



Housing White Paper: An opportunity for reforming our housebuilding market

Background

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. At the heart of every problem we help people with is the shortage of homes, especially affordable homes. Over the last five years, we have undertaken extensive analysis - getting to the root of this problem and working on solutions for government and industry with the likes of KPMG and L&G. Our vision for how to deliver a new Garden City won runner up in the 2014 Wolfson Economics Prize.

In advance of the Housing White Paper, Shelter has produced this short briefing outlining our thoughts on how this opportunity for reform could be grasped by the government and detailing some of the steps that should be taken to do so.

Introduction

After decades of undersupply, the government is rightly committed to dramatically increasing the quantity of homes built in England. However, in achieving this, we must not sacrifice the quality and affordability of homes, or the infrastructure needed to support them.

Today England faces a stark choice: to tackle the systemic problems in housebuilding, or to rely on minor tweaks in the hope that the current system will finally deliver.

Failure to address systemic issues would allow the existing private housebuilders to continue doing what they do best: building just enough homes of just enough quality to deliver the maximum return on capital employed. For decades, this model has delivered good returns to developers and landowners, but it has consistently built around half the homes that England needs. The costs of this undersupply have been borne by society as a whole, through lowered productivity, reduced labour market responsiveness, whole generations priced out of homeownership, rising homelessness, and a very high housing benefit bill.

Some argue that to address this we could choose to spend far greater amounts of public money providing infrastructure, building homes, subsidising home purchase and paying ever-rising rents. This option is feasible, but undeniably expensive. When this route has been taken in the past pressure on public spending has invariably led to corners being cut and quality sacrificed. Today we are still paying the social and fiscal costs of the mistakes made during the era of large public subsidies for high volume, but low quality housebuilding.

However, there is an alternative route. Very high house prices, and even higher land prices, are testament to the fact that there is value in development that could be better deployed. Government could choose to use the planning system intelligently, combined with smarter use of public assets and investment, to channel more of the value generated by development towards public benefit. Lower upfront land costs would push down the cost of high quality development and help move the housebuilding industry away from a speculative, high cost/low volume model towards a high volume/low cost model – without having to sacrifice quality.

In the past, Britain led the world in building quality places by deploying this approach; the time is now ripe for a revival of the Civic Housebuilding model that built:

- The Georgian towns of Bath, Brighton and Edinburgh;
- The great estates of Bloomsbury and Mayfair;
- The model villages of Saltair, Bournville and New Earswick;
- The Garden Cities of Letchworth, Welwyn and Hampstead Garden Suburb;
- The New Towns of Bracknell, Harlow and Milton Keynes.

Today these places all remain popular and economically successful. They were variously delivered by aristocratic landowners, wealthy philanthropists, public authorities and community groups – but what unites them all is that they acquired land cheaply, enabling them to harness the value created by housebuilding to pay for infrastructure, high quality design, and affordable homes.

Under this model of Civic Housebuilding, landowners can still receive a fair and decent return for their sites – particularly if they are prepared to take a longer-term investment position. However, if we continue to allow landowners and speculative developers to capture the lion's share of development gain, and restrict land supply, we will never deliver the quality, the volume or the speed of development that England now needs.

More land

To drive more land supply for housebuilding we need a fundamental shift away from the adversarial interactions between communities and developers, mediated by councils and the planning system, that have evolved. The debate should not be about how much development communities are willing to put up with, but about how development can benefit local people as much as possible. The way to do this is for city regional and local authorities to take a much stronger and more positive approach to planning for growth – and for central government to back them. Where some local authorities are unwilling or unable to do so, government must step in. Often these are authorities which are close to our most productive cities – with citizens who want to benefit from city jobs and amenities but refuse to allow that city to grow.

Integrated planning and delivery agencies are needed for major growth points: time and again, this has proved to be the most effective means of balancing competing interests in driving efficiencies in the development process. Integrated development corporations that can draw up comprehensive masterplans, award detailed planning permission, direct public investment, and

co-ordinate multiple stakeholders should deliver new settlements, urban extensions or garden villages.

