Achieving the ambition

Building one million homes this Parliament

August 2016

Shelter

Executive Summary

The new government has reaffirmed its ambition to build one million new homes in England this Parliament. This commitment is welcome and Shelter wants to be part of making it happen.[1]

It is widely recognised that increasing housebuilding to the level now required is a major challenge. If we are entering a period of economic uncertainty following the vote to leave the EU then that challenge will be magnified. However the government's million homes commitment is also a huge opportunity to turn around a weakness for our country and fulfil people's ambition for a home of their own. The Prime Minister was clear on the steps of 10 Downing Street that she sees housing as part of her mission to help those for whom "life can be a struggle".

In this paper we set out:

- An analysis of how the vote to leave the EU may impact on the housing market and house building, informed by new market projections from Capital Economics. These projections set the context in which one million homes must be built.
- Lessons that policy-makers should learn from the housing market slump following the 2007/08 financial crisis – and from the policy responses to it.
- A set of policies aimed at increasing housebuilding towards the government's target of one million homes this Parliament.

The challenge to build many more homes is likely to be exacerbated by economic uncertainty following the vote to leave the European Union. New projections from Capital Economics suggest that over the next year housebuilding will decline by almost 8% and that the economic uncertainty following the vote will mean 66,000 fewer homes are built by 2018. Without further action, the target to build one million new homes could be missed by over a quarter (266,000 homes).

It is vital therefore that the new government introduces an ambitious package of policies – not only to keep us building at a time of uncertainty, but to increase building to the level required within the limited time left this Parliament.

Critically, this paper argues that to do this we must not repeat the mistakes which were made in the response to the 2008 recession, while we must learn from policies which did work.

The response to any future market downturn must be careful to avoid unintended outcomes, and instead take the opportunity to address the dysfunctions of the housebuilding market. In particular it must address the way that land is bought and traded among a handful of major developers. Reform and investment must be well targeted so that it doesn't end up inflating land values further.

The scale of the challenge is huge

Housing is a devolved matter, so we assume – since it has not been specified - that the one million homes target is for England. There is also a case for targetting new builds alone with this target, rather than say including conversions, because of the true scale of housing need.[2]

On the above basis, there were 140,180 homes built in the year from April 2015 to April 2016 – the latest available data on completions.[3] This means that in the four years to the end of the Parliament in May 2020 an additional 860,000 homes need to be built, or 215,000 per year. Increasing completions by 53% is clearly very stretching, but possible to achieve with the right plan.

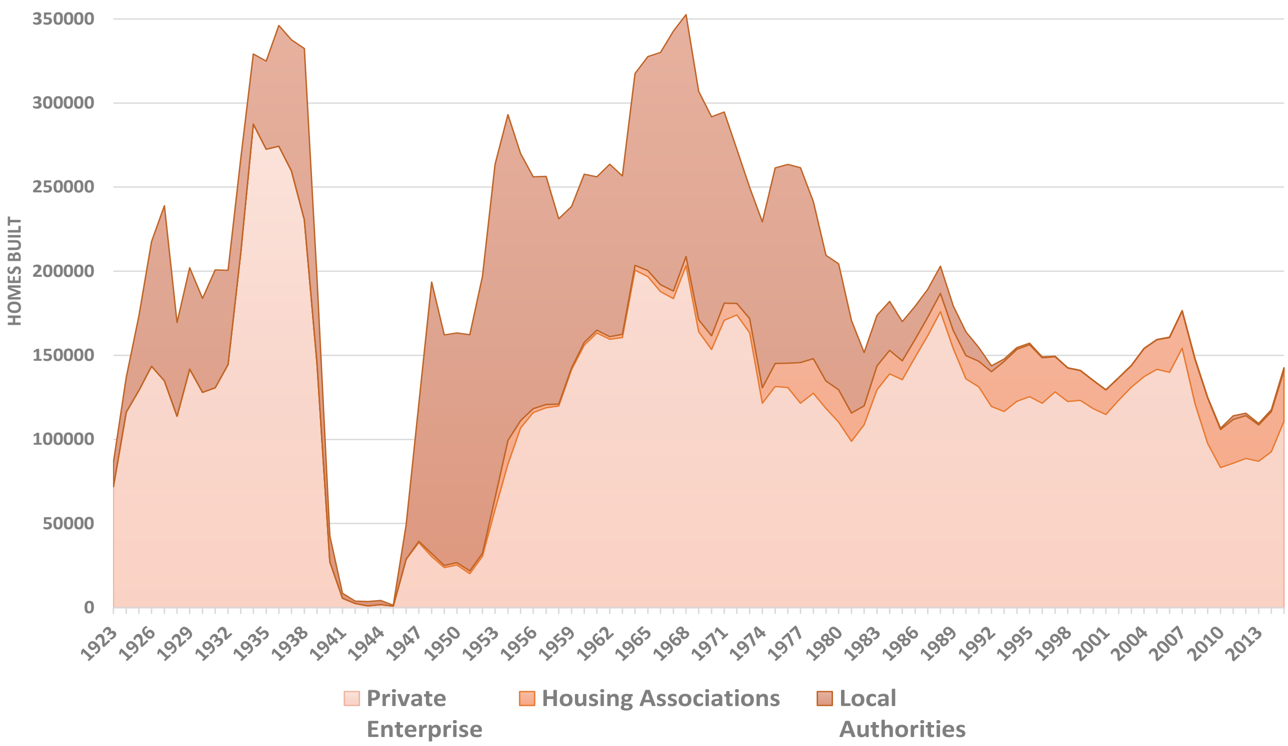
Housebuilding history shows that the pledge can be met

