

Solutions for the housing shortage

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

ANNEX TO BRIEFING

The default option

Option	Homes/year	How does this work?	Benefits	Barriers and limitations
Do nothing	0 (beyond current low levels)	Continue with piecemeal planning and mortgage finance reforms and under-investment.	The default position.	This would require significant political leadership in the face of a continued fall in home ownership, year on year above inflation rises in rent, further increases in the housing benefit bill, and rising concerns among voters. It also means allowing the lack of construction to hold back the economy.

Action now

Option	Homes/year	How does this work?	Benefits	Barriers and limitations
Boost direct central government investment	51,072	£12 billion of new spending over four years - 1% of GDP - would deliver 204,000 genuinely affordable new homes.	A cash injection could happen immediately. Its impact would be effective and quick. This option has been backed by the Secretary of State for Business and the CBI.	This would need to be financed from cost savings, tax increases, or borrowing, which would require political leadership to adapt current plans.
Green belt swaps	33,000	Development on 1% of reclassified green belt would allow for almost half a million new homes. The green belt is crudely defined and includes many areas of low quality land in the same category as land with high environmental value.	This requires no net loss of green belt and enhances the landscape. It can target housing in key areas of need, ensuring that a small percentage of land has high impact. There are successful examples of this happening. This method has the potential to allow access to land that is outside of the control of the major developers and below current residential land prices.	Potentially controversial with the environmental lobby if misrepresented as a net loss of green belt. Political leaders would need to make a clear, confident and public case for endorsing this intervention. Could create a mini industry in speculative land trading in green belt areas making cheap land release much harder, as landowners hold out for high prices. To avoid this, green belt swaps are best used in combination with the exception site model or New Towns model (see below).

<p>Green belt swaps ctd.</p>		<p>Local authorities can reallocate brown field land within green belts for housing development and in return add other more attractive land to the green belt. Green belt swaps could be extended to include a wider range of land.</p> <p>National government could support this by changing the NPPF to allow councils to swap other categories of land (such as low grade agricultural) rather than just brown field (as present).</p>		
<p>Raise the local authority borrowing caps</p>	<p>12,000</p>	<p>This would release £7 billion over five years and deliver an extra 60,000 new homes over that period.</p>	<p>Supported by the Business Secretary Vince Cable and the LGA. Is within realistic local authority capacity potential and has cross party support at local authority level.</p>	<p>May raise concerns about increased borrowing. However, if structured and rationalised within a limited increase in current expenditure and a pro growth framework, this need not dent market confidence. As above, political leaders would need to - and could - make a confident argument to the public and markets.</p>
<p>Commercial property conversions</p>	<p>10,000</p>	<p>Government has already made change of use from some commercial and industrial property to residential easier. This provides some limited flexibility but is confined just to one use class and for a time limited period.</p> <p>A more coherent approach would be to capture some of the resulting windfall to spend on more affordable housing.</p>	<p>Commercial property owners have strong financial incentive to deliver, as residential property is more profitable.</p> <p>Change of use has a much shorter delivery time-line than new construction, and fewer of the development risks inherent in new housing development. It would be less likely to mobilise opposition to new homes because of its reuse of brown field sites.</p>	<p>There could be conflict over what sort of high-street local authorities want to see, with some continuing to prioritise commercial use over residential for existing buildings.</p>

<p>Commercial property conversions ctd.</p>		<p>Change of Use could also be expanded into a greater range of building classes, such as retail and financial services outlets.</p> <p>In addition, local authorities could make change of use easier and more likely by only turning down applications for change where there are strong reasons to do so.</p>		
<p>Extending rural exception sites</p>	<p>1,500</p>	<p>Exception sites are sites that are not normally used for housing, located within or on the edge of existing small rural settlements. They are given planning permission to provide affordable housing that meets local needs in perpetuity.</p> <p>The government could issue guidance to rural local authorities on the need for greater levels of market cross subsidy in exception sites; introduce inheritance tax deferment from landowners who gift land for exception sites as part of their estate; or provide grant funding at variable rates reflecting different housing market conditions across the country.</p>	<p>These sites create lower cost affordable housing in key areas of housing need. They offer landowners the chance to sell agricultural and other non-residential land at a higher price than it would otherwise fetch.</p> <p>By creating a supply of low priced land, tied to affordability criteria and outside of the control of larger house builders, exception sites can help increase the supply and reduce the price of housing.</p>	<p>This method has limited supply impact. Also, lower grant levels and, in some areas, lower market rent levels, have made exception sites consisting solely of affordable housing unviable in current market conditions. This can be addressed with cross-subsidy, though cross-subsidy does not work in low-demand housing markets.</p> <p>The model only works if exception sites are the only alternative for landowners to agricultural use. As soon as the possibility of land being allocated through the mainstream planning system occurs, landowners will hold out for the much higher prices this brings.</p>