- A permanent national body should be created, modelled on (and potentially combined with) the National Infrastructure Commission and the old New Towns Commission. Its role should be to identify opportunities for growth and set up new agencies to deliver large-scale schemes.
- Local authorities that commit to ambitious Local Plans, and existing Development Corporations such as those at Ebbsfleet, Old Oak Common and Park Royal, should be given powers and resources to acquire sites at reasonable prices, to assemble sites, maximise marriage value, and enable properly planned large-scale development in designated New Homes Zones.
- Where local authority plans do not include sufficient development in prime opportunity areas, or fail to deliver on such plans, the Secretary of State should step in and create powerful new Development Corporations – with representation from, but not under the control of, local authorities.
- As a last resort, where the Duty to Cooperate is failing to deliver the growth required, land constrained city authorities should be able to kick-start the process of creating new Development Corporations in neighbouring authorities by masterplanning strategic developments – with a fast track approval process directly through the Secretary of State.
- Development and regeneration partnerships between public and private sector investors can perform the same role as Development Corporations, providing that private investors are incentivised to take a long-term investment position and are fully bound in to equitable partnership arrangements with public authorities. This requires integrated management structures and transparent financial arrangements.
- The land compensation regime requires reform to prevent public investment in infrastructure being siphoned off into ever-higher returns for landowners. This means amending the 1961 Land Compensation Act to allow city region authorities to Compulsory Purchase land at fair prices, stripping out the hope value triggered by the prospect of public investment. This would allow authorities to capture the uplift in land values from infrastructure provision, making the infrastructure investment self-financing.

Local councils should be empowered to lead positive development in their areas. Housing pressures vary widely, so councils need flexibility to plan and invest according to local priorities:

- Local planning policies need to be strong enough to affect landowner expectations, so that affordable housing policies can be delivered without triggering viability problems. Planning Policy Statements, PINS reviews and Secretary of State decisions should state that local plan policies are presumed to determine appropriate land values. This would send a clear signal to the market.
- To prevent developer competition for sites undermining the viability of quality development, the definition of ‘viability’ in planning guidance and the NPPF needs to be updated, to clarify the position for developers, landowners and planning authorities alike. The Mayor of London’s new policy is a positive step forward that could be adopted nationally: this requires viability to be assessed on the basis that the residual land value of the scheme should match or exceed a benchmark land value of the site, calculated as its existing use value plus a premium of 20-30%.

- The government should relax restrictions on the types of affordable housing that local plans can require (such as the Starter Homes requirement or overly rigid funding rules), allowing councils to respond to local needs in balancing numbers of units, affordability and quality.
- The government should relax restrictions on councils' reinvestment of receipts from sale of assets (land, Right to Buy, other property) to allow smarter use of receipts to support local development. For example, councils can only currently use 30% of RTB receipts to fund replacements, meaning that several have had to return receipts to central government.
- Local authorities should be given greater freedom to borrow to invest in housing development, within prudential limits.
- Borrowing for new homes generates both collateral and long-term income streams for debt repayment: as such, most other OECD countries do not treat it as public debt under national accounting rules. The UK should adopt international accounting standards and remove such borrowing from national fiscal policy restrictions.

Public land should be used intelligently, to deliver quality, long-term value for the public purse, rather than being sold off to the highest bidder. It makes no sense for public bodies to sell off development land with minimal restrictions – only to then spend years trying to claw back some public value via the planning process. All public land should be appraised on the basis of high quality development proposals, including exemplary infrastructure and affordable housing, instead of a maximum market value that could be achieved by selling the site to a speculative developer or land trader.

- There should be a presumption in favour of public bodies developing their land directly, or transferring it to Development Corporations. Public accounting rules should be reformed to encourage transfers at values that reflect high quality development plans.
- Genuinely surplus public land (i.e. where it is not appropriate to develop directly or via development corporations) should be released through the HCA (or appropriate city-regional bodies) at values that reflect high quality plans for that land.
- Where public land is sold this should ideally be done with planning permission under an agreed masterplan. This will ensure that the market value better reflects locally endorsed plans, enabling much swifter and less contentious build out.
- The Best Value regime should be revisited to make it clear to public bodies that they should consider the full economic and social value of the proposed use of any land sold or transferred, not just the capital price received.