The comparable periods in England's history for a housebuilding programme on this scale are either the 1930s or the 1950s. In both cases housebuilding rapidly rose in just a few years, with major contributions from both the private and public sectors.

In the 1930s and at the peak of post-War building in the 1960s, the number of homes built each year touched 350,000. That's more than double the number built over the last few years. It is therefore possible to rapidly raise building to over 200,000 per year and keep it there consistently.

1. Hansard, 18th July 2016. Gavin Barwell MP: "The need for new homes continues, as does our commitment to delivering 1 million of them by 2020"
2. The real level of need for homes in England is closer to 250,000 per year (or 1.25m over a parliament) and so a target of 1m new builds, plus conversions and net of demolitions, is still appropriate. KPMG and Shelter, Building the Homes We Need, 2013

Housebuilding in England 1923 - 2015[4]



However we cannot simply repeat the techniques of the past:

- In the thirties, growth was driven by speculative development along new train lines. This was especially the case around London, where major new suburbs were built in Bromley, Croydon, Harrow and Barnet. The approach was very land-hungry and the homes built at low densities: London's footprint roughly doubled to its present size. Partly as a result, huge greenbelts were established around cities to prevent further sprawling growth.
- In the fifties and sixties, growth was driven by councils and powerful development corporations. Many inner cities were extensively rebuilt and a dozen New Towns were founded and built – including Harlow, Crawley and later Milton Keynes. However mono-tenure council estates built in modernist styles came to characterise that era. That style is unpopular with most of the public and helped to delegitimise the role of councils in providing new homes.

A modern 21st century approach is required to realise today's ambition for a million new homes – bringing together the best of the private and public sectors in a shared mission.

The approach must build a range of housing types, styles and tenures – both to meet the diverse demands of today, and to improve the strength and resilience of the house building system itself. This includes building rented housing once more at scale. Since councils stopped building new rented homes in large numbers, England has never been able to build enough homes. This is because when homes are built to be sold on the open market, developers cannot build too many in one area in one year for fear of lowering sales prices.

In contrast rented housing (especially affordable rented housing) can be planned and built more quickly, without the need to drip-feed, as there is huge demand and no such sensitivity to prices and market cycles.

But the model of rented housing for today need not be the same as it was the 1960s. People don't want single-tenure, monolithic estates. We need to forge a new, modern approach to rented housing which delivers homes quickly, is genuinely affordable and speaks to people's desire to save towards homeownership where possible.

3. DCLG, Live Table 222. Data from the NHBC for the rolling year period up to June 2016 shows 135,500 completions. NHBC represents about 80% of the market so we can estimate around 162,000 completions on that basis – but this is not official data.

4. Data from 1923 to 1945 is for England and Wales (Mitchell, British Historical Statistics) and from 1945 is for England only (DCLG, Live Table 244)

A broken housebuilding model

To build a million homes will require the full capacity of the current housebuilding industry, but the current industry leaders cannot do it alone (see box opposite).

