly detailed, specifying the materials and construction techniques to be used, if that is what the plan requires. Alternatively, as is often the case for custom build schemes, contracts can give the builder discretion as to how the homes are designed and built – within the overall constraints of the masterplan (see examples below). In either case the emphasis of the contract must be on the build quality – with penalties for contractors that do not deliver.

New Civic Housebuilding in practice

The principles of New Civic Housebuilding outlined above draw much of their inspiration from the successful developments and places of the past – but there are also pockets of excellent development today. These examples all demonstrate some of the hallmarks of the better approach to development outlined above.

⁷⁴ The Prince's Foundation, Enquiry by Design



A major urban extension: Nansledan, Newquay

Nansledan is an urban extension to Newquay, Cornwall, planned to include over 4,000 homes – of which 30% will be tenure-blind affordable homes – on land owned by the Duchy of Cornwall. The masterplanning process has been led by the Prince's Foundation, involving local people closely in the process and specifying housing designs in keeping with traditional local styles.

To deliver the scheme, the Duchy has partnered with three regional building companies, including traditional building specialist firms, to ensure that delivery of Nansledan is in accord with the masterplan and the detailed supporting design statement.

30%
of over 4000 homes
will be tenure-blind
affordable homes



A community-led, urban brownfield project: RUSS, Church Grove, Lewisham

In 2015 Lewisham Council resolved to pursue a community led self-build scheme on a redundant site it owned, instead of selling it on the open market. This decision was based on the council's desire to maximise the number of affordable homes and community involvement in development, rather than maximise the land price. The council partnered with the Rural Urban Synthesis Society, a volunteer-led Community Land Trust dedicated to reducing dependence on fossil fuels, increasing food security, encouraging bio-diversity and providing affordable housing. RUSS have acquired the land from the council for a peppercorn, reflecting the amount of affordable housing.

The scheme will provide 33 new sustainable, high quality homes and shared open space, in a range of affordable tenures. Local residents and the scheme's members will be able to get involved in the self-build process and learn new skills – regardless of their skill level at the outset.



Estate regeneration: Packington Estate, Islington

To enable this exemplary estate regeneration project, Islington Council agreed to transfer the land and existing buildings of a dilapidated estate to Hyde Housing Association, who entered a 50:50 joint venture with private construction firm Rydon. This combined private investment, government grant and cross-subsidy from homes for open market sale and infrastructure to pay for the eight year rebuilding programme. Most of the homes are for social rent, at a fraction of the rent that similar homes would cost to rent privately, and are indistinguishable from the homes for private sale.

The design was based on deep consultation with residents and the local community, resulting in a multi-award winning masterplan that was very different to what the developers would have chosen, but reflected local residents' priorities. These included there being no tower blocks, despite increasing the density substantially from 538 homes to 791; public space in traditional squares, terraced houses much like the Georgian ones of the surrounding area; provision of family houses with front doors at street level and private space; and reinstatement of the traditional street pattern. Long-standing social residents were offered housing in the best locations; and no residents were forced to move twice, even though residents were in occupation throughout.



Unleashing custom builders: the Netherlands and Graven Hill, Bicester

Public authorities in Amsterdam have used innovative approaches to self and custom build to spearhead urban regeneration, and to construct whole new neighbourhoods with a diverse mix of architectural styles and good proportions of affordable homes. The nearby town of Almere is applying this model to an entire new suburb of 3,000 homes, including an innovative shared equity model that allows those in need of affordable housing to design and build their own home: the authority retains

ownership of the land, meaning the occupier just has to finance the construction, taking around a third off the cost.

Public development agencies assemble the land (or even reclaim it from the sea), put in the infrastructure and design the masterplan. The plan lays down plots for individual homes in blocks, terraces or on their own. These are then sold to self-builders via a 'plot shop', at a range of prices, reflecting the size, location and height of the homes. The plan sets out simple, clear policies on plot size, building lines and heights – but typically specify little else about the homes. The public agency also provides expert advisers to help buyers manage the building of their home, and ensure that the building standards and design rules are adhered to. Ordinary people thus get to make their own choices about the design of their homes, while ensuring the neighbourhood as a whole is coherent and well designed.⁷⁵

Cherwell Council is adopting a similar model at Graven Hill, a 188 hectare MoD site outside Bicester, Oxfordshire. Outline planning has been granted for 1,900 new homes, including 30% affordable homes, a primary school, employment space, a local pub/restaurant and local shops. The Council has created a wholly owned company to deliver the project, design the masterplan and sell individual plots to self and custom builders.

⁷⁵ <http://www.selfbuildportal.org.uk/homeruskwartier-district-almere>



A rural CLT: Stretham & Wilburton CLT

This is a community-led development, on land at the edge of a village strongly resistant to development in East Cambridgeshire.