It is right that the planning system prioritises brownfield development – but there must be scope for **appropriate use of greenfield and green belt development in the right places**. As the uplift in land value on such sites is even higher than in the urban context, it is all the more important that the development gain is harnessed for public value:

- Rural exception sites have proved a successful way of delivering much needed affordable housing in England's rural communities. To strengthen this policy, government should publish clearer guidance for landowners, and introduce Inheritance Tax exemptions for rural landowners who bring exception sites forward.
- The same principle could be applied to green belt sites: where appropriate, these should be released for development by Green Belt Community Trusts (using existing

Development Corporation powers), to ensure that they deliver the maximum value for the local community, calculated by provision of affordable housing, country parks and other local infrastructure.

- Neighbourhood exception sites should be introduced: these would typically be small sites, identified in Neighbourhood Plans, and allocated to provide as much permanently affordable housing as the site can bear (using an updated definition of viability as above). Once an exception site has been allocated, it should carry a 20-year legal exclusion from coming forward in the conventional the 5-year land supply of the Local Plan. This will incentivise landowners to proceed under the exception site policy, rather than hold out.

The lack of **transparency in the land market** is a major barrier to land supply and to effective plan making. The inability to know who really controls potential development sites, their value or their history hampers local authorities ability to plan or negotiate Section 106 deals with landowners. It prevents smaller builders from accessing sites, and local people from understanding what is going on in their neighbourhoods. In the era of open data, smart cities and GIS there is a huge opportunity to improve the workings of the market with innovative data tools – if the existing data were released and made freely available to local communities, planning authorities and innovators.

Now that the Land Registry will not be privatised, it should:

- Remove the £3 fee for land titles, making information on title plans and ownership free to access – with appropriate safeguards against fraud, such as a requirement to register prior to access.
- Require the details of all option and promotion agreements (registered name and address of the individual or company holding the option, date the option was agreed and pre-agreed sale price) to be mandatorily registered, and include them on the land title of the site they relate to.
- Require all information gathered for the Government register of beneficial ownership of overseas companies owning property to be mandatorily included on the land titles of the sites it relates to.
- Produce a reliable public index of land market transaction volumes and prices.

The government should also put in place the necessary processes to:

- Standardise collection and storage of datasets relating to land held by public bodies, such as planning applications and permissions, and environmental or heritage information. It should also create and release an open data API (Application Public Interface) drawing on these datasets.
- Require all public sector bodies to register their landholdings, including infrastructure.
- Require square meterage of all homes to be made publically available and accessible, and included in the marketing of all homes for sale or rent.

Getting planning permissions built out

When local people can see developers and landowners sitting on planning permissions for years, or speculators securing permissions simply to on-sell the land at a higher price, it undermines

community support for development and weakens the argument for granting further planning permissions.

The quality of planning applications is often poor, as there is too much incentive for speculators to achieve an outline permission in order to sell on the land. Cash-strapped planning authorities under pressure to deliver permissions resort to pre-commencement conditions to try to ensure that the final development is of reasonable quality. **To increase build-out rates, the balance of incentives and resources needs to change:**

- Local planning departments need to be properly resourced if they are to process applications swiftly and effectively. Raising planning fees would help to achieve this.
- Provide support for planning authorities facing additional pressures in the planning making process or from large applications, on the model of the HCA ATLAS team.
- Shelter has proposed that, after a reasonable period, Council Tax and Business Rates are levied on unbuilt properties to shift the balance of incentives in favour of build out.
- In the longer term, there is scope to replace voluntary permissions with planning contracts, which would require developers to deliver within an agreed timetable or face stiff financial penalties.

Diversifying the range of tenure products planned for will also help to increase build out speeds, as multiple players selling into a wider range of markets will be less restricted by the absorption rate limits that drive speculative housebuilders to eke out supply.

