

Building the homes we need

A programme for
the 2015 government

Briefing

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In partnership with

Shelter

This briefing provides an overview of the joint Shelter and KPMG UK report: 'Building the homes we need: A programme for the 2015 government'. The report is the result of a year-long joint project by KPMG in the UK and Shelter to contribute to the crucial national debate on the housing shortage.

The full report is available at: www.thehomesweneed.org.uk

What's the problem?

We are not building enough homes – and haven't done so for decades. Changing demographics mean that we currently need to build a minimum of 250,000 a year. In 2013, we built just 110,000. This is not an abstract problem; it has real impacts on people's lives. The most severe consequences include long social housing waiting lists, a growing housing benefit bill, and rising homelessness.

The impacts are felt right across society. Our lack of homes has already led to hugely overinflated house prices and a whole generation at risk of being priced out.

Putting this into context:

- If food prices had risen at the same rate as house prices since 1971, a chicken would now cost **£51.33**.
- If wage growth had kept pace with house price inflation since 1997, the average person could be earning **£29,344 more a year**.
- A quarter of adults under the age of 35 are stuck living in their childhood bedroom – and if current trends continue **half will do so by 2040**.
- **Home ownership has been declining for the last decade** – for the first time since records began.

A chance to fix the problem – and a political opportunity

Voters are worried – especially those with families, as housing clearly speaks to the aspiration of the next generation. As a result:

- Housing is now regularly a **top five issue** in the YouGov important issues tracker.
- **Two thirds of the public** want house prices to stay the same or fall.

No one political party has a clear lead on this issue. Asked which party they trust most on housing, **39% of voters say 'none of the above'**. Ahead of the General Election, politicians have the chance to show real leadership by committing to fix the housing crisis.

Our vision

It is possible to build the homes we need. And it is possible to put the plans in place to do so **within the next Parliament**. KPMG and Shelter have together produced a blueprint for housing for the 2015 government. There are no quick fixes or silver bullets and there are tough decisions to be made. But there is a clear route to transforming our house building system so that we can build the number of homes we need. To do this, the 2015 government needs to show real leadership and embark on a programme of reform and investment. They must:

- **Fix our broken land market:** including introducing 'New Homes Zones' that allow councils to bring much-needed land to market at a price that is affordable for developers.
- **Invest in new, affordable housing:** including creating a National Housing Investment Bank and a new 'Housing ISA' that contributes directly to new homes being built.
- **Increase diversity of homebuilders:** including guaranteeing loans to small builders to help them break into the market – making the sector more diverse and resilient.
- **Help cities and towns take a lead:** including giving local authorities the power to get homes built in their local area, through enhanced City Deals.

If the government of 2015 follows the plan set out by KPMG and Shelter, then as a country we can be building 250,000 homes a year by 2021.

The step change we need

To build a home, you need four things: land; a builder; finance and planning permission. To build the 250,000 homes a year we need, the government of 2015 needs to deliver a step change in all four of those areas: by fixing the broken land market; boosting the ability of small builders to compete; finding new financing streams for new homes; and giving councils the power to plan for the homes they need.

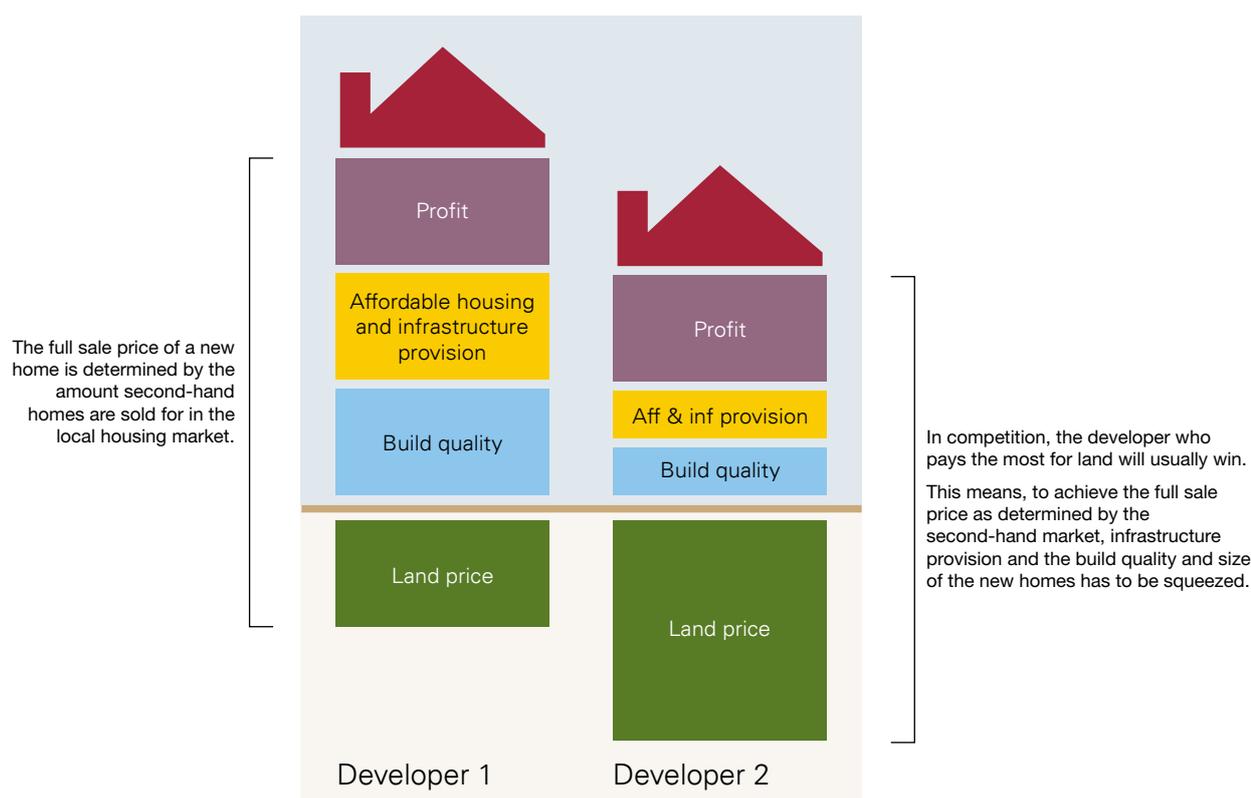
1. How to free up land for homes

The first stage of building a home is finding somewhere to build it. But the high cost of doing this is at the heart of our failure to meet the need for more homes. The only way we will get more homes built both now and in the future, is to reform the land market, which is like no other market and is poorly understood. Land is scarce, as a finite resource, but permanent, as once built on existing stock is not easily destroyed. It can be used for a variety of things, and choices over its use have huge implications. Furthermore, the English land market is

not transparent – it is very hard to find out who really controls what, or what it is worth. These features mean that land use is controlled by a planning system that can increase the value of a single piece of land several hundredfold overnight simply by changing its designated use.

In such a complex and opaque market, developers have to rely on multiple assumptions to decide how much to pay for a piece of land. They must estimate how much the homes they eventually build will be worth, and work backwards from that to get to a figure they can afford for the land. The value of land

Residual land value: developers must compete to pay the most for land



today has to be assessed based on the expected value of tomorrow's housing stock. Other markets don't work like this – the price of steel is not set by the future price of second hand cars.

To secure the land in the first place, the developer will need to outbid competitors. The higher the price they pay for land, the more they have to squeeze the size, quality and affordability of the homes they are going to build (see image).

This is bad news for consumers, who get fewer, lower quality, more expensive homes as a result since value is ultimately flowing back to the original land owner. It makes the entire house building market vulnerable to shocks and reliant on stable or ever rising house prices. As long as the fiercest competition within the house building process is between rival developers paying for land, it means that those same developers and house builders are not able to compete as broadly on the quality, volume or price of homes – all of which would be best for end consumers. The only solution is to take action to get more land at lower and more stable prices into the hands of people who want to build.

Our vision: a land supply system that is transparent, efficient and stable and, most importantly, provides much more land at lower prices.

Recommendations:

The government of 2015 can do this by:

- 1. Introducing “New Homes Zones”:** Like Enterprise Zones, these would foster low cost development and growth by freezing land prices at the start of the process. Public and private joint ventures would form a development corporation to build homes, infrastructure and new permanent green spaces.
- 2. Incentivising the use of stalled sites:** Sites with planning permission would be unlocked by providing infrastructure first, and then levying council tax for the unbuilt homes if the site remained undeveloped.
- 3. Building new Garden Cities:** Up to five new Garden Cities, using land market models that capture land value to fund infrastructure and high quality development.
- 4. Opening up the land market with far more data:** This would create a level playing field so that small builders and new entrants can find sites more easily, and local authorities can plan and negotiate more effectively.

2. Promoting more diversity in the house building sector

More land and investment are essential, but even with these supplied it is not clear that the house building market as it currently exists could deliver the homes we need. We need to move the site of competition away from the land market, to the consumer market for new homes if the public are going to benefit from better, more affordable homes.

The house building industry has become increasingly concentrated. In the early 1960s, the top ten house builders built just 8 or 9% of all new homes. By the peak in 2006, they were delivering over 50%, but of a much smaller total of all new homes— as repeated booms and busts have driven out the smaller players. This lack of diversity not only means that it is currently very difficult to build 250,000 homes per year; it also leaves the sector vulnerable to external shocks and volatility. All the developers work on the same business model. This means that when conditions are bad, they all stop building at the same time – deepening the downturn. A more diverse sector, including smaller builders operating on different business practices such as custom build, would increase both volume and resilience. The major private house builders themselves accept that this is a challenge and would like to see a broader, bigger development sector.

If we are to build 250,000 homes a year, then we will need the major house builders building new homes and new, smaller builders entering the market and growing. In order to do this, we need to make it easier for small house builders to get access to credit and land, and we need to level the playing field and stabilise the market so that builders of all sizes have the chance to compete. Less competition between builders for land, and more competition for customers, will drive up the quantity, quality and affordability of homes to be the benefit of consumers.

Our vision: A house building sector with many more local builders and more innovative models of development, such as custom build.

Recommendations:

The government of 2015 can do this by:

1. **Helping local builders to access finance:** By switching some of the guarantees allocated for Help to Buy into a 'Help to Build' scheme, small local builders can be helped to access finance.
2. **Prioritising stable house prices to help SME builders:** By taking steps to secure a healthy, stable housing market following a government review of house prices and property taxes.
3. **Providing land for custom build:** 20% of all land from our interventions above would be set aside for custom build, where individuals commission a local builder to build them a home.
4. **Levelling the playing field for builders with national space standards:** Setting minimum national space standards so that developers of all sizes have a level playing field, and encouraging the highest standards of environmental and design quality.

3. Investing in new, affordable housing

Reform of the land and development markets is vital if we are going to build enough homes, but just as important is that we build homes that all income groups can afford. Affordable house building has declined over the last 30 years – firstly when local authorities pulled out of development, and more recently as government funding for housing associations has been cut. Declining funding means that associations can only build homes which are less and less affordable.

If neither local authorities or housing associations build homes in significant numbers, then we will never build the homes we need – and certainly not homes that are genuinely affordable to those on low and middle incomes. To get them building, we must ensure they have the investment they need. While some extra direct public investment is needed, we recognise that public spending alone cannot and should not make up the gap. We've therefore set out practical policies to boost private investment in homes, by leveraging public spending, maximising the efficient use of public assets, and making smarter use of government guarantees.

Our vision: An affordable housing sector that's well funded, has a variety of developers and produces high quality homes for a wide range of income groups.

Recommendations:

The government of 2015 can do this by:

1. **Investing an additional £1.22bn a year in affordable housing over the next Parliament:** This is a prudent level of direct spending in the current climate, and would both substantially increase levels of genuinely affordable home building and kick-start the entire reform programme. There are options as to where this could come from – for example, we note that the Office for Budget Responsibility estimates that Stamp Duty receipts will increase in coming years.
2. **Providing council land under a leasehold model.** Public land can make a major contribution to house building. A leasehold model with joint ventures could create revenue for councils and support affordable home building without the gifting of land.
3. **Creating a National Housing Investment Bank, and a new 'Housing ISA' product:** As in the Netherlands, a Bank would be able to lever in more private finance to house building, by borrowing from capital markets and through a new 'Housing ISA', modelled on France's successful version, which would allow ordinary savers to directly fund new homes.
4. **Raising local authority borrowing caps to prudential limits:** Simply raising local authorities' ability to borrow money in order to build homes to the levels considered prudential would allow £7 billion of additional investment in new homes.

4. Strategic local leadership

You need strong local leadership in order to plan and fund new homes, and win popular support for them – especially in the challenging conditions our councils face. You also need the ability to coordinate plans and provide infrastructure across local authority boundaries. Unfortunately, England’s local leaders have far less autonomy than those in Europe or America. England is now the only advanced economy to have no strategic planning for homes above the most local level.

City and town leaders don’t really have the tools or resources to build consensus, or to deliver on it. Infrastructure provision is largely independent from housing. All of this means that support for new homes can all too often wilt in the face of local opposition, especially if new homes are not matched with integrated social and transport infrastructure. Too often schemes are densely planned with homogenous designs – leaving no real sense of place community. Local people need to know that developments will work for them and their children too. We need to give our growing towns and cities the powers and finances they need to plan and lead high quality development. Improved infrastructure and transport should be financeable from the property value uplift it delivers.

Finally, we need to make sure that devolving powers and budgets also comes with responsibilities to get homes built. As well as offering better deals for England’s cities, we need to ensure that there are disincentives in place for those who fail to build enough homes.

Our vision: Cities and towns which plan strategically – linking jobs, services, transport and homes.

Recommendations:

The government of 2015 can do this by:

1. **Putting housing at the heart of new City Deals:** Devolving house building budgets to cities which want to grow, and creating strong incentives for councils to work together cross-boundary on long term housing plans.
2. **Assessing housing needs across local authority boundaries by giving responsibility to Local Enterprise Partnerships** – and increased support for planning departments to make them faster and more effective.
3. **Integrating major new infrastructure with new homes:** So that new transport links and homes are planned and developed together – potentially allowing one to finance the other
4. **Increasing flexibility to make green belt swaps:** Giving local authorities more flexibility to swap small amounts of green belt land, and incentivising them to trade sites cross boundaries.

Conclusion

England’s housing shortage is enormously damaging for our country – socially as well as economically. For as long as demand is greater than supply, prices will rise and affordability will worsen.

But the problem is not insurmountable. In fact, as KPMG and Shelter have shown, if the government of 2015 is bold and ambitious, they could be building the 250,000 homes we need by the end of the next Parliament. That government needs to show true leadership. They need to embark on a programme

of investment and reform, tackling all four of the interrelated problems that are combining to limit house building. If they do that, as the graph below shows, then by 2021 we can be building the homes we need.

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