The Local Plan's Rural Exception Site policy gave local groups, proposing affordable housing and housing based on local need, sole negotiation rights with landowners who were interested in putting forward sites for housing. This enabled the CLT to secure the site at a reasonable price. Using seed funding from various public sources, the CLT conducted extensive community engagement exercises to design a scheme that answered local concerns about other issues (such as traffic) as well as winning local support for more homes. The scheme has developed 75 homes, including 30% affordable homes to rent, a doctor's surgery, workspaces and a village green.⁷⁶

⁷⁶ <http://www.designcouncil.org.uk/sites/default/files/asset/document/Stretham%20CLT.pdf>



Partnership: Derwenthorpe

Joseph Rowntree Housing Trust, a housing association, and the City of York Council formed a partnership to develop the Derwenthorpe site, with the city transferring the land to JRHT in return for careful attention by JRHT, as lead developer, to environmental and social sustainability, provision of affordable housing and community participation. Housebuilders were brought in later in the process by JRHT, after planning permission had been secured, allowing the Trust to control the masterplan and specify the extremely high quality of homes it wanted – including a particular focus on homes for elderly people.

Despite a lengthy battle to secure planning permission, the development is widely regarded as an exemplar of quality design and construction.

A New Civic Model: Equity Partnerships

Shelter, KPMG, Legal & General & PRP Architects developed an equity partnership model for our prize-winning entry into the Wolfson Economics Prize 2014. This model was for a development at the scale of a new Garden City, but it could equally be applied to an urban extension or medium sized development.



Image: 'village square' from Shelter's Wolfson Prize entry⁷⁷

We call this model an **Equity Partnership** model, because each of the key players acquires equity in a single corporate body: which in this case is a Limited Liability Partnership (LLP).

One advantage of having a single corporate body through a life of a development is that it can align all partners to pull in the same direction, minimising the risk of conflicting

interests that can bedevil complex development schemes. All will benefit from a high quality development which is successful over the long term. Partners can, however, come into and out of the development at different phases – for example there might be one finance partner for the masterplanning and initial construction phase, and another which is providing long term finance for a long term return on rented accommodation on the site.

The Equity Partnership model has several core features:

- The partnership starts with a **promoter** who works with local people, the local authority and the major landowner to start developing a high quality, locally affordable Civic scheme. The principle is that the scheme's quality will set the land value – not be squeezed down by a maximised land value.
- The **major landowner** will be given a choice. They can join the equity partnership by exchanging their landholding for shares in the partnership – with land valued residually according to the masterplanned scheme. The partnership will promote a scheme which offers the landowner more than the site's existing use value plus a 20–30% premium, as an incentive to join. However, if the landowner refuses to join the partnership, then the partnership will acquire the land at EUV+ later in the development process.

- **Development finance** can come from traditional sources, or ideally from an institutional investor buying into the equity partnership. This early finance is higher risk and higher reward, but the equity stake can be sold on after development to an institutional investor looking for a long term, lower yield.
- Once groundworks and initial infrastructure are complete, **served plots** can be provided on long leaseholds to SME builders, housing associations, custom-builders, Build to Rent providers and others. An initial deposit would be paid for each plot to cover land acquisition costs, but this would be much lower than it would normally cost to buy a plot of land (as the speculative element has been taken out).
- Long leaseholds would also be gifted to **NHS Trusts, schools, for other services and for green space** depending on what is needed or wanted. The plots can be gifted because this social infrastructure will have been included in the initial masterplan. The public bodies will not need to pay a capital sum for the land and once built, the public services would pay a low rent on the site, as will all other leaseholders.
- Once homes are developed, those which are sold at market prices* will have a **profit share** between the freeholder (the LLP) and the leaseholder (the developer). This is how the LLP 'captures' land value uplift. The advantage of this approach is that there is much less upfront risk to the developers – which helps SMEs – and development profit flows through the structure to return to equity partners, such as the landowner. Equally, for those plots which provide rented housing (whether social, affordable or market), a share of the rent ('Head Rent') will flow into the LLP. For social housing, the land will have been gifted – as is the case with social infrastructure.
- One option (*) is **not to sell homes at market prices**, but below them. This would of course create a direct trade-off within the model and mean that fewer affordable homes or less generous social infrastructure would be possible. However there are major advantages to selling 'market' homes at a lower value (say a value fixed at a multiple of local household incomes). By selling below market values, you can have a higher absorption rate and build rate, because more people would be priced-in.

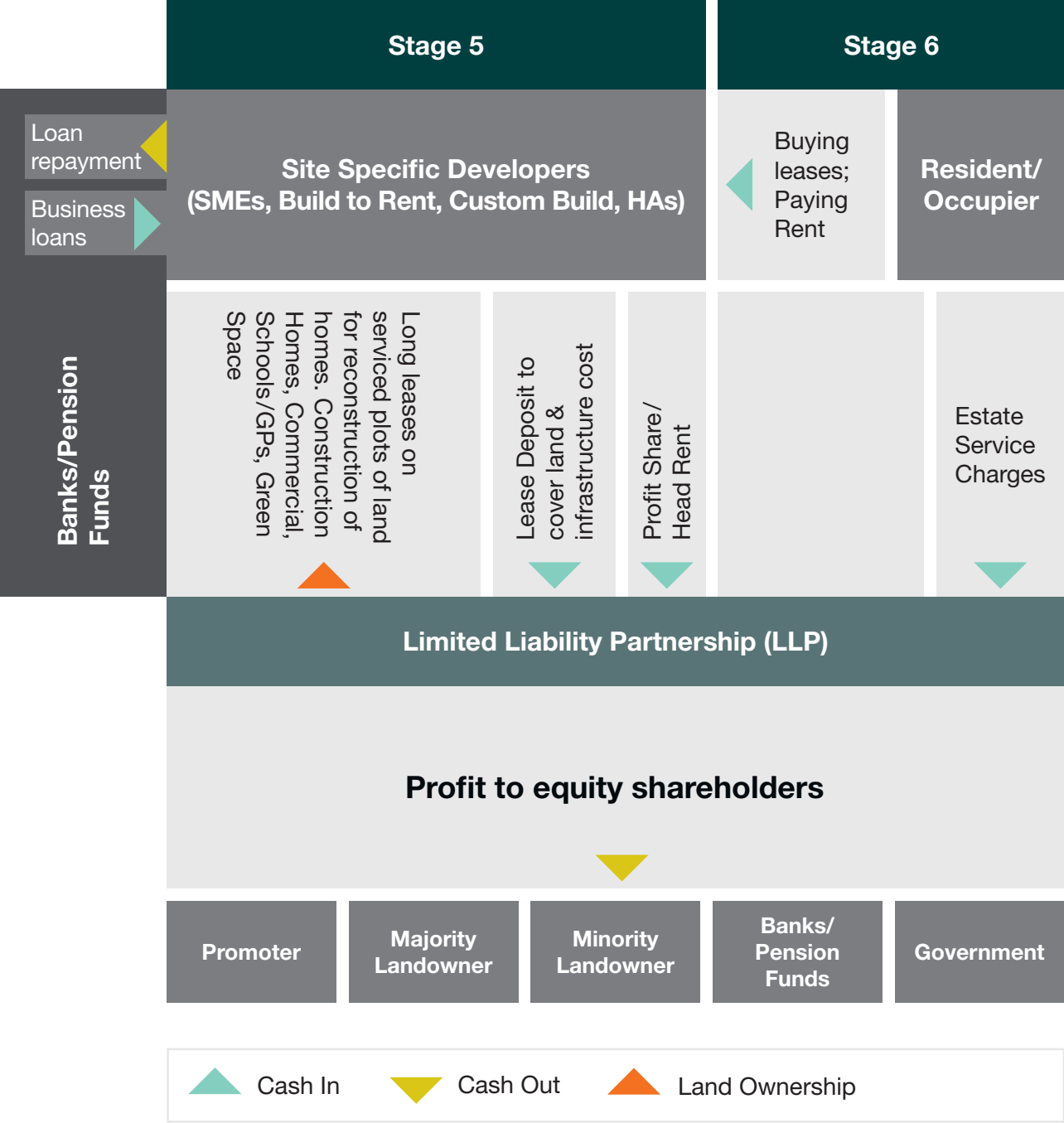
⁷⁷ Credit: PRP Architects

The process for creating and running an Equity Partnership for a large site is detailed below.

Phase 1: Initial Development



Phase 2: Building and Occupation



Conclusion

The past successes of Civic Housebuilding, and the existence of some exemplary developments today demonstrate that it is perfectly possible to build new housing schemes that are attractive, affordable and can win the support of local people. These examples include urban and rural locations, urban extensions, infill development and estate regeneration: what unites them all is that in each case the landowner was prepared to take an enlightened attitude, and enable high quality development that responded to local needs.

In some cases the landowner was a public authority (Packington and Lewisham), in others it was a charity (Derwenthorpe). In one case (Nansledan) a private owner chose not to sell the land to a speculative developer, and to partner with three small local builders under a community-led masterplan instead. In another (Stretham & Wilburton), the local authority's exception site policy enabled the community to acquire land on preferential terms.

But it is a sad fact that these schemes are the exception, not the rule. Far more often, the land market and planning system between them incentivise speculative development at the expense of quality and local needs. Without policy intervention these exemplary types of development will remain rare.

Derwenthorpe North Yorkshire



Part 4: Policy Recommendations

Recommendations for policy changes are split into two sections.

First, we set out policies which would start to unleash New Civic Housebuilding in England. We see this as being additional to speculative housebuilding and therefore it is critical that it brings new players into development. There is an opportunity to transform not only the quality and affordability of what is built – but people’s attitudes to new homes themselves.

Second, we consider policies which can improve outcomes of the speculative housebuilding model. Speculative housebuilders should continue to build, grow and make decent returns – as they have been for the last few years. But their record levels of profitability suggests that we can and should squeeze more benefits for the community from development.

Policies to unlock New Civic Housebuilding

This section considers policies which could kick start an additional layer of housebuilding – on top of the speculative housebuilding model. The policies proposed draw on lessons from our past and other countries which have successfully developed ‘civic’ types of housebuilding. However these policies are not intended to be an exact replica of what has come before and in particular are designed to be different to the mass council housing programmes of the post-war era.

1. Masterplan new high quality suburbs, urban regenerations and settlements

New Civic Housebuilding should happen at all scales of development, but the most important will be large sites. These are the new communities complete with additional facilities which are most important to driving a new paradigm of housing quality and affordability. This scale of development (500–5,000 homes plus amenities) does come through the speculative housebuilding system, but is relatively rare and extremely slow to build.

Analysis by NLP found that build out rates of speculative sites of less than 100 units average 27 homes per year, while build rates of sites over 2,000 units averaged just 161 homes per annum. That is only six times more homes per year, despite being at least 20 times larger.⁷⁸ They also found that those sites with a higher affordable housing percentage delivered faster.

Large sites are likely to provoke the strongest local opposition. This is unsurprising given the level of change that any development will create for a community, but will be exacerbated if the development is not extremely high quality and of clear benefit to the local community. Shelter research has found clear evidence that support for local development can be raised if it offers strong benefits to local people and mitigates the impacts of a growing population.

⁷⁸ NLP, Start to Finish, 2016

Factors that make people more likely to support a proposed local development ⁷⁹	% agree
If local roads and infrastructure improved	47%
If the developers were also putting money into community facilities	41%
If local services increased in number/ improved (i.e. schools, hospitals etc.)	40%
If it provided jobs and apprenticeships for local people	35%
If a high proportion of the new properties were affordable	34%
If local people were given priority for buying/ renting the properties	34%
If the properties was in keeping with my local area	33%
If a low proportion were for social rent (i.e. were part of social housing schemes)	14%

Unfortunately, as we have seen the speculative housebuilding model works under a set of incentives and pressures which run entirely counter to what local people want. All of the market pressure is to bid up land prices at the expense of local quality and affordability. Developers who try to offer greater benefits will find themselves outcompeted and planners who demand more will find themselves facing a viability challenge.

What we need is a way to unlock really high quality and locally affordable large developments, which will be built much more quickly than the existing market can bear. This cannot be done through tweaks to speculative housebuilding, but needs a strong intervention in the land market. Land must be brought into the scheme at a lower value to reflect the cost of delivering a high-quality, locally affordable scheme. Landowners should receive a good return for their site becoming residential, but not such a huge windfall that the community cannot also benefit.

New Home Zones

For this to happen the government should create a new policy tool for local or citywide authorities – **New Home Zones**. These Zones would be the main planning tool to unlock large sites quickly and allow land to be assembled at lower values. They should be seen as an exceptional planning tool to deliver very high quality schemes in addition to what the speculative market is building.

⁷⁹ All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 20,176 adults. Fieldwork was undertaken between 30th January–18th February 2015. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

A local or city-authority would designate an area for a New Home Zone in their Local Plan, or through the creation of a specific supplementary planning document. This document would set out the overall terms of the schemes from the authority’s perspective, such as the expected form, tenure mix, commercial and employment mix, design, amenities and public facilities. It would be based on evidence of housing need, such as the local Strategic Housing Market Assessment (SHMA).

The authority would then launch a competition for the masterplan of the Zone. This would allow master-planning firms, architects and others to produce a vision for the area which meets the specifications the authority has outlined. The authority would run a public consultation to inform their decision for the winner of the competition (taken by the local authority or City leader), with tweaks to the winning design based upon what the community want from the development. Financial viability would be assessed against the new definition outlined below: the masterplan must allow the landowner to receive at least the “no scheme” existing use value of their asset.

Once a winning design is accepted, the Zone would need to go through a planning process to ensure quality and regulations are met. We propose that given the scale of housing need and size of these projects that they should be included in the Nationally Significant Infrastructure Project (NSIP) planning process. This process is fast-tracked and wraps together the planning consent with land acquisition. The timetable for a planning decision is 12–15 months, which is significantly faster than for most large schemes.⁸⁰

Landowners should be given the option to invest their land as equity into a development partnership, as well as the option of a capital sum (see below). The NSIP regime has a system of land acquisition which sits outside the usual Compulsory Purchase (CPO) process and should be seen separately.

What is needed for New Home Zones to work?

New Home Zones would need to be introduced into the planning system through several particular reforms.