As it stands, speculative developers all target the same section of the local sales market, where returns are highest, so these limits are soon reached. Planning for more homes for rent, shared ownership, specialist housing (older people, students, supported accommodation, etc.) and other forms of tenure can therefore drive up delivery rates.

Winning the political argument for more homes

Local opposition to development can be led by small groups defending their own self-interest – but more often local communities are rightly concerned about the quality and suitability of what the speculative housebuilding model delivers. Too often local communities see poorly planned, cramped and unattractive homes, with inadequate infrastructure, forced upon them – and then sold at prices far beyond the reach of local people. **Making housebuilding more responsive to local needs is vital to winning back public acceptance of new development.**

Positive local plan making, backed with the investment and enforcement powers needed to ensure such plans are delivered, will go a long way to change this narrative. Where attractive development that is in keeping with the local area has delivered local jobs, affordable homes and quality services, communities have welcomed it: but achieving this on a broader scale requires a sea change in development practice.

- The perception that new homes are small and cramped is rooted in fact: the UK is almost unique in building smaller homes now than in previous generations, as high land values have squeezed out liveable space. Strong, clear space standards are essential to winning local support, and to keeping new build prices within local reach, and should be

promoted through planning policies, funding regimes and terms of reference of delivery agencies.

- By reducing or eliminating the upfront cost of land acquisition, Civic Housebuilding models can allow the provision of infrastructure early on in the development process, reducing pressure on local roads and services.
- The process of planning for growth must involve local people directly. Approaches like design charrettes or 'enquiry by design' can greatly enhance the quality and value of development, while lowering opposition to change.
- The look and feel of development is critical to local people's experience of it: setting strict rules for urban design, housing styles and building materials also helps integrate new and existing places.

All of these positive features are treated as additional costs to be minimised or externalised by the speculative housebuilding model, as it seeks to maximise land values. Reviving the techniques of Civic Housebuilding will reverse this process by setting land values at a level that allows agreed local priorities to be met.

Increasing the range of suppliers

The government have rightly identified the growing concentration of the housebuilding industry as part of the problem holding back housing supply, undermining public support and reducing the system's resilience to market shocks. The supply sector should include a far broader range of building techniques and typologies, and a more diverse set of players operating different business models, than the dominant model of speculative development provides.

As outlined above, **local authorities should be freed up to build homes**, in the tenures that their communities need, by granting them greater flexibility in the use of their land assets and financial resources, while the proposed sale of high value council assets should be scrapped.

The measures outlined above would help **revive England's dwindling small and local building firms**. Currently these firms are shut out by high land costs, uncertain planning and a financial system that prefers lending at volume to listed companies.

- Strong local masterplans that determine what can be delivered would allow large sites to be divided up and sold on (or leased under license) to multiple SMEs.
- Custom builders can similarly be encouraged to expand by the provision of serviced plots within masterplans.

In addition, to scale up provision by self- and custom-builders, **short-term government support for mortgage financing** is required. At present, most lenders will only offer 75-85% LTV – restricting the sector to those who can afford both the necessary equity and who can fund their current home whilst the build takes place. As a result, custom and self-build requires £50k+ equity, restricting its accessibility to anyone other than the relatively wealthy.

- The government should offer custom and self-builders short-term (e.g. 2 year) equity loans of around 20%, potentially under the Help to Buy brand, to enable them to cover the financing gap during construction. As the loan would be repayable on completion of the home, it would not have an inflationary impact on the price of homes. It would also

signal that the custom and self-build market will become scalable and attract other lenders into the sector.

Summary of recommendations

1. Integrated planning and delivery agencies for major growth points:

- 1.1. Create a permanent National Housing and Infrastructure Commission, to identify growth opportunities and create delivery agencies.
- 1.2. Allow councils and Development Corporations to acquire and assemble land.
- 1.3. Impose Development Corporations on non-delivering Councils.
- 1.4. Allow growing councils to promote Development Corporations on non-co-operating, growth resistant neighbours (with SoS approval).
- 1.5. Encourage landowners and private investors to join councils in Development Partnerships.
- 1.6. Reform the 1961 Land Compensation Act to allow city-regional authorities to recoup gains from infrastructure investment via Compulsory Purchase Orders.