Longer term reform

Option	Homes/year	How does this work?	Benefits	Barriers and limitations
Garden cities and new towns	43,000	<p>Previous New Towns were delivered by public corporations, created, appointed and funded by central government. A return to the New Towns model in the form of Garden Cities could change this funding mix, increasing the level of private financing and borrowing.</p> <p>Garden Cities could operate outside of the planning system, with substantial strategic powers for land purchase and development planning.</p>	<p>The New Town development vehicles were the most successful post-war development model, achieving large-scale house building and enjoying substantial cross-party support.</p> <p>Garden Cities have strong support across political parties.</p>	<p>This model cannot work without top-down leadership to over-rule local community opposition. Strong national and local political leadership - like that exhibited with the Olympics and HS2 - would be needed to overcome any local opposition.</p> <p>Efforts would need to be made to appease some local concerns, but politicians would ultimately need to put national interest – chiefly the interests of millions of hard working families – above those in the immediate area.</p> <p>This has been done before and could be again. Cross-party agreement on the need for garden cities would significantly limit any localised electoral fall-out.</p>
Supporting self-build via planning system	19,000	<p>This would require local authorities who fail to meet their housing targets to release the equivalent shortfall of land for self build homes in the following year. Land would be obtained by holding a Community Land Auction (see below).</p>	<p>Reduces (though doesn't eliminate) anti-development sentiment.</p> <p>Supported by Policy Exchange.</p>	<p>Will require support from mortgage lenders who would need to be willing to lend to individuals who wish to build their own homes.</p>
Local authority development management		<p>Local authorities could be more actively involved in bringing land for development to the market rather than waiting for planning requests. They could simply take a more proactive approach to developing their own land, or ideally get involved as well in land acquisition, assembly and distribution.</p>	<p>Local authorities have an active role in land assembly in many other countries. There are examples of it working successfully here.</p> <p>There is also a clear appetite from within local authorities for more active approach to land management.</p>	<p>Some local authorities may be resistant, especially if they face backlash from land-owners or property owners who feel that they might lose out from new development.</p> <p>Land assembly can involve the use of Compulsory Purchase Orders which can be controversial locally (see below).</p>

Restructuring local borrowing	17,000	<p>Moderate changes to local authority borrowing powers have been outlined above.</p> <p>A more substantial change could happen through a reform of government borrowing rules towards a European standard, in which local authority house building would be removed from the politically sensitive Public Sector Net Borrowing (PSND).</p>	<p>This would have a transformative effect on the investment and output levels of new housing. It would mean that local authorities could borrow against their assets and revenues in the way that housing associations already can. Under these rules borrowing against revenues are allowed in much of Europe – including France and Germany.</p>	<p>This would undoubtedly require political courage to make the case to the markets that this is not new general public borrowing and therefore does not need to be included in fiscal targets. However, this has been done in Germany and France so is far from unprecedented.</p>
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Total Potential	174,500	<p>These interventions applied as a package would raise projected house building levels to 322,000 over time. The amount of time this would take depends on several factors, including the response of the construction industry and consumers.</p> <p>If applied in combination with the structural land market reforms outlined below the potential will be higher.</p>
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Other crucial land market reforms

These reforms are vital for achieving long-term delivery, but they must be combined with other measures to have an impact.

Option	How does this work?	Benefits	Barriers and limitations
<p>Release of publicly-owned land</p>	<p>There are schemes in place to release public land, but the government needs to do more to open up market opportunities for small builders, self builders and new market entrants. In the short term it could do this by releasing small sites to developers through an innovative, open competition. This would help widen our delivery capacity and deliver more homes.</p>	<p>In making land available where used outside of the system of land banking and planning uncertainty, public land can help facilitate new entrants into house building who can help supplement the output of existing private house builders.</p> <p>According to the National Land Use Database, in 2009 there was 5,756 hectares of brownfield land suitable for housing and owned by the public sector that could accommodate 291,000 homes.</p>	<p>It is unclear how much suitable capacity there is: headline figures have tended to disguise land that is unsuitable to build on.</p>
<p>Community Land Auctions</p>	<p>The operation of an inverse auction held by local authorities for the granting of residential planning permission among private landowners.</p>	<p>Land Auctions would allow an open market system for selling land that enabled residential land sales from land owners who would not otherwise be likely to gain planning permission. This should increase the supply of land available and its price.</p> <p>This would enable the local authority to capture the land value uplift that was previously shared between landowner and developer. It would also reduce legal challenges that more coercive land acquisition strategies could face.</p> <p>Promoted by Tim Leunig from the London School of Economics and has gained support by several respected figures, such as Kate Barker, and from senior figures within government, including the Chancellor.</p>	<p>Requires willing local authorities that are motivated to take a more active approach to local development.</p> <p>However, there is the risk that this approach does not necessarily produce strategically optimal land.</p>

Compulsory Purchase	<p>Direct government intervention in land purchase. These are non-negotiable legal orders to sell land at a set level of compensation.</p>	<p>A common method of land acquisition in France, Germany and the Netherlands for housing and infrastructure purposes and was used frequently in England under the New Towns programme as well as by the Olympic Delivery Authority.</p> <p>Often just the plausible threat of compulsory purchase can make landowners more willing to accept reasonable terms for sale.</p>	<p>Can provoke strong opposition and possibly even legal challenge at European level.</p>
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Additional investment option

This would reduce the cost of any scheme.

Option	How does this work?	Benefits	Barriers and limitations
Government guarantees of investment and borrowing from new private sector actors.	<p>Private sector investors that are interested in investment in new housing but concerned about the upfront costs could be encouraged with offers of government guarantees to minimise risk.</p> <p>Help to Buy is the wrong policy – it underwrites increasing demand, rather than supply, and risks pushing house prices even higher. But it does open up the possibility of using the government’s balance sheet to extend investment in housing supply, rather than merely re-inflating demand.</p>	<p>Government guarantees are already offered to housing associations and in the drive to encourage greater investment in the private rented sector.</p> <p>In offering investors a product that is lower risk (compared to other market investments) and higher yield (compared to gilts), investment guarantees for new supply should be an attractive pull for new players into the sector.</p>	<p>Government guarantees can be helpful in encouraging new entrants into a market, but less impactful if simply used as a way to underpin existing developers’ finance models. This creates the risk that government could end up supporting investment that could have happened anyway.</p> <p>There is a potential cost to public finances in government taking on some of the risk of development.</p>