- They would need to be specified in the National Planning Policy Framework as exceptional, large scale developments (over 500 units) where land is assembled and planning is undertaken through the NSIP regime.
- The NSIP regime would need to be updated to include large-scale, exceptional housing developments.
- The 1961 Land Compensation Act would need to be amended in two ways:

⁸⁰ HoC Library, Planning for Nationally Significant Infrastructure Projects, 2016; NSP, Ibid

1. An amendment to Section 14 to say that in land designated as a New Home Zone by a planning authority, no account is taken of prospective planning permissions.
2. An amendment to Section 17 of the 1961 Act so that certificates of appropriate alternative development would cease to apply in those areas designated by authorities.

Once these reforms are made, Local Planning Authorities would be able to designate New Home Zones, run competitions for their master-plans and acquire land through the NSIP process at a value which reflects the high quality scheme to be delivered. However, this still leaves open the question of how the schemes themselves will actually be built.

2. Deliver these large sites with new Corporations

The key concept of New Home Zones is to drive competition on quality and local affordability, with the windfall profit to landowners taking the strain. This is the opposite of the current speculative model where quality and affordability take the strain for a greater windfall profit. Once the designation of a New Home Zone has reversed this pattern of incentives, multiple options for successful delivery become possible:

- A consortium of private developers and housing associations, as with most major speculative developments. The advantage of this approach would be its familiarity for existing firms; the disadvantage would be that it may not be additional if those developers scale back work on other projects. As the scheme would already be master-planned and have planning approval, this consortium could however be brought in to deliver the scheme to a lower margin than is usually required by speculative developers.
- Equity Partnerships could be created, as described earlier in this report. The partnership would include the major landowner, a source of patient finance and a coordinating body. These new partnerships would be made possible by the much lower risk created by land entering the scheme at a predictable and lower value and planning risk being reduced.
- A formal public Development Corporation. Legislation already exists for their creation, although some aspects would need updating.⁸¹ Under this model the land would come directly into the ownership of the Corporation. The Corporation would exist for the lifetime of the scheme, holding land and preparing plots to be sold on to individual SME builders, housing associations and others prepared to build out the masterplan.

⁸¹ TCPA and LGA, Building the Future: Joint Statement on Modernising the New Towns Act, 2016

The preferred option should be the second or third, as the first risks simply diverting too much resource from other projects. In particular the third option is a tried and tested model, having been used to deliver the New Towns. The quality of the schemes could be expected to be much higher today than in the post-war New Towns, given the much greater degree of land value capture that could be achieved.

3. Neighbourhood Exception Sites.

Local communities have increasing powers to shape development in their area with Neighbourhood Plans. However the downside currently is a limited ability to ensure that positive development that communities want actually happens. Neighbourhood Plans can have very strong policies on affordable housing, for example, but as with Local Plans these can too easily be swept aside through the viability process. Neighbourhoods need stronger tools to release land specifically for the sort of development that their area wants and needs.

There should therefore be a clear policy tool to allow local areas to release small sites specifically for high quality, locally affordable homes. Such a policy is already used in rural areas – Rural Exception Sites. These are defined in the NPPF as:

“Small sites used for affordable housing in perpetuity where sites would not normally be used for housing. Rural exception sites seek to address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection. Small numbers of market homes may be allowed at the local authority’s discretion, for example where essential to enable the delivery of affordable units without grant funding.”⁸²

Recent data on the use of Rural Exception Sites is unavailable, but in 2011 the policy was responsible for delivery of around 1,500 homes. There are ways in which the Rural Exception Site policy itself could be strengthened: such as through clearer guidance for landowners and Inheritance Tax exemptions for rural landowners who bring sites forward under the policy (see Policy 10 below).

The idea behind Rural Exception Sites should also be available to all Neighbourhood Fora, with a new ‘Neighbourhood Exception Site’ policy. This should be introduced as a new policy (rather than re-branding of the existing policy) for several reasons. First, the concept of a Rural Exception Site is well understood in rural areas and any change might cause a drop in use. Second, the Neighbourhood Exception Site policy should be stronger than Rural Exception Sites in several ways:

⁸² NPPF, Ibid

- Neighbourhood Exception Sites should be included in a Neighbourhood Plan and would have to provide as much permanently affordable housing possible. This would be judged against the updated definition of viability (see below), under which existing use value plus a premium is considered a reasonable benchmark.
- As with Rural Exception Sites, Neighbourhood Exception Sites should be delivered in partnership with a Registered Provider to manage the affordable element (such as a housing association) but could be built by a local SME builder.
- Once a site has been allocated in a Neighbourhood Plan as an exception site it should then have a 20 year legal exclusion from being included in the Local Plan's Five year land supply. This will incentivise landowners to proceed willingly, rather than hold out for a change of policy.
- Neighbourhood Exception Sites should be integrated with permitted development rights so that if the site meets the policies on the Neighbourhood Plan and Local Plan it would not need to go to planning committee. Permitted development means that the promoter (in this case the RP) would simply have to check with the local authority on practical issues such as highways and flooding.

Overall, a Neighbourhood Exception Site policy would give local communities a strong tool to unlock high quality, locally affordable housebuilding on small sites. It would also give them the ability to see this happen quickly with the use of permitted development rights and a strong incentive on the landowner to develop.

4. Public land – partnerships not sales

Public land is an incredibly valuable asset and one which could help us to deliver New Civic Housebuilding. Used well, public land could also generate long term revenues for public bodies who expect to still be in existence and delivering services in tens, hundreds or perhaps even thousands of years' time.⁸³ Selling land for a capital sum may make sense for an individual – or a family – who wish to release some capital value to consume in the present. However it makes less sense for long-term institutions (especially in the public sector) who generally need revenues to fund services, not one-off windfalls.

Public land is a sleeping giant within the housing system, but it's exact size is not known because of poor and inconsistent data collection. Even the Land Registry itself remains incomplete, as registrations only need to happen at the point of a transaction and some land has not been transacted for centuries. Some attempts to rectify this have been made – such as London's Land Commission – but the only proper solution would be a much more

transparent, digitally-driven Land Registry combined with the requirement for landowners to register ownership and options as well as transactions.⁸⁴

To use public land more effectively, we need to encourage new partnership models in which public land is invested as equity or held freehold and remains in long-term public ownership. These models can generate revenues from rented homes on the site (or ground rents) and development profits from sales. While they do introduce more risk to the public body than a simple sale of land, they consequently also offer more reward. And the risk is still low, as the public body will typically own the site freehold and without debt.

The main barrier for more being done is capacity within public bodies to move beyond a land-sale approach and low tolerance of risk. One possible way around this problem would be for central government to designate certain public bodies as "Development Trailblazers". These bodies would be chosen because they have a strong development team and a pipeline of sites – and they would be offered some additional resources to boost their capacity. Development Trailblazers should then be brought in to set up land owning partnerships which can bring in land from multiple public bodies.

Each city or county in England should have a public sector Development Trailblazer which all other public bodies in the area can draw on for help mapping the development capacity of their land, setting up partnerships and ultimately getting homes built.

Policies to improve outcomes from speculative housebuilding

These policies are intended to mitigate the negative outcomes of speculative housebuilding, without disrupting the business model of the developers so much that they are forced to stop building. We need speculative developers to be growing, healthy and profitable – but equally they should be contributing to affordable housing supply a much greater extent than they have been in recent years.

Land banking is a sensible strategy for a speculative housebuilder, but we should dis-incentivise firms from holding on to land that has planning permission, or is allocated for development, for too long. Local communities should expect to see the plans and policies that they develop so carefully come into fruition, rather than be negotiated away outside of the democratic planning process at appeal.

5. Introduce a national minimum contribution of affordable housing and minimum space standards.

As we have seen, the obligations on speculative developers to build affordable housing are flexible and negotiable. When combined with a highly competitive land market, this means that the level of affordable housing on sites often does not meet the Local Planning Authority's policy

⁸³ The City of London Corporation for example is the oldest continuous municipal democracy in the world dating back to at least 1032.

⁸⁴ For a full discussion of the opportunity of land market transparency, there is a separate Shelter briefing available on the online Policy Library.

level. Flexible affordable housing contributions made some sense in the aftermath of the financial crisis when development was fully stalled, but now developers are making record profits.

Communities should know that any medium or large housing development in their area will have a clear and obvious benefit to local people, including those who need a home but cannot afford market prices or rents. Not only will this help make people more accepting of local development, it is also essential to increase the number of desperately needed affordable homes.

The government should therefore prepare and consult on a national minimum contribution of affordable housing which all development sites over 10 homes in England should be expected to meet through planning obligations (excluding grant funding). Grant funding can then be used on top to incentivise even higher levels of affordable housing provision.

This system would not include London, which has already set out a similar threshold system for viability.⁸⁵ While there is a case for producing contributions on a city-regional or county basis throughout the rest of England, there would be some downsides. First it undermines and confuses the simple message that development will have the same positive benefit for local communities and second, if designed in the right way it should be able to reflect those differences and make some limited exemptions where required.

As a starting point, we would suggest:

- That the national minimum contribution should be a floor, not a ceiling. Local Planning Authorities (or City Mayors) should be able to set higher targets on top.
- There should be a minimum contribution based on both the percentage of habitable rooms on a development, but also some indication of the tenure split expected. This is to avoid the focus of viability negotiations simply moving from units to tenure.
- Local Planning Authorities (LPA) should be automatically opted-in to the national basic contribution, but where an LPA feels that it will be a major hindrance to development – for example in a low value market⁸⁶ – they should be able to request the Secretary of State for an opt-out.

Overall, the purpose of this reform would be to send a clear signal to developers and to landowners that negotiation on affordable housing contributions can only go so far. Every development should have at least a minimum benefit to local people. If developers want to make a case for why a site cannot meet the minimum affordability contribution, this should be fully transparent and scrutinised on an updated understanding of land

within the concept of viability (see below).

As well as minimum contributions of affordable housing, there should be minimum standards on space for homes and for rooms. As London already has done, DCLG should set out a Housing Design Guide, with updated Building Regulations and national minimum space standards based on the realities of modern lives. This can be informed by Shelter’s research in our “Living Home Standard” – the biggest ever survey of what people feel a home should provide.

6. Enforce transparent viability assessments

Many of the policies proposed here depend on the creation of a fairer viability process.

The expectation should be that the affordable housing and design quality policies set out in Local and Neighbourhood Plans will be met, rather than ignored. National Planning Practice Guidance is clear on this:

“in all cases, land or site value should: reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge”.⁸⁷

But in practice this is not what is happening. The majority of London Boroughs have a minimum affordable housing policy of 50% (with others at 35% or 40%). However in 2014/15 just 13% of net starts were in affordable tenures.⁸⁸

Local people should know that the hard effort that goes into producing a Local or Neighbourhood Plan will result in the development that they endorse actually happening.

As a starting point

- The national minimum affordable housing contribution should be a threshold within the viability system in England. Those developers who meet the national basic minimum should be required to submit detailed viability information to the LPA only when that LPA has an affordable housing policy above the national minimum.
- If the development does not meet the national minimum affordable housing contribution, then the developer should submit detailed and standardised information on viability to both the local authority and to the Secretary of State. Where the developer’s viability assumptions are not based on an updated concept of “competitive returns to a landowner” (below) the LPA or the Secretary of State should reject the application.

⁸⁵ Mayor of London, Draft Affordable Housing and Viability Supplementary Planning Guidance 2016

⁸⁶ For example, Newcastle City Council has a policy of 15% affordable housing on sites over 15 units. Newcastle Adopted SPD, 2016

⁸⁷ NPPG, Paragraph 24 on Viability

⁸⁸ London Development Database; Mayor of London, Ibid

Overall, planning applicants should know that if they fail to meet minimum contributions of affordable housing they will at the least have to make their viability considerations public and – moreover – if they have overpaid for land they will find their applications rejected.

7. A more balanced concept of viability at a national level

The final piece in the jigsaw on viability would be to update and clarify the definition in national planning policy and ensure that decisions are made fairly. The National Planning Policy Framework (NPPF) currently defines viability as:

“[providing] competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”⁸⁹

This definition puts the emphasis of viability on what is competitive within the current dysfunctional market. Much hinges on what is seen as a “competitive” return to a landowner, a vague definition that creates uncertainty. For example:

- Should that return be based on how much the landowner paid for the site, even if they did so with no regard for local planning obligations?
- Should the return take account of other sales within the local area – even if those sales were made without regard to local planning obligations?

Without adequate answers to these questions, competitive returns are effectively what landowners are able to extract as local monopolists. As the Planning Inspectorate has said:

“...unless landowners can be persuaded that it is worth their allowing their site to be (re)developed then they will not make the decision to allow their land to be brought forward and the development land market will not function.”⁹⁰

The government needs to clarify viability and ensure that all aspects of formal planning policy (especially the NPPF and NPPG) are consistent and fair. It also needs to take a firm position on land value, as the current “confused and conflicting”⁹¹ approach is failing communities, developers and planners alike.

A fairer concept of viability

To determine whether a scheme is viable and providing a “competitive” return to landowners there are two measures of land value which must be considered. First, residual land value based on the scheme in question (development value minus build cost) and second a benchmark land value of the scheme. This is a value below which a developer should rationally refuse to sell (because it is less than what their land is worth). If the residual value is equal to or greater than the benchmark value, then a profit has been achieved from the scheme. It is therefore of great importance how the benchmark land value is calculated.

Some developers have been arguing in appeal cases that the actual price paid for the land should be used for the benchmark value. This risks circularity, because developers know that if they overpay for land (inflating the benchmark value) the viability assessment will determine that the scheme can only be rendered viable by reducing the planning obligations. As RICS have put it:

“what if a purchaser paid a price that reflected the possibility that they could appeal the level of policy compliant planning obligations under the current viability regime?”⁹²

They conclude:

“A correct application of market value would protect the community from changes in market state and ensure that any site brought forward for development would be able to provide policy compliant planning obligations”.

There are multiple alternative ways of achieving a fairer benchmark value other than looking at prices paid in the (dysfunctional) land market. The approach taken by the Mayor of London – and the one that we would advocate applying across England – is to base the benchmark land value in viability assessments on Existing Use Value plus a clear premium (EUV+).

This approach would anchor fair land values in something outside of any market speculation and allow a proper appraisal of whether a return is fair. Existing use value is simply the market worth of the land in the absence of any residential scheme.⁹³ So for example, it’s worth as an industrial, agricultural or commercial piece of land. In London, the premium over EUV proposed is 20–30%⁹⁴, which happens to be broadly the margin expected by developers. So the benchmark value of land would be its use value without a residential planning permission, plus a 20–30% premium.

⁸⁹ DCLG, National Planning Policy Framework, 2012

⁹⁰ PINS report into Barking and Dagenham Economic Viability Assessment

⁹¹ RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice (April 2015)

⁹² RICS Financial Viability Appraisal in Planning Decisions: Theory and Practice (April 2015)

⁹³ This differs from Alternative Use Value (AUV) which is what another scheme (say residential) could achieve on the site.

⁹⁴ Mayor of London, Ibid.

The theoretical underpinning for having a premium at all is that an asset-owner might not rationally sell at the existing use value of their asset (if they are using it) but most rationally asset owners would sell their asset if a decent premium price was offered. The problem is that land isn't like other assets. It's unique characteristics make it highly desirable as an asset, attracting excessive capital. Benchmarking the fair level of the premium against what others may be prepared to pay for land risks setting the value too high. It is therefore essential to specify what a fair premium is (in this case 20–30%) to be able to anchor land values and fairly assess viability.

We conclude that viability should be assessed on the basis that a competitive return for landowners is defined as one where the residual land value of the scheme matches or exceeds its existing use value plus a premium of 20–30%.

This updated concept of viability and land value should be made clear through an updated NPPF and NPPG.

8. Planning Contracts, not 'Permissions'

Finally, to sit underneath a more balanced concept of viability there should be a new conception of what happens when a developer is allowed to develop through the planning process. Currently the 'permission' is being treated as a commodity in itself – which can be traded between intermediaries for years before any homes are actually built.

This is the wrong way to see what is happening in the planning system. Communities go through painstaking processes to develop Neighbourhood and Local Plans and councillors often have to go through tough political battles to approve sites for housing. It is then simply not right if the land and the 'permission' is traded for years before anything is built – or even if the site itself is built very slowly.

Government should therefore consider recasting what is happening in local planning as "contracts" not "permissions". A planning contract would be between the local community and the landowner. It would set out not only what would be built, but the timeframe in which it will be built. And – as with many contracts – there would be fines applicable if that contract is broken. These should apply to the authority if it fails to promptly deal with planning conditions to make a site implementable and equally authorities should be given the power to levy Council Tax on unbuilt sites with a planning contract. This taxation power would apply only proportionately to sites with a planning contract, so tax could only be levied proportionately to the number of unbuilt homes on a site.

Several prominent housing market studies have suggested a tax or charge should be levied on land with planning permission that is not started within a certain timeframe.⁹⁵

Basic modelling by Europe Economics of such a tax suggested a "considerable increase in the build out rates" of medium sized firms, equivalent to a 20,000 increase in starts over 5 years above 2012–13 levels. However more detailed modelling would be needed to fully understand and quantify the impacts before a policy change is made.

This new approach to local planning should be piloted regionally before being rolled out nationally, in order to test how it works in practice and ensure it can be applied in a fair way to both sides. The aim is not to punish speculative developers for their business model, but to create a clearer and fairer set of responsibilities for both sides so that communities know that development will proceed in a timely manner.

⁹⁵ House of Lords Select Committee on Economic Affairs, Building More Homes, 2016; The Lyons Review, 2014; Europe Economics, How to increase competition, diversity and resilience in the housebuilding market, 2014; Airy, The Power Behind the Home (Localis, 2016); Bentley, The Housing Question (Civitas, 2016)

Conclusion

It can often feel like nothing can solve England's housing shortage. The choices seem too drastic, too unpopular, and too expensive to get off the ground. Even where tough reforms are made (as with the introduction of the NPPF) and political capital is spent, the results don't seem to change: prices keep on their upwards march.

This report argues that this is happening because we haven't properly scrutinised what is happening below the bonnet of housebuilding. Speculative housebuilding is vital to our overall housing numbers (and always has been), but on its own it cannot solve the growing housing affordability crisis. The entire model is based on dripping out housing supply in local markets at prices which do not disrupt that market. The only option for those who refuse to look beyond speculative housebuilding is massive planning deregulation: but we have seen that this is extremely unpopular and may not even work on its own terms.

To build enough homes – and to build beautiful, locally affordable homes with appropriate infrastructure – will take an additional layer of housebuilding. New Civic Housebuilding offers the opportunity to do this, by making a fairer trade-off between windfalls for landowners and benefits for communities.

There will be many vested interests who argue against this analysis and against the policies recommended. But as a country we have listened to their views and their recommendations for a long time, while watching homes become less and less affordable. It's high time we remember how we built the beautiful and affordable homes of the past which people are so proud of today. It's time to revive Civic Housebuilding.

Upton Northamptonshire



“

Shelter's report is essential reading for policy makers and very clearly explains the drag which the land market creates on housebuilding, and why many policy responses have not moved the volume dial sufficiently. New Civic Housebuilding provides solutions which draw on real examples across the ages and the world. It tackles head on the trade-off between the mechanics of land pricing and rate of supply for this unique type of commodity – an affordable house to live in.

Jan Crosby, Head of Housing,
KPMG LLP

