

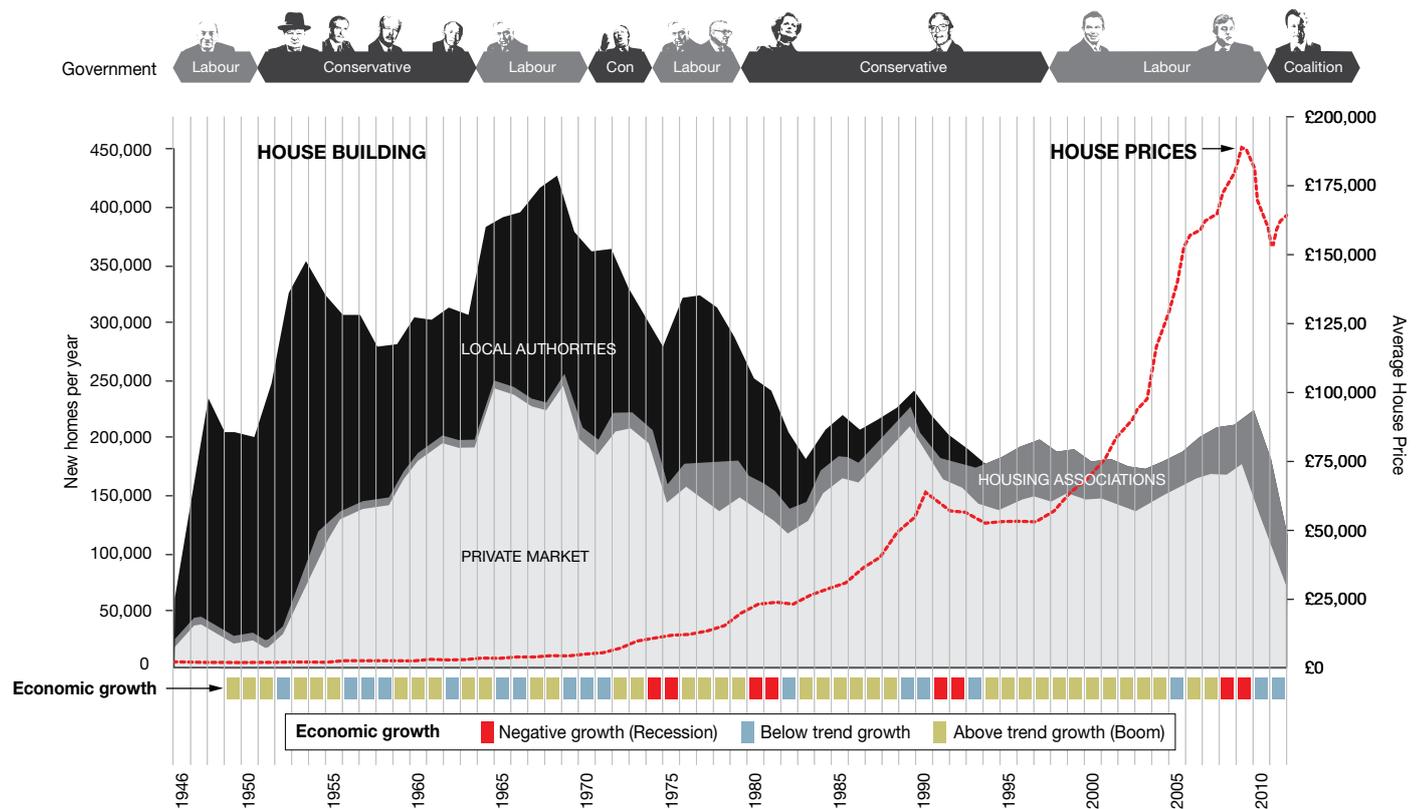
How do we build more homes?

There is a massive housing shortage. Young people today are increasingly priced out of buying or renting a home of their own. People from all walks of life struggle to get the housing they need or want, and it holds them back in life. Meanwhile our economy is held back by a lack of construction.

All political parties agree that more homes would be socially and economically beneficial, but the number of homes built has consistently fallen short of what's needed. There haven't been enough homes to keep up with demand for many years, even before the recession when the economy was booming and credit was flowing. The market isn't working.

House building, house prices and economic growth in England

Over the last 35 years, housing supply has fallen rapidly whenever the economy has shrunk or house prices have fallen. But supply has not increased during boom years, despite growing demand.



Data: DCLG, Nationwide, HMT. Image: A Right to Build, Architecture 00://, 2012 <http://issuu.com/architecture00/docs/arighttobuild>

The current solutions aren't working

Reforms to the planning system and increasing mortgage lending will not be sufficient to make the market work:

- The planning system could be more efficient, so some reform is welcome. But there will always be a limit to the amount of land that can be built on in a desirable and sustainable way. No matter how much governments tweak the regulations this will always be a factor. Uncertainty about the future of the planning system increases developers' risks and undermines their confidence.

- Boosting mortgage lending without more supply increases the competition for homes and drives prices up. Even in the days of 'easy lending', we still weren't building enough homes, prices rose and first time buyers disappeared. Credit can only go so far if we want our banks to act responsibly and not lend money that people can't afford to repay.

We must now focus on making the market work so enough homes are built.

1. FTI Consulting, Understanding Supply Constraints in the Housing Market, FTI 2012

Why?

- Unlike other markets, such as consumer goods, the number of homes built can be limited by the availability of land to build on. Land can be used for a variety of social and economic purposes, like farms, hospitals or shops, so we will always need a system for communities to decide how best to parcel up land. Land for new homes is limited, and this pushes up its value. The result is that developers have to focus on finding and managing land, not just building.
- Once developers have bought the land, the value of it can fluctuate. It can be more profitable to wait for the price to increase and then either build on it or sell it on, than it is to build on it straight away.
- House building is slow compared to many other markets, such as consumer goods (although major projects like railways take a longer time to plan and develop). It takes developers time to get land, meet planning requirements, design and construct homes. There are no quick returns on investment and house prices can change a lot by the time they come to sell. Developers can't be sure whether their investment will be worth it by the time homes are sold. Given the scale of potential losses faced

by large developers if house prices do fall, they err on the side of caution and build fewer homes.

- House building involves lots of stages; developers need the expertise, local knowledge and deep pockets to navigate land acquisition, planning, finance, construction, marketing and sales. They also need upfront money to get started, and long term finance strategies to keep their balance sheets healthy. As a result, the market has become dominated by a handful of large firms that have the scale, cash and expertise to make a profit. Although they do have economy of scale, lack of competition leads to higher prices.

Developers, investors, lenders, buyers and councils may all be acting rationally to achieve their own goals. But doesn't necessarily mean enough homes will be built. For example, developers need to minimise risks and maximise their profits. Sometimes this is best done by selling a lower number of homes at higher prices, rather than supplying as many homes as they can sell at lower prices.

The upshot is that left to its own devices the market will never deliver the homes we need.

Ways to build more homes

Why aren't we building enough?	What can be done?
Big players dominate the market	We should encourage competition in the sector by helping small businesses and self builders enter the market, and improving their access to land
Builders are risk averse because of uncertainty about the market	We should explore new models of sustainable finance for homes, both for developers and for individuals to help minimise risk
The limited supply of land is not used efficiently	We should incentivise better land use and ensure that land is developed. The tax system is a good lever to do this.
The planning system is slow and local people oppose new building	We should build public support for housing by ensuring that new homes are well designed
New homes are out of reach for ordinary families	We should develop housing products that meet a broader range of needs and preferences

Further reading

[FTI Consulting, Understanding Supply Constraints in the Housing Market, 2012](#)

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