Legislation

Policy change

Policy change
Spending

Policy change

Policy change

Legislation

2. Empower local councils to lead positive development

- 2.1. Use national policy statements and planning decisions to send a clear signal to the market.
- 2.2. Update the legal definition of 'viability'.
- 2.3. Relax Starter Homes and other restrictions on local affordable housing tenure policies.
- 2.4. Relax restrictions on council use of receipts (including from RTB) to support new development and replacement affordable housing.
- 2.5. Relax restrictions on local councils' borrowing to invest in homes, within prudential limits.
- 2.6. Adopt international standard national accounting principles, so that borrowing to invest in homes is not treated as national debt.

Policy change

Legislation

Policy change

Policy change

Policy change

Legislation

3. Make smarter use of public land

- 3.1. Charge public bodies and HCA with developing, transferring or selling public land at values that reflect high quality masterplans, rather than selling to highest bidder.
- 3.2. Amend the Best Value regime and national accounting practices to facilitate transfer or sale of public land at values that reflect full social and economic benefits of high quality schemes.

Policy change

Policy change

4. Make appropriate use of greenfield and green belt development

- 4.1. Strengthen Rural Exception Site policy by giving landowners Inheritance Tax exemptions for sites contributed to them.
- 4.2. Create Green Belt Community Trusts, to capture the value created by green belt release for local public benefit.
- 4.3. Allow Neighbourhood Forums to designate urban infill sites as 'Neighbourhood Exception Sites' for affordable homes.

Legislation

Policy change

Legislation

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| 5. Promote transparency and open data in the land and property markets | |
| 5.1. Abolish fees for Land Registry searches. | Legislation |
| 5.2. Require the registration of all option and promotion agreements. | Legislation |
| 5.3. Require the beneficial ownership of all overseas companies owning property to be included on the land titles. | Legislation |
| 5.4. Produce a reliable public index of land market transaction volumes and prices. | Policy change |
| 5.5. Release all public bodies' data on land and property with common standards under an open data API. | Legislation |
| 5.6. Require all public bodies to register their land holdings. | Policy change |
| 5.7. Require square meterages to be included in marketing of homes, and publish data. | Legislation |
| 6. Ensure planning permissions are built out promptly | |
| 6.1. Allow Planning Authorities to recover the full cost of planning fees. | Policy change |
| 6.2. Provide support for planning authorities facing additional pressures in the planning making process or from large applications, on the model of the HCA ATLAS team. | Spending |
| 6.3. Allow councils to levy Business Rates and Council Tax on uncompleted planning permissions. | Legislation |
| 6.4. Introduce Planning Contracts, in place of planning permissions. | Legislation |
| 7. Making housebuilding more responsive to local needs | |
| 7.1. Strengthen commitment to national space standards in planning policy, funding regimes and delivery arrangements. | Policy change |
| 7.2. Promote active local participation in masterplanning processes. | Policy change |
| 7.3. Encourage strict policies on design codes, materials and building techniques to deliver schemes in line with local people's wishes. | Policy change |
| 8. Increase the range of housing suppliers | |
| 8.1. Drop plans to force councils to sell off their better stock. | Policy change |
| 8.2. Encourage the parcelling of large sites to SME and custom builders under masterplans. | Policy change |
| 8.3. Support custom builders' short-term financing needs with equity loans repayable within two years. | Spending |

Further Reading

[*Building the Homes We Need*; KPMG & Shelter, \(2014\)](#)

[*Stoke Harbour: Shelter's Entry to the Wolfson Economics Prize 2014*](#)

[*Bridging the Infrastructure Gap*; Thomas Aubrey, Centre for Progressive Capitalism, \(2016\)](#)

[*German Model Homes*; IPPR, \(2016\)](#)

[*Transferable Lessons from the New Towns*; DCLG, \(2006\)](#)