The problem is that the development market has grown up around a dysfunctional land market, which creates a series of incentives that slow down building. Developers must compete with each other to buy scarce land, pushing up land prices. Once they have paid a high price for land, they are incentivised to argue down affordable housing contributions and to build at a cautious rate which does not undermine local sales prices. If they don't do this, they will not achieve the necessary margins for the risk they undertake through the land buying and planning process. These incentives are amplified by a volatile sales market increasingly dominated by investors rather than home buyers.

Major developers are primarily land buyers and traders[5] – geared up to hold a pipeline of sites for years and convert many sites from industrial or agricultural planning status to residential. This is a fully rational business strategy within England's land market, but it does not maximise house building speed or quality.

These dysfunctions come to fore when the housing sales market softens or falls. In this scenario – as we saw in the years after 2008 – the most rational strategy for developers is to mothball sites and wait for values to start rising again. As the housing market is highly cyclical, this has huge long-term impact on supply. Over the last three cycles private market housebuilding has not recovered to its previous peak before another market crash has occurred. Levels of private development have therefore ratcheted down with each turn of the cycle – and without a source of non-market supply that could act counter-cyclically.

Lessons from 2007/08

There were two distinct phases of response to the housing market crash which followed the financial crisis of 2007 and 2008. In the first phase policy-makers focused on keeping existing major market players afloat by bailing out individual schemes, while in the second the focus was on re-inflating the general level of transactions to encourage higher rates of building.

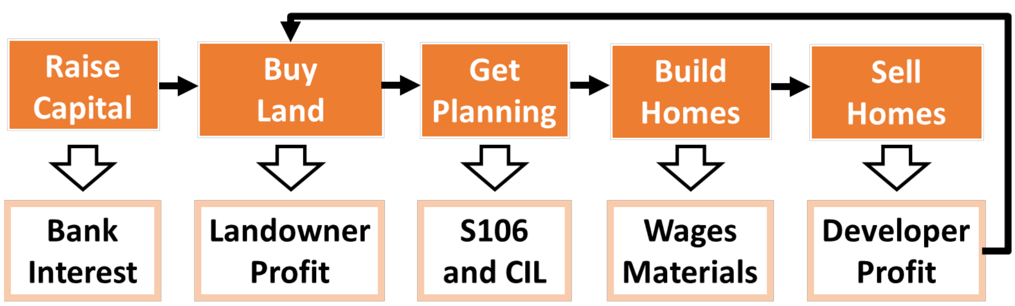
Major developers' concerns about the current housebuilding model

"But without new entrants, and I mean SMEs and the likes, I do not think we will hit 200,000 easily. I think we might get to 170/180,000 but 200,000 is a big ask without new players coming into the marketplace…we've talked openly with government with this, we need to incentivise new players to come into the marketplace"

"And the government knows that the industry as it is at this moment in time can only do so much. We can't exponentially grow only to find ourselves bankrupt in five years' time because the market's gone bang. We will protect ourselves and do what each company needs to do. So the only time we've ever really produced 250,000-odd homes is when the government has stepped in and done its own building and there's no sign of that at this moment in time"

Managing Directors and Land Directors of major housebuilders quoted in Payne, S; Examining Housebuilder behaviour in a recovering market (University of Sheffield, 2016)

Diagram: Speculative Housebuilding Model



5. The Callcutt Review put it succinctly: '[I]dentifying, acquiring, preparing, developing and selling land is the key activity of all [English] house building companies'.

Phase 1: Bail-out

In response to the withdrawal of mortgage credit and fears that there would be a repeat of the 1990s repossessions crisis, the government introduced a package of rescue measures, mostly in the 2009 Budget. Capital funding was directed to developers to close financial gaps in their live schemes, and to housing associations to allow them to take on stalled private building projects, along with demand-side support for home buyers and mortgage rescue schemes for mortgage holders in trouble.

One success of the package was that (along with bank forbearance) it helped prevent the failure of any of the major house builders. Even the most exposed were able to write-down some of their assets and survive, while the better capitalised seized the opportunity to acquire new land banks cheaply, as smaller, weaker players struggled to stay afloat and were merged or acquired. As cheaper land banks went into the hands of the well-capitalised large developers and finance to SMEs was rationed, new entrants struggled to gain access to the market.

Phase 2: Re-inflation

By 2012/13 the major developers were largely secure, with share values beginning to recover. However house building was still well below pre-crisis levels. The government chose to stimulate supply by stimulating demand among prospective buyers with a series of major interventions. The main focus of the government's intervention was towards re-inflating demand from home buyers: especially first time buyers. Our analysis suggests that of £32bn in grants, loans and guarantