

Until there's a home for everyone

Building the homes we need

Why we don't build enough homes, and how to fix it

Shelter

Tuesday, 27 October 2015

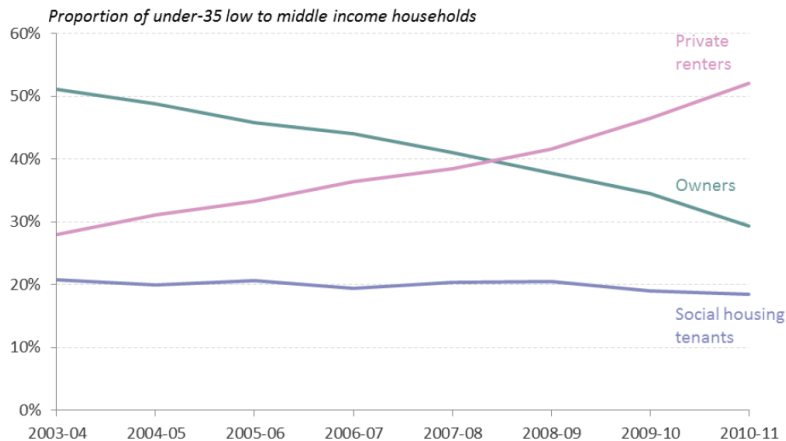
Overview

- **England's housing crisis is evolving – it no longer just affects those on low incomes.** People in the middle are now feeling the impact too. With the security of home ownership slipping out of reach for increasing numbers of people, low and middle income families are feeling anxious about their children's housing prospects (housing is now a top 5 issue for voters).
- **This is a problem which has built up over successive governments.** All major parties share the blame.
- **But the current solutions are not working.** The planning system is not the problem, and 'Help to Buy' threatens to make home ownership more unaffordable, not less. Meanwhile, reductions in public investment have reduced the supply of affordable housing.
- **There is no silver bullet to solve the housing shortage. 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.
- **Efforts need to focus on five areas:**
 - (1) providing more land at cheaper cost
 - (2) a new generation of Garden Cities
 - (3) providing more and smart investment
 - (4) increasing competition among house builders
 - (5) empowering England's major cities by putting housing powers at the heart of the devolution agenda
- **Doing nothing is the worst option of all.** Fixing our housing shortage will not be easy, but it can be done.

A growing crisis

Shelter helps 3 million people a year struggling with bad housing and homelessness. At the root of all of the problems we help with is the shortage of homes in England.

And the housing shortage is no longer just affecting those on low incomes. Increasingly, it's a crisis hitting the middle too.



- **Homeownership is now at its lowest level in 30 years.** The UK has a lower level of home ownership than the EU average (EU15).
- **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. Most people who now rent are aged over 35.
- **As well as this, 50,000 homeless people and families are stuck living in temporary accommodation.** This includes hostels and B&Bs.

'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' 2013

'In a majority of local authority areas, 9 out of 10 homes for sale on the market are unaffordable to local families on typical income.'

- Shelter, 'How much of the housing market is affordable?' 2014

Anxiety on the rise

“There are very real worries about affordability...meanwhile, older age groups worry about the housing prospects of young people” - Ben Marshall, Ipsos Mori

Housing has risen up the political agenda in recent years, driven by increased voter anxiety.

- **This anxiety is felt not only by those directly affected – but by their parents too.** These more secure voters may not be worried about their own housing prospects, but are increasingly concerned about their children’s.
- **All parties responded to this anxiety during the election.** However, no one party yet ‘owns’ housing in the minds of the public.

• **That’s why housing was a top 4 issue during the recent election.** It now consistently polls ahead of crime, education and Europe (YouGov, May 2015).

- **It’s particularly hitting voters hard in seats that decided the recent election.** Nuneaton has seen a 17% drop in home ownership since 2001; 85% of homes for sale in Swindon are unaffordable to the typical family.



“I think it [politicians talking about housing] shows that they’re thinking about the next generation, they’re thinking ahead”
Female, swing voter

“ [housing’s] nothing that personally affects me...it’s not an issue in the area. But it’s going to affect the children”
Male, swing voter

Sample Size: 1749 GB Adults
Fieldwork: 27th - 28th April 2015



	Total
Weighted Sample	1749
Unweighted Sample	1749
	%

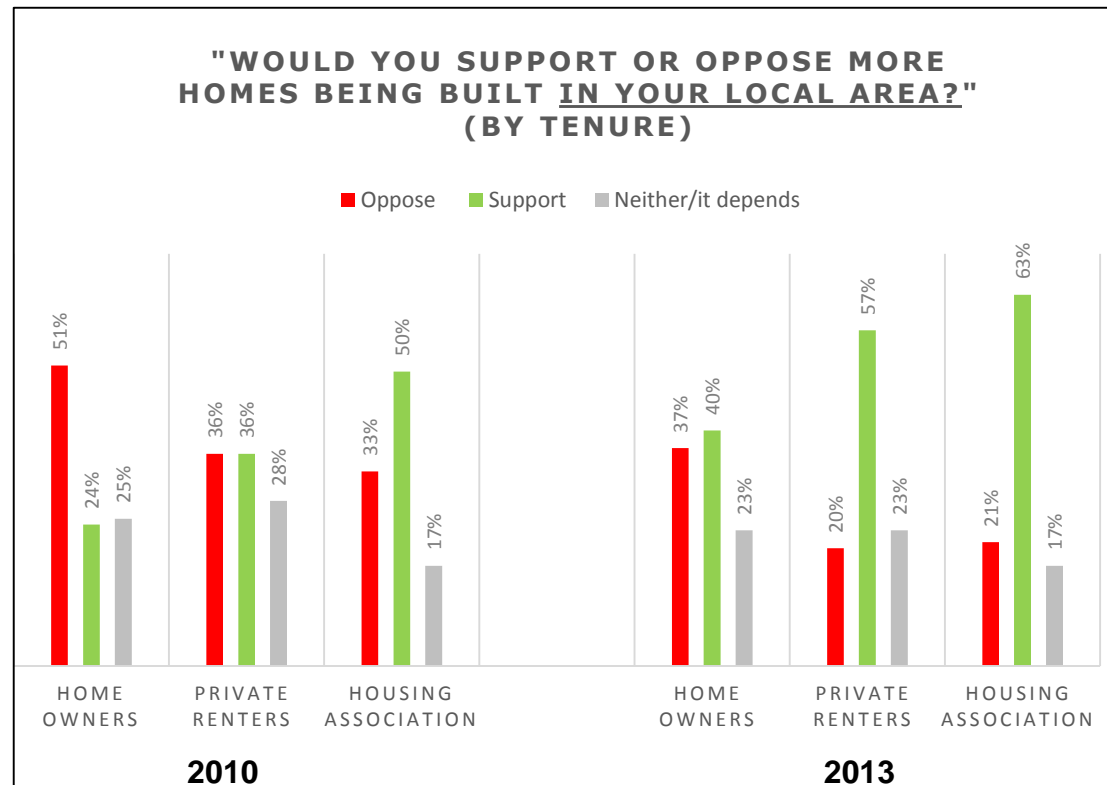
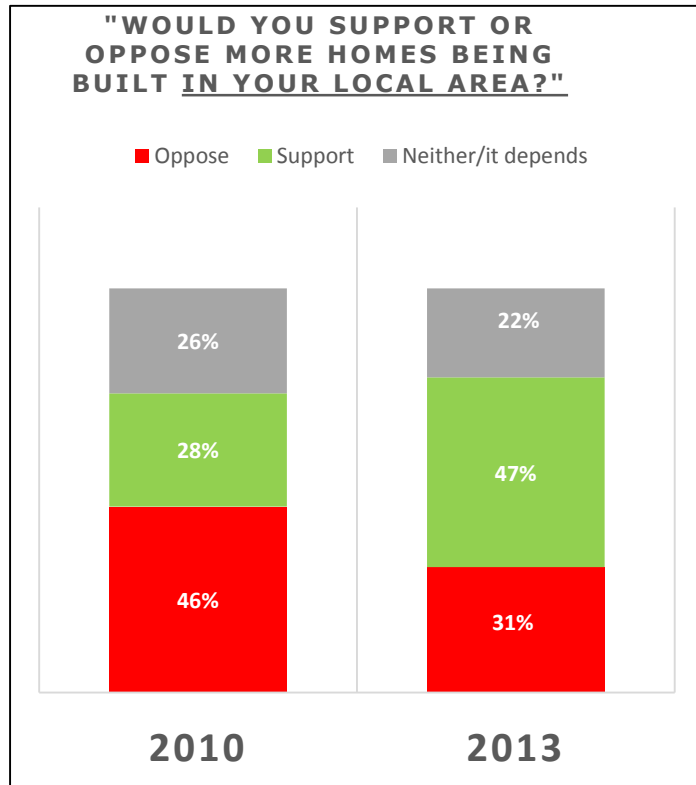
Which of the following do you think are the most important issues facing the country at this time?
Please tick up to three.

	April 13-14	April 27-28
The economy	55	52
Immigration & Asylum	47	51
Health	50	45
Housing	20	27
Welfare benefits	26	26
Education	17	16
Europe	16	16
Tax	11	10
Pensions	9	9
The environment	9	8
Crime	7	7
Family life & childcare	7	7
Transport	3	3
None of these	1	1
Don't know	2	3

Changing public attitudes

In recent years, rising anxiety has also coincided with a significant collapse in 'NIMBYism'

- This change is reflected in every major group of voters: Conservative, Labour and Lib Dem.
- A majority of home owners now also support new homes in their area, compared to 2010. Renters – private and social – remain supportive.

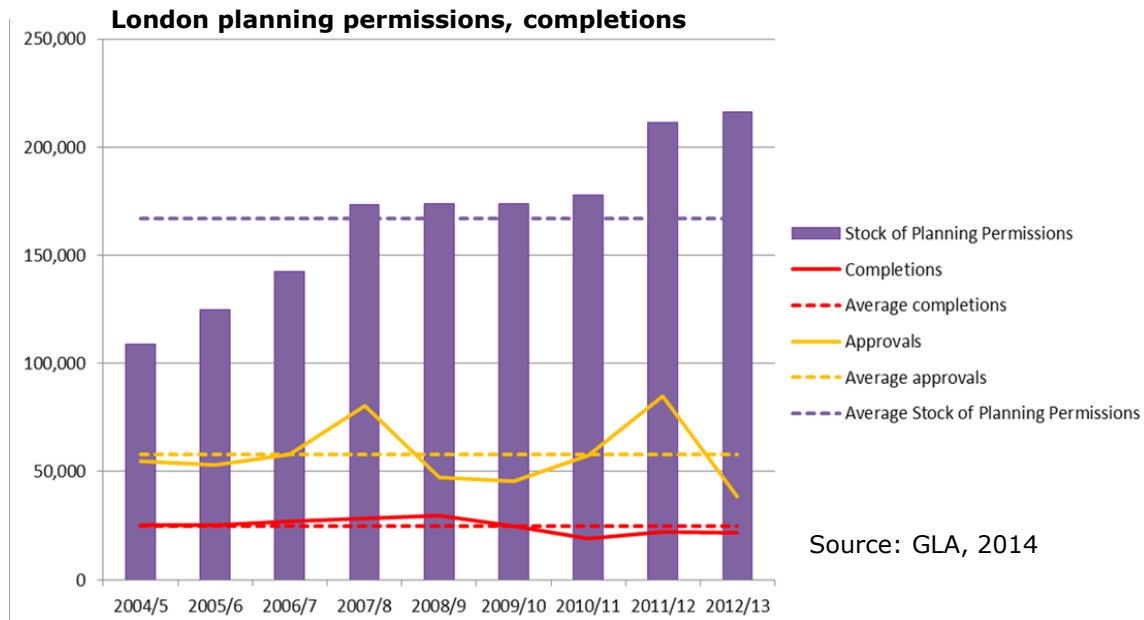


Source: British Social Attitudes Survey, 2014

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.

- Further changes to planning could be time consuming and politically costly, while having negligible impact on housing supply. **In London, for instance, permissions have increased but completions have flat lined.**
- **Constant chopping and changing increases uncertainty for developers and investors, slowing things down.**
- Meanwhile, weakening affordable housing obligations (Section 106) has reduced affordable housing while not significantly increased overall supply.



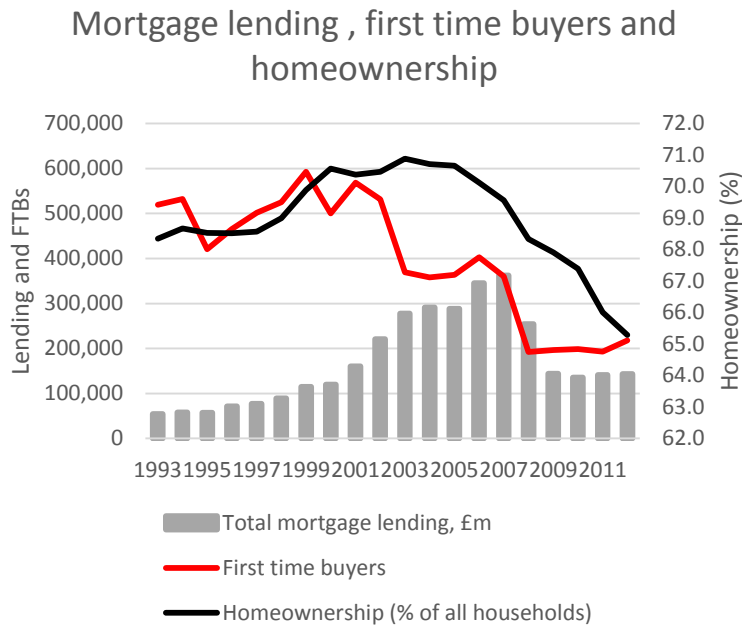
Last year councils granted planning permission for 260,000 homes. There are enough planning permissions being granted – the problem is those homes won't be built, due to the way that the development industry works (see slide 11). The problem is not too many fussy planners.

Source: DCLG, 2015

Help to Buy 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.
- **Help to Buy doesn't help low and middle income earners in most of the country.** The price of homes is still simply too high for most to afford. And by inflating prices the scheme threatens to make things worse.



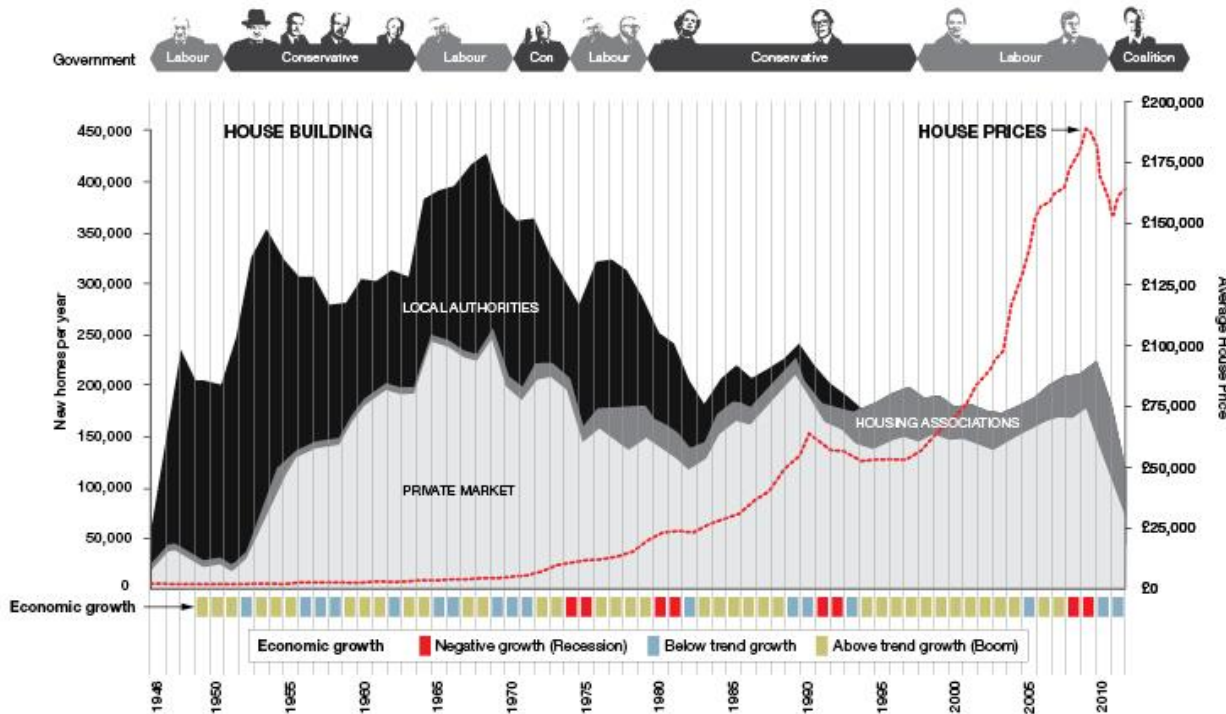
"What will happen is that demand can be increased quickly, through measures like Help to Buy, but supply can only be increased slowly. My concern is that it will become even harder for young people to buy a home in the future." – Nigel Lawson, former Conservative Chancellor of the Exchequer

"The biggest risk to financial stability, and therefore to the durability of the expansion – those risks centre in the housing market...a housing market that has deep deep structural problems...the longer term structural issue is that there are not enough houses built in the UK. Twice as many houses are built every year in Canada than in the UK." – Mark Carney, Governor of the Bank of England

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.

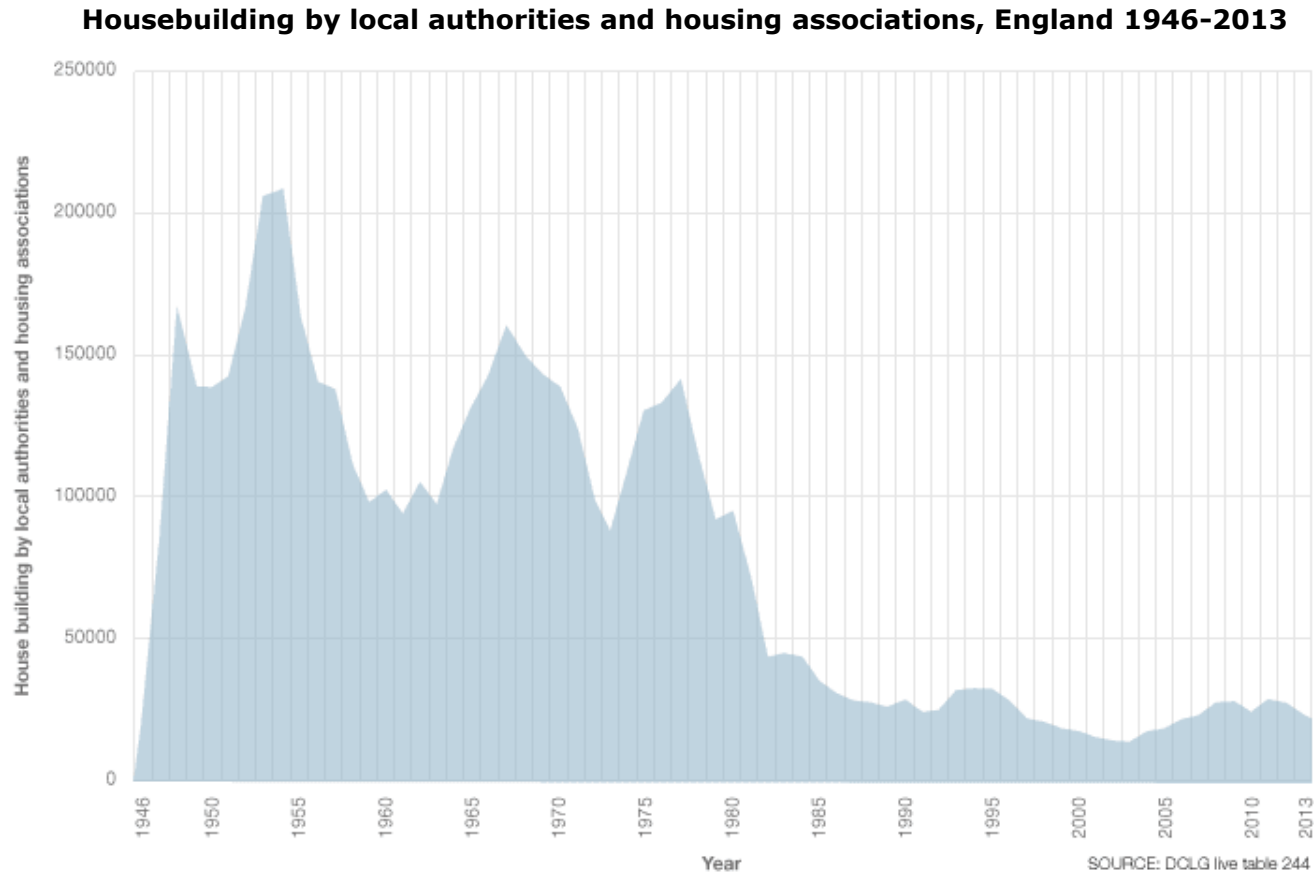
- Only bold action to address England's massive housing shortage will bring the dream of home ownership back within the grasp of hard working people on ordinary incomes and ease the pressures at the sharp end of the housing crisis.
- But we are currently nowhere near building the number of new homes we need to make this happen – 250,000 a year. This shortfall has developed over a number of years – and is the result of the failures of successive governments.



Tenure	Annual average output	Proportion of total
Shelter's proposed balance of housing output		
Market homes	125,000	50%
Intermediate homes	50,000	20%
Social rented	75,000	30%
Total	250,000	100%
Levels of output in 2013-14		
Market	75,850	67.5%
Intermediate	26,340	23.4%
Social rented	10,180	9.1%
Total	112,370	100%

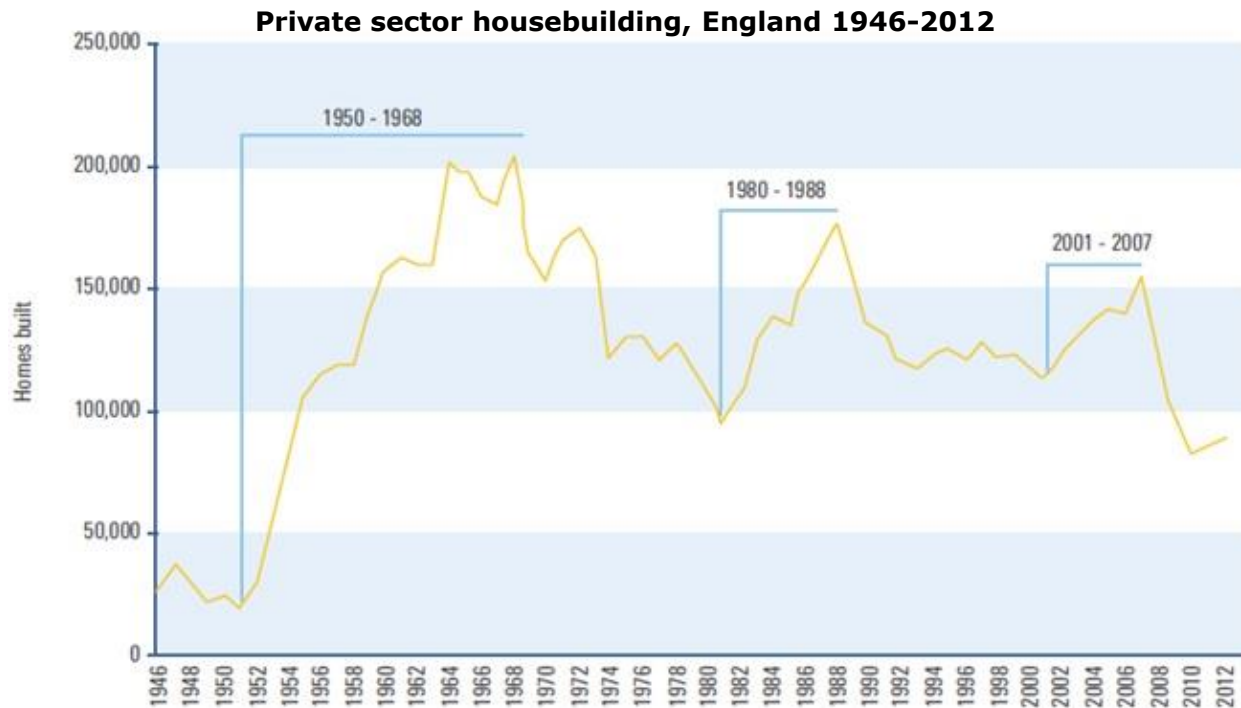
Twin failures: public and private

- Public investment has fallen...



Twin failures: public and private

- **...But the private sector hasn't filled the gap, despite increased demand.** In fact private housebuilding has ratcheted down over generations, with every turn of the boom-bust cycle.



Source: DCLG

- **We need to solve both of these failures (of public and private housebuilding) if we are to build the homes we need.**

Private market failure

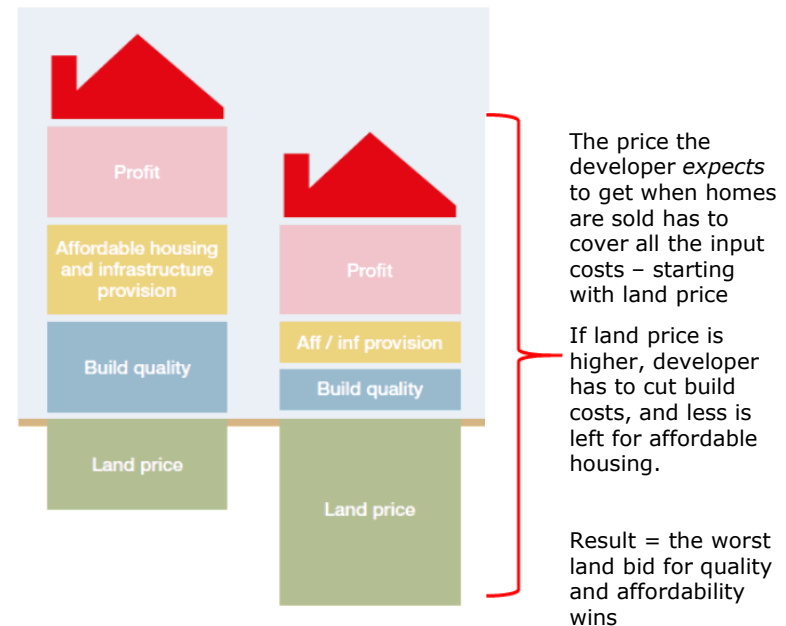
The private housebuilding market as currently constituted is simply unable to fully meet need for more homes. This isn't developers' fault, it's just how their industry works.

- **Failures in the development process mean that, from the start, participants are not incentivised to serve the interests of consumers.**
- **At the heart of this is the high cost of land.** Because land is inherently scarce, developers compete with each other to pay over the odds for it (usually pricing smaller builders out).
- **The more they are forced to pay, the more they have to squeeze down the size, quality and affordability of homes.** They are also incentivised to try and wriggle out of affordable housing obligations ('Section 106').
- **The more they pay, the more they are incentivised to hold on to the site and wait for its value to rise, rather than promote it for development and sale.** Simply put, the cost of land ensures it doesn't become rational for developers to build the homes we need, when we need them.
- **This is bad news for consumers, who get fewer, lower quality, more expensive homes as a result.**

FINANCIAL TIMES

“We are an inelastic industry. Where are we meant to find that sort of growth?” said the chief executive of one publicly quoted housebuilder.

[on proposals to build 200,000 new homes a year]



Solutions: cheaper land

The only way we will get more homes built is to take bold action to get more land at lower and more stable prices into the hands of people who want to build.

Recommendations

- **'New Home Zones'**. Local authorities or development corporations should be given powers to zone an area for low-cost development. They would negotiate land at a lower cost than developers can, using the credible threat of compulsory acquisition at existing value (CPO) as a last resort. Once the land is purchased, it would be sold on to builders who would compete for it on the basis of the quality and affordability of homes they wish to provide.

For this to be achieved, CPO law must be changed to be made fairer and more efficient.

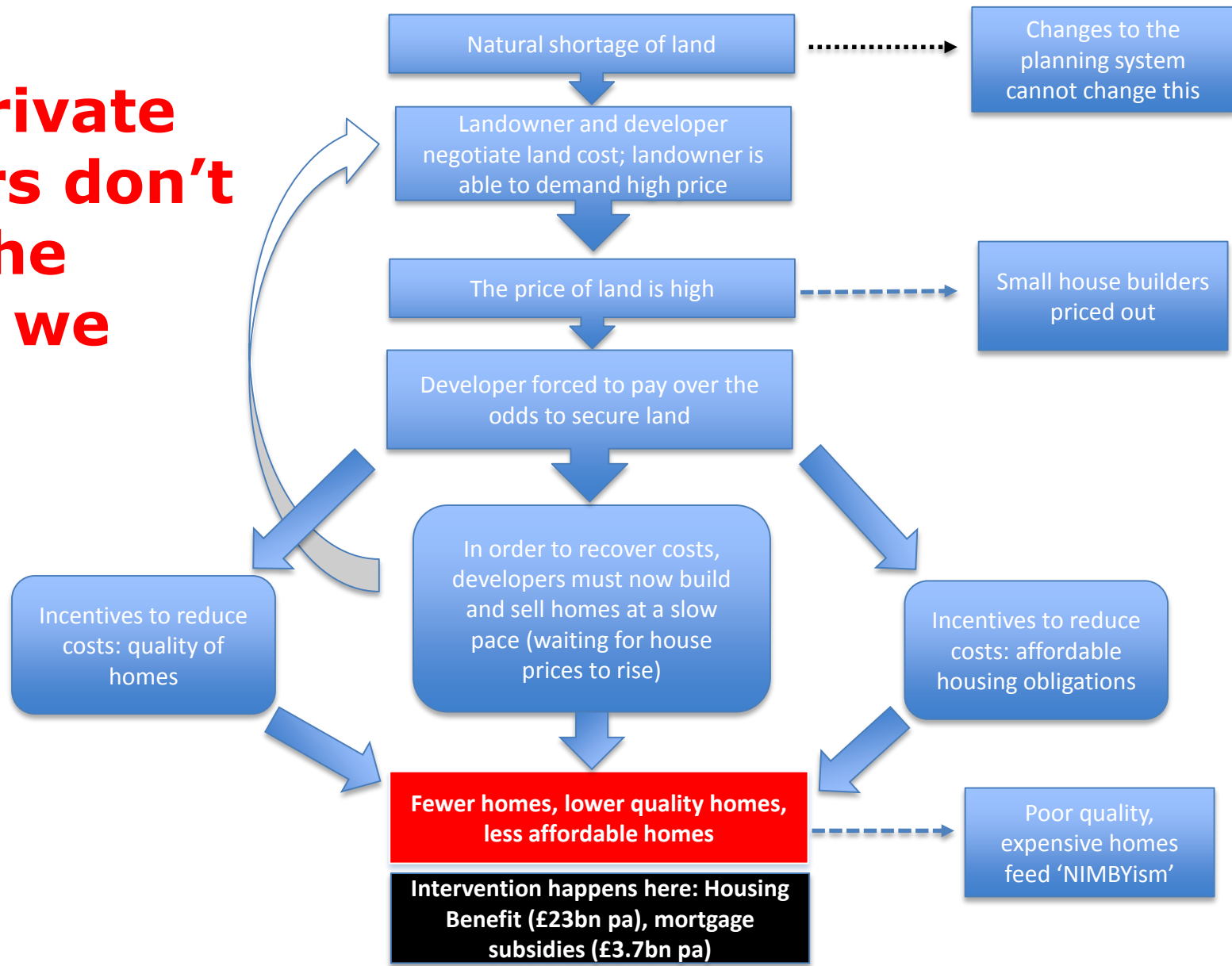
- **Unlock stalled sites.** Sites with planning permission would be unlocked by a 'carrot and stick' approach. First, funds for infrastructure should be provided (from the regional growth fund, for instance) to get the site moving. If the site remains undeveloped, council tax should be levied as if the home were built. This requires greater tax powers for local authorities.



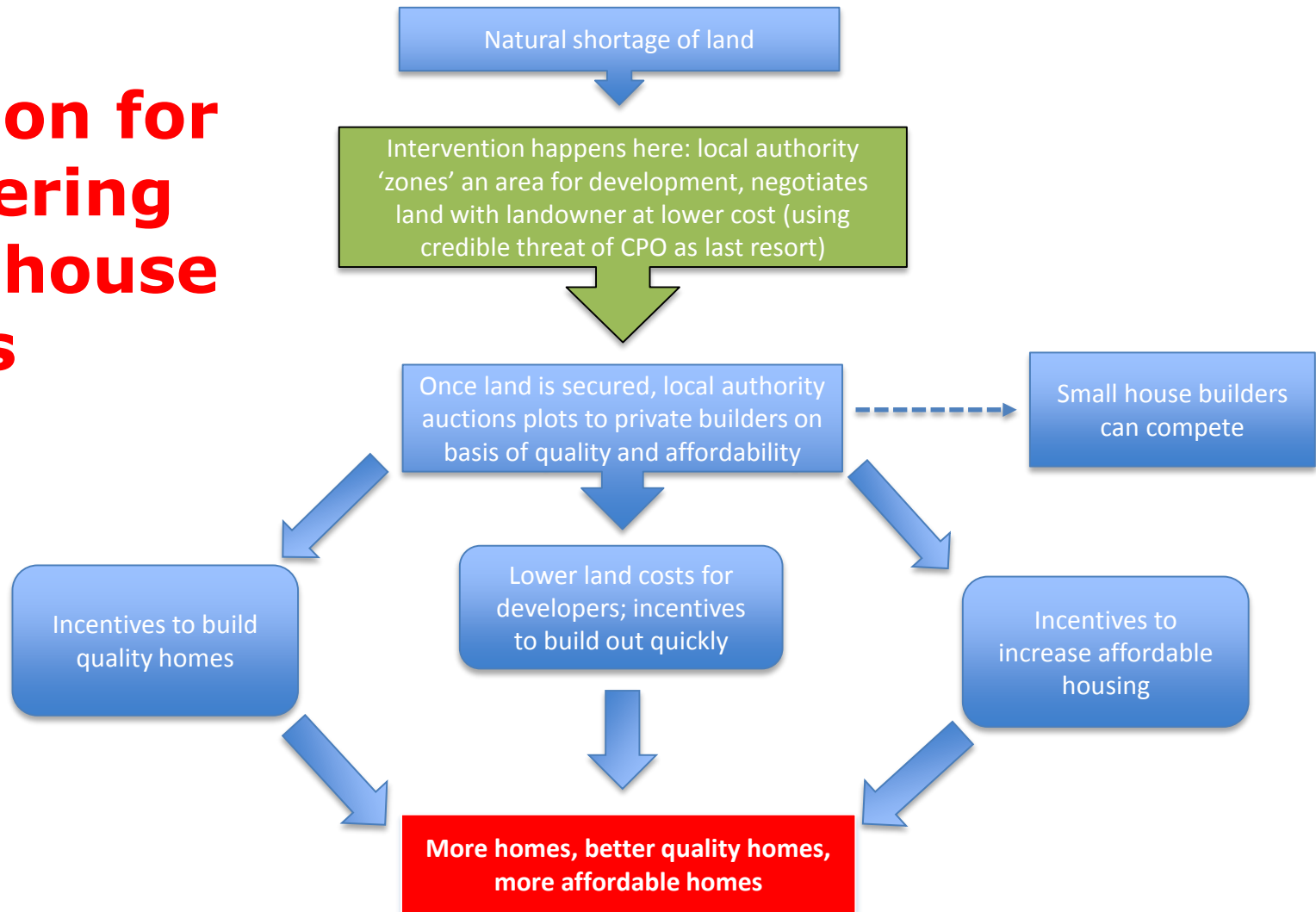
Picture: HafenCity, Hamburg, was built using similar strategic powers to those proposed under our 'New Homes Zones' policy

- **Land market transparency.** Land prices and ownership by site should be published in an easily accessible format. This would create a level playing field so that small builders and new entrants can find sites more easily.

Why private builders don't build the homes we need



Our vision for empowering private house builders



Solutions: Garden Cities

Reforms that assemble land at cheaper cost can also be used to deliver a new generation of Garden Cities.

- Five new Garden Cities should be built to help England meet its need for new homes.
- Shelter's award winning entrance to the 2014 Wolfson Economics Prize shows how these can be done. Our proposal for a new Garden City on the Hoo Peninsula was:
 - **Visionary.** A partnership model with landowners, investors and residents will allow 37.5% of new homes to be affordable while private homes can be sold at below market value.
 - **Economically viable.** Costs are reduced by assembling the land, in partnership with the land owner, at lower than usual costs and auctioning it off on the basis of quality and affordability.
 - **Popular.** Once credible assurances about infrastructure and new homes benefiting local residents were provided, Medway residents overwhelmingly approved our plans when we consulted them through a 'Citizens Jury' (see bottom right).

For more information, see Shelter's full submission to the Wolfson Economics Prize: <http://www.policyexchange.org.uk/item/wolfson-economics-prize>



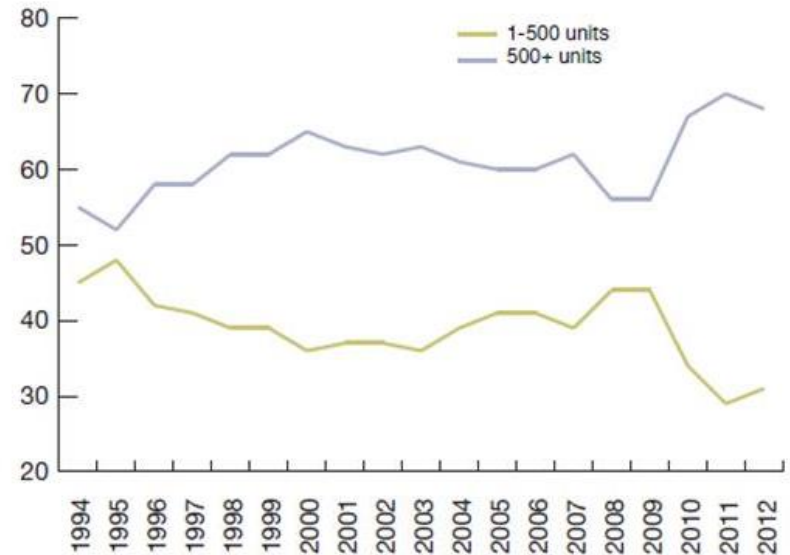
Solutions: competition

- **We also need to do all we can to get more small house builders into the market.**
- **The sector has become increasingly concentrated.** In the early 1960s, the top ten private housebuilders built just 8 or 9% of new homes. In 2006, it was 50%.

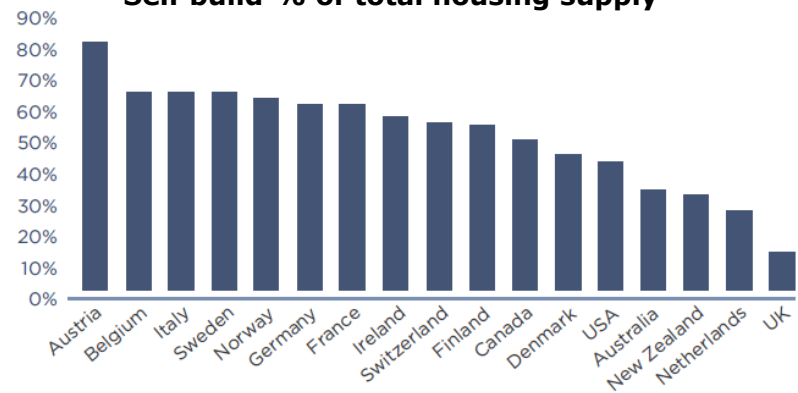
Recommendations

- **Helping local builders to access finance through a 'Help to Build' scheme.** This can be achieved through switching some of the guarantees allocated for Help to Buy.
- **Providing land for custom build.** 20% of all land from our land market interventions would be set aside for custom build, where individuals commission a local builder to build them a home.
- **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.
- **Prioritise stable house prices.** This could be done via regular government review of house prices and property taxes.

Proportion of housing supply by size of builder



Self build % of total housing supply



Solutions: investment

Just as important is building homes that all income groups can afford. There's no way around it: this will require some extra investment.

- The amount needed is reduced if a wider programme of reform is put in place.
- Greater investment in housing has wide support across the political spectrum and among economic experts.

Recommendations

- **The following extra investment is necessary over 5 years if we are to build the homes we need.**
- **£1.22bn extra of private money.** This includes:
 - A 'Housing Investment Bank', which can lever in private investment through the capital markets.
 - A new 'Housing ISA' product to also help fund the Housing Investment Bank.
- **£1.22bn pa of public money, invested through the Affordable Homes Programme (AHP).** Some ways to pay for this include:
 - Crack-down on tax evasion by landlords (£500m pa)
 - Divert money from the New Homes Bonus (£2.2bn pa)
 - Raise local authority borrowing caps

Fairer to spend HS2 funds on homes, says Montgomerie

By Mark Smulian | 11 July 2013

The High Speed 2 rail project should be scrapped and the money re-invested in a massive housebuilding drive, an influential Conservative commentator told the CIPFA conference.



"We believe there is scope for a material increase in the affordable housing capital grant budget for 2014/15, and beyond...[This] is the most straight-forward, practical and efficient method for stimulating additional affordable homes building."
- Capital Economics, 'Increasing investment in affordable homes', April 2014

Solutions: City devolution

Housing must also be at the heart of the Government's emerging devolution agenda.

- **England's major cities – the likes of Oxford, York, Bristol and Manchester – are increasingly the engines of economic growth. But their productivity is increasingly being held back by the inability to meet the housing needs of their growing population.**
- England is now the only advanced economy to have no strategic planning for homes above the most local level.
- A new devolution settlement for England's major cities must include:
 - Incentives and penalties to encourage councils within city regions to work closely together to co-ordinate building more homes
 - Powers to tax land with planning permission that is being built out slowly
 - Stronger and more efficient powers of compulsory purchase to enable local authorities to assemble land for development at lower cost (see 'New Home Zones').



- Powers for city regions to review their Green belt, including greater powers of green belt swaps and the ability to set up Green Belt Community Trusts.

Conclusion: a political opportunity

- **Although none of this will be simple, the worst option is doing nothing.**
- 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.
- With rising anxiety about the problem, declining NIMBYism and an emerging consensus in the housing sector on how to build the homes we need, there is now a once in a generation opportunity to solve our housing crisis.
- In the recent election, all parties ‘owned’ the problem during and made pledges to solve it. Voters are increasingly looking to politics for leadership on this issue, and will be expecting things to get better, not worse, in the coming years.



‘If no action is taken to build the homes we need, by 2040 more than half of 20-35 year olds may be stuck living with their parents.’

‘If no action is taken to build homes, the average house price in England will double in the next ten years, to £446,000.’

- KPMG/Shelter report, ‘Building the homes we need’, 2014

End notes

- **Shelter helps 4 million people a year struggling with bad housing and homelessness. At the root of all of the problems we help with is the shortage of homes in England.**
- Slides 9-19 of this briefing are based on a joint report by KPMG and Shelter, 'Building the homes we need: a programme for the 2015 government', published in May 2014.

The full report is available at www.thehomesweneed.org

- Recommendations on new Garden Cities draw on Shelter's entry to the Wolfson Economic Prize 2014. This can be viewed in full here: <http://www.policyexchange.org.uk/item/wolfson-economics-prize>
- Recommendations on public and private investment draw on a report by Capital Economics, 'Increasing investment in affordable homes'. The full report is available on our [online policy library](#).
- Recommendations on City devolution draw on Shelter and IPPR's June 2015 report *Growing Cities*. The full report is available on our [online policy library](#)

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