

Until there's a home for everyone

Obstacles and opportunities

Solving England's housing shortage

Shelter

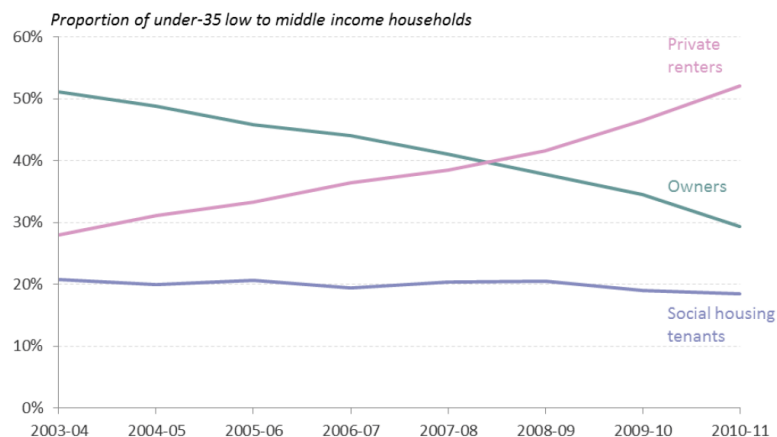
Summary

- **England's housing shortage no longer just affects those on low incomes – the middle is now feeling the squeeze too.** More and more are stuck in short term lets in an unstable and expensive private rented sector, with little prospect of anything better.
- **With the security and stability of home ownership slipping out of reach for increasing numbers of voters, low and middle income families feel anxious about their children's future housing prospects.**
- **This is problem which has built up over successive Governments.** No one party is solely to blame, and there is no silver bullet to fixing things.
- **But the current solutions are not working.** Help to Buy threatens to make home ownership more unaffordable, not less, while reductions in public investment have reduced the supply of affordable housing
- **The only answer is an ambitious programme of both investment and reform, to build the 250,000 new homes a year that we need in England.** We are currently far short of that, and are set to be so for the foreseeable future.
- **Efforts need to focus on three areas:** (1) providing more and smarter investment (2) improving the supply of land and (3) greater competition among house builders.
- **Doing nothing is the worst option of all.** Fixing our housing shortage will not be easy, but it can be done.
- **There is a huge political opportunity with this issue and the way it speaks to voter's everyday experiences and aspirations.**

Symptoms of our housing shortage

- **England's housing shortage no longer just affects those on low incomes.** Increasingly, it is a crisis hitting the middle too.

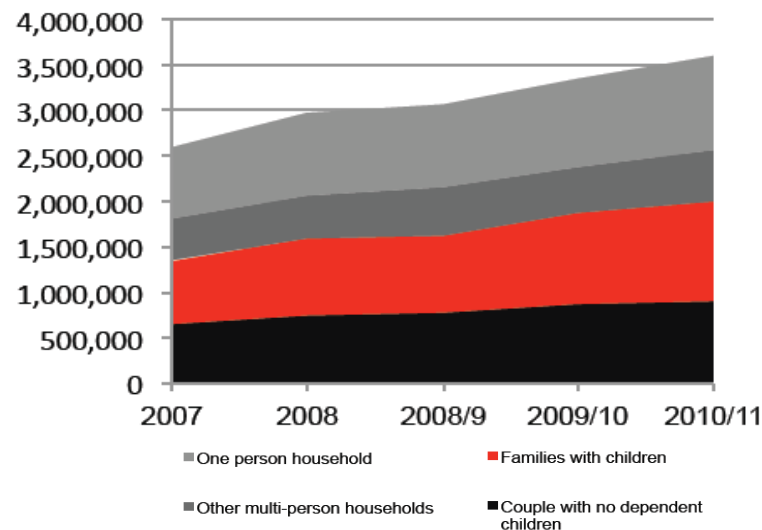
Tenure of low to middle income households



'The Bank of Mum and Dad' is coming under increasing pressure. Parents are now having to pay out an estimated £2 billion a year to help their children get on the property ladder. The average contribution from parents who helped their children was £17,000.
- Shelter, 'Bank of Mum and Dad' report 2013

- **Homeownership is falling for the first time in a century**, as a generation are priced out and owning becomes a distant dream.
- **The number of families with children renting privately has doubled in the last decade.** Despite working hard and saving, they are increasingly trapped in unstable and expensive private renting, unable to afford a home of their own.

Change in private renters' household composition
English Housing Survey 2007 -2011



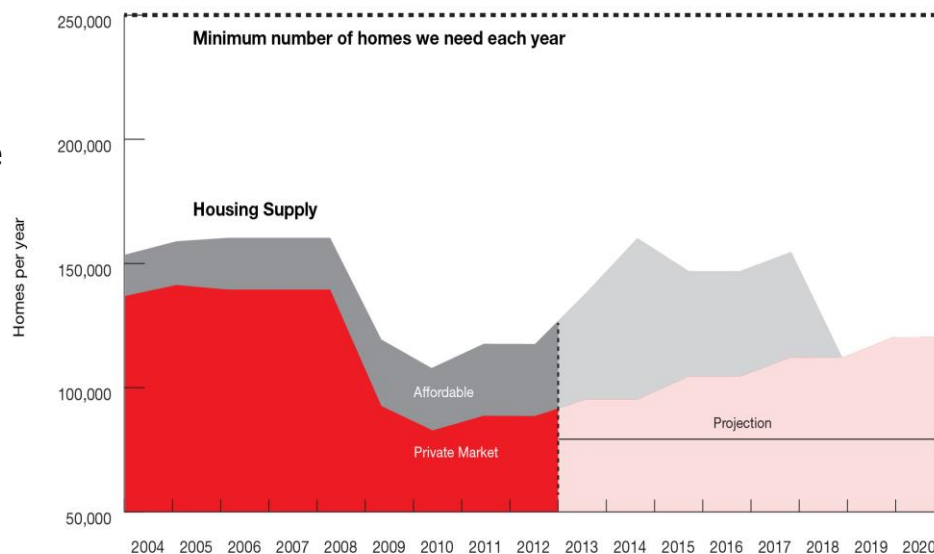
The current solutions aren't working

- **Changes to planning are well intentioned**, but a lack of planning permissions is not the main barrier to solving the housing shortage.

There are almost 400,000 homes in England that have been given planning permission but have not been built
LGA, 2013

- Further changes to planning could be time consuming, politically costly and is unlikely to have a transformative impact on housing supply.
- **Constant chopping and changing increases uncertainty for developers and investors, slowing things down.**

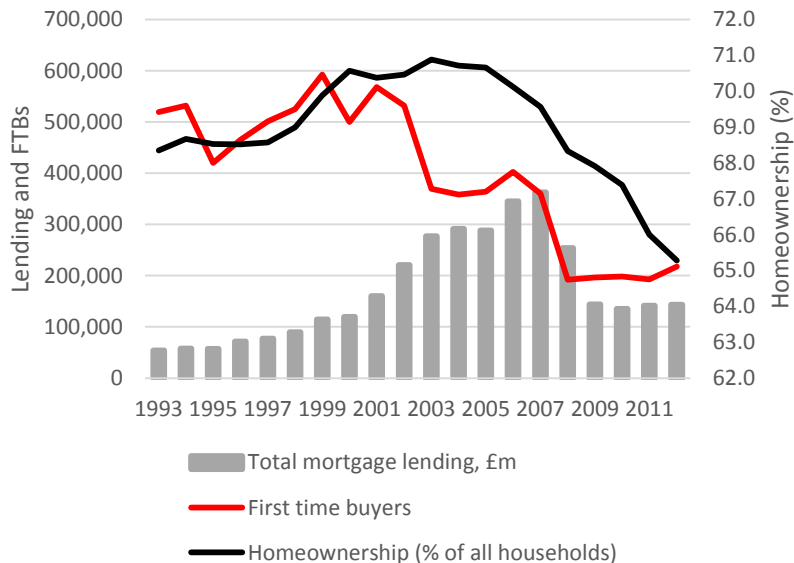
- **Recent funding announcements haven't changed much, either.** The new housing settlement set out in the 2013 Comprehensive Spending Review is nowhere near sufficient to deliver the homes required.
- At current levels, we build a million fewer homes than we need every seven years.



Help to Buy 2 won't help

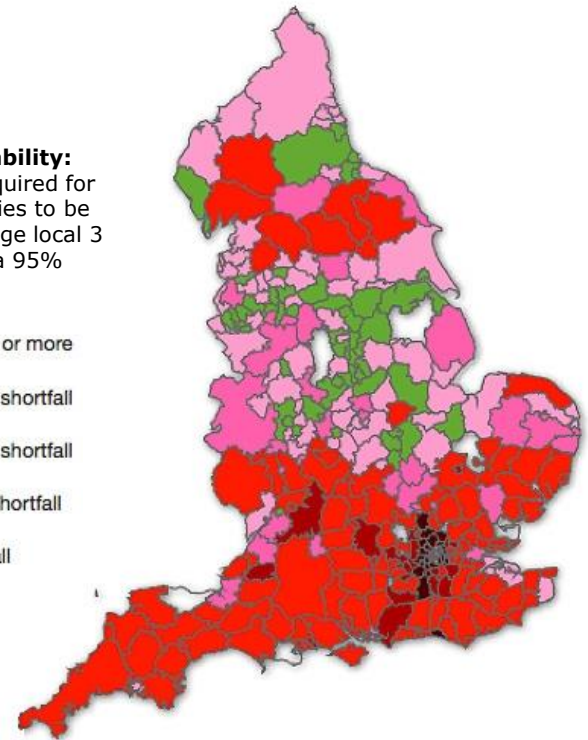
- **A return to excessive mortgage lending isn't the answer.** This would risk inflating a new bubble and exposing first time buyers to the risk of arrears and negative equity.
- The number of first time buyers peaked in 2001, and home ownership started declining in 2003, when credit was still freely available.

Mortgage lending, first time buyers and homeownership



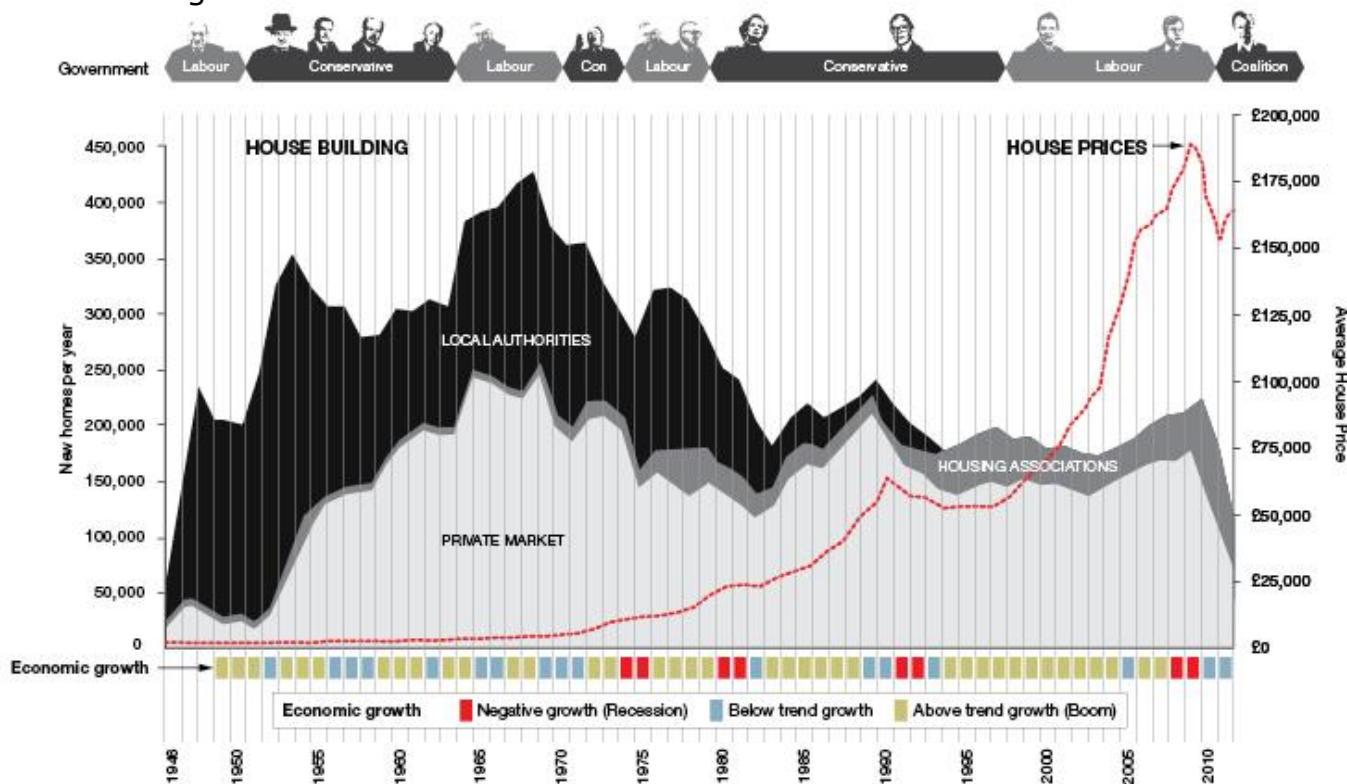
- **Help to Buy 2 won't help low and middle income earners in 8 out of 10 areas of the country.** The price of homes is simply too high for most to afford.
- **Help to Buy 2 threatens to make things worse for them,** as a 95% mortgage requires higher monthly repayments than a smaller loan. By inflating prices, it may push home ownership even further out of reach.

Help to Buy affordability:
Additional income required for median earning families to be able to buy the average local 3 bedroom home with a 95% mortgage



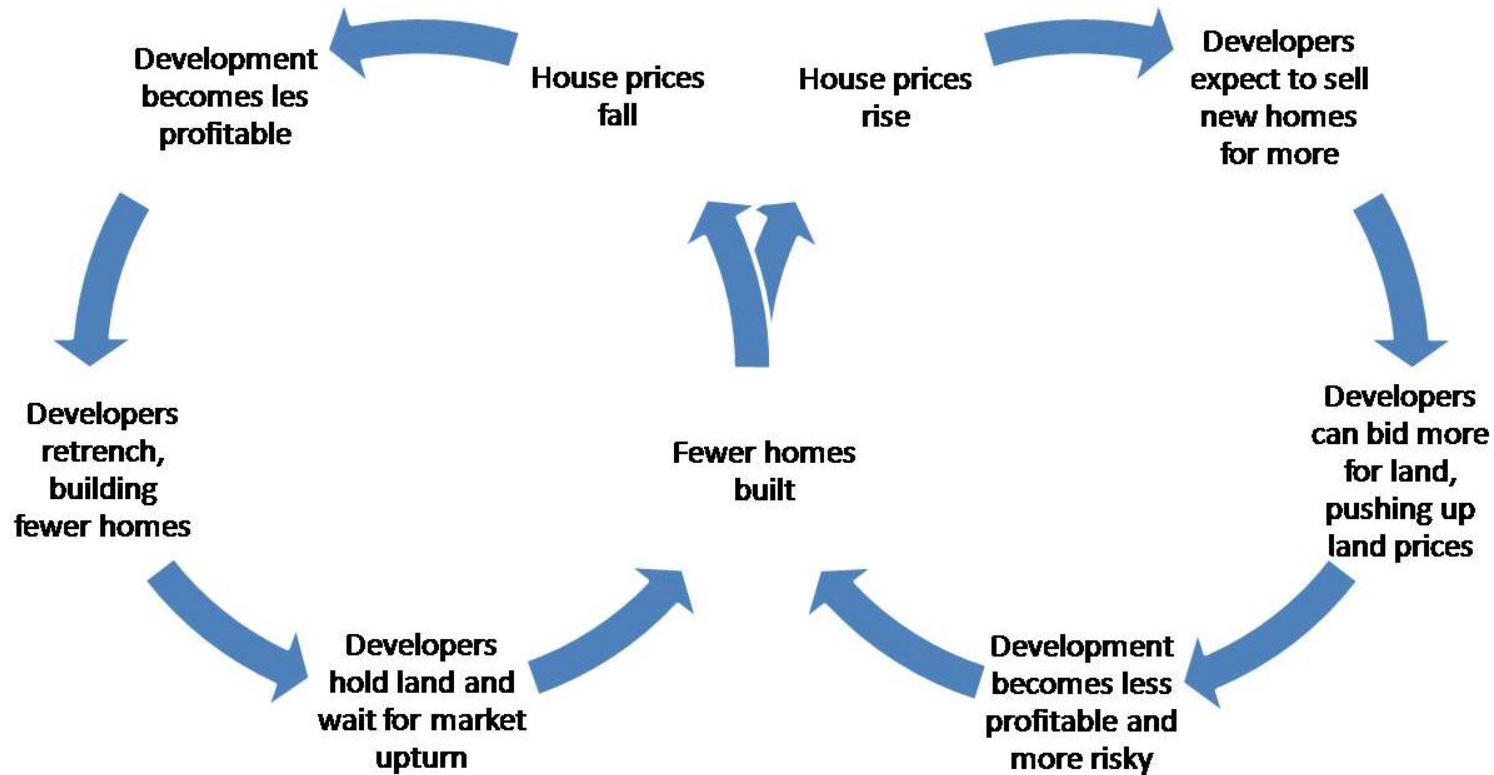
The homes we need

- **The real problem is there are a lot of people chasing too few homes, pushing prices up beyond many families reach.** Only bold action to address England's massive housing shortage will bring the dream of home ownership back within the grasp of hard working people on ordinary incomes.
- **But we are currently nowhere near building the number of new homes we need to make this happen – 250,000 a year.** This shortfall has developed over a number of years – it is the result of the failures of successive governments.



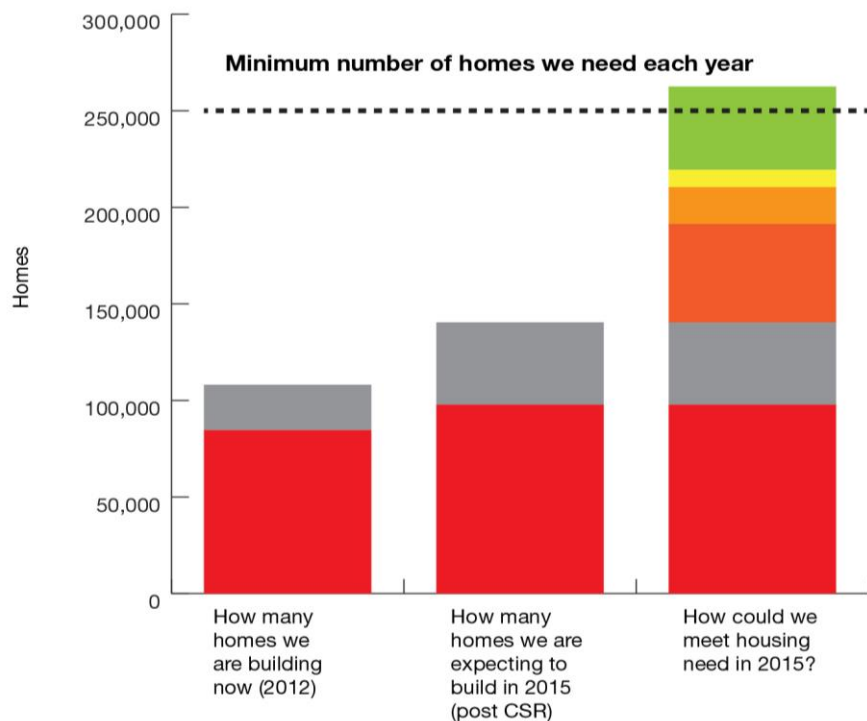
The heart of the problem

- **The normal economics of supply and demand simply do not work properly in housing supply.**
- The market for homes and the market for land are intertwined in a dysfunctional relationship. This drives the supply of homes down, and the price up.
- Rising house prices lead to rising land prices, which make development more expensive and risky, making it harder for new firms to enter the market, reducing competition further.
- But if house prices fall, developers have a strong incentive to build few homes, while holding on to their land assets and waiting for the market to pick up again.



The homes we need

- **Changing this entrenched pattern of under supply will not happen over night.**
- **There is no silver bullet.** A range of radical solutions are needed, and both public and private sectors must deliver their full potential, to build the 250,000 homes England needs each year.
- **An ambitious package of reform needs to combine immediate short-term investment and longer-term structural reform to maximise the benefit of investment.**



Solutions to the housing shortage:

How to build the 250,000 homes we need each year

- Garden Cities and New Towns
- Raising Local Authority borrowing cap
- Supporting Self Build
- Government Investment 1% GDP
- Affordable Housing Programme (AHP)
- Current Private Market

• **There are three main areas requiring action:**

- Providing more and smarter investment
- Improving the supply of land
- Greater competition among house builders

Investment

- **The market alone cannot deliver the numbers we need.**
- **The Government needs to play its part by providing the necessary up-front investment.**
We need to commit to spending an additional £3 billion a year on new, genuinely affordable homes if we are serious about solving the housing shortage.
- **Increased public investment in housing has support from across the political spectrum.**
Including from the CBI, the British Chamber of Commerce and the Business Secretary Vince Cable.



"I would concentrate in the budget on building houses... If we want nurses and firemen to be able to live in London we need to build these homes. You create construction jobs - and jobs for young people because these are entry-level jobs - and you build confidence....With its relatively short lead-in times, house building offers the most bang-for-buck in growth terms - unleashing pent-up demand, while creating jobs and growth."

John Cridland, CBI (Confederation of British Industry), 2013

"The British Chambers of Commerce said Help to Buy should have been accompanied by a house building programme. David Kern, its chief economist, said: "It would have been much more effective if it was combined with house building measures, otherwise you could end up with a bubble."

- The Daily Telegraph, 2013

"If you are talking about under 1% of GDP [roughly £14bn; of investment in housing], that is hardly going to shake the world [markets]. It depends on how you do it - giving local authorities powers to build council houses seems to be a bit of a no-brainer. It can be done quickly. There is the capacity there and it directly helps the sector of the economy that faces the greatest weakness, which is construction, glass, cement, bricks, many of which are in serious trouble."

Vince Cable, Secretary of State for Business, Innovation and Skills , 2013

Improving the supply of land

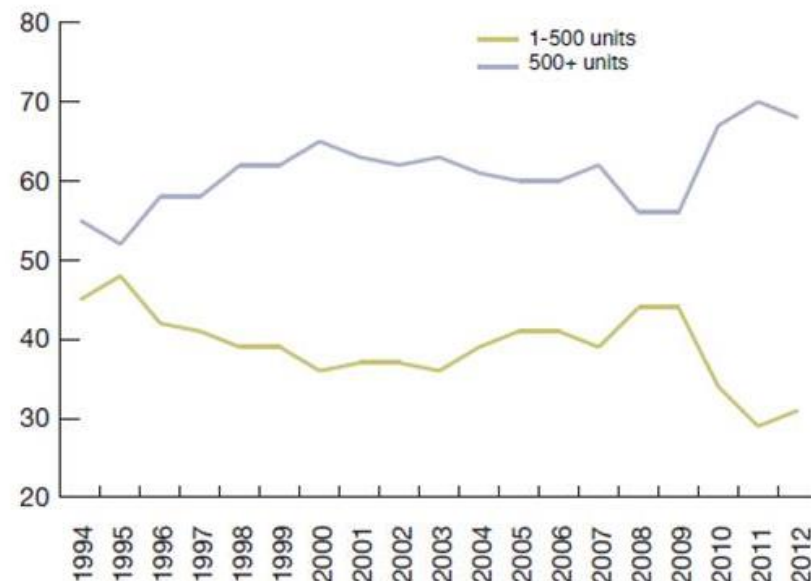
- **Without reforming the way development happens, the private sector can't play its part.**
- **Homes are expensive because land is expensive**
Land is a house builders single biggest cost - it squeezes house builders' profit margins, forces them to bear down on costs and building quality, and incentivises land hoarding.
- **We need bold action to make more land available at cheaper prices to house builders.**
This could include Community Land Auctions, more use of 'build now, pay later' deals, and green belt swaps.
- **Public bodies should be enabled to buy land (compulsorily if necessary) at market prices and sell it to house builders in return for commitments to build.** This model is used extensively in Europe – and successfully delivered the London Olympic site.



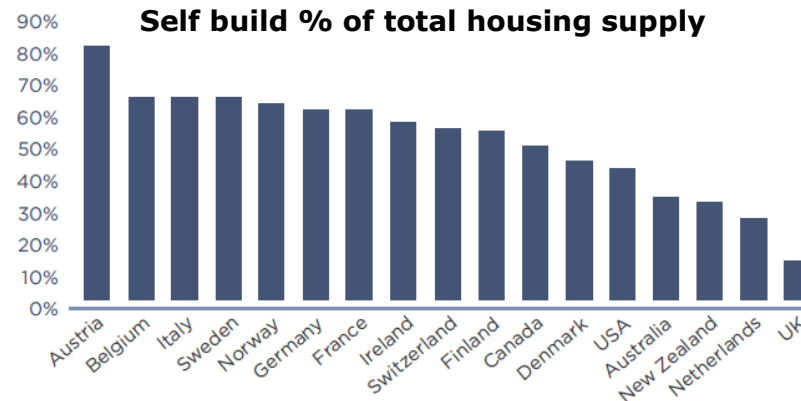
Greater competition among house builders

- **And we need that land to go to a larger number and a wider range of house builders, who want to build.** At the moment the market is dominated by just a handful of big developers, who operate on the same business models and whose ability to expand production is limited.
- **We need to make it easier for small businesses, and new entrants, to enter the construction market.** This would increase capacity, provide jobs and make the industry more diverse and more resilient to economic cycles.
- **Local authorities should also be freed up to build more,** and new development corporations created to deliver a new generation of Garden Cities or New Market Towns. These models have worked before and can do so again.
- **Communities and individuals who want to build their own home should be encouraged and enabled to do so.** In most other developed countries, self build is a major source of supply.

Proportion of housing supply by size of builder



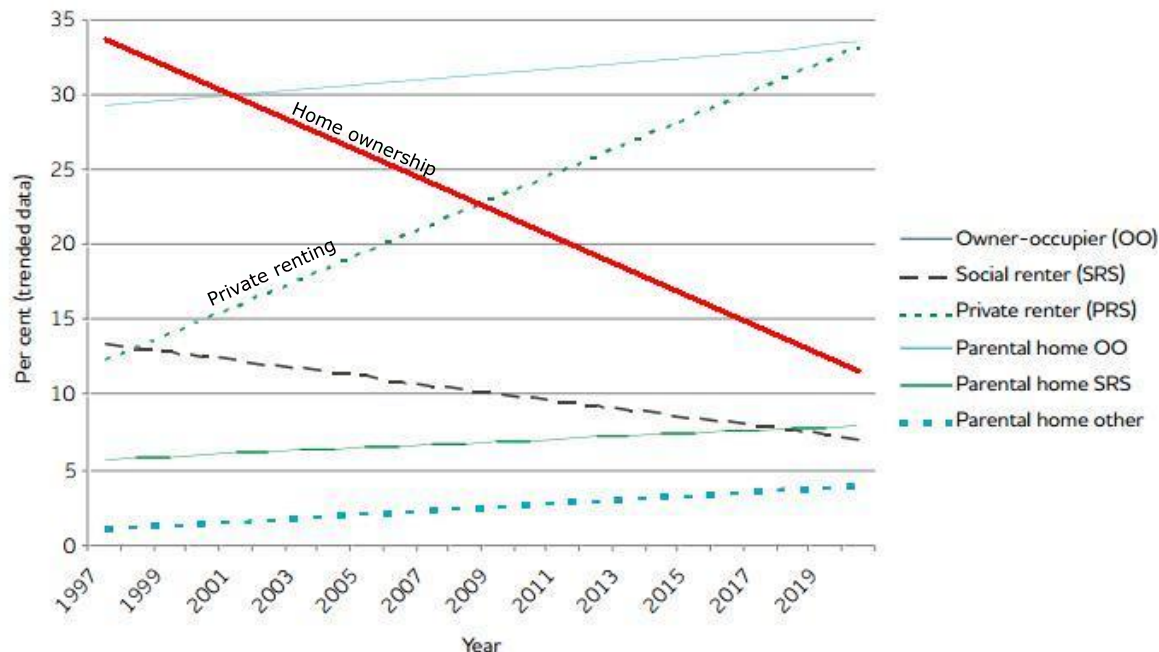
Self build % of total housing supply



The opportunity

- **Although none of this will be easy, doing nothing is the worst option.** Inaction means accepting continued falls in home ownership, year on year rent rises, further increases in the housing benefit bill, and many more people living in overcrowded, substandard accommodation – or even facing homelessness.

Projected declines in home ownership if no action taken



Tenure change and projections for people aged 18–30 between 1997 and 2020.
Source: *Housing options and solutions for young people in 2020*, JRF, June 2012.

- **Failing to solve our housing shortage will have serious consequences for the economy. One in five businesses** regard house prices as a constraint to business expansion in their region, rising to **44% of London firms**.
- **This is a crisis which has built up over many years – but it can be solved.**
- **Few things matter more to voters than family and home life.** England's housing shortage means many voters are anxious about the future of both.
- **There is a huge political opportunity to 'own' this issue and be the party that speaks to people's everyday experiences and aspirations, as well as their concerns about their children's future.** But it can't be done by halves. It requires investment and reform, but above all long-term political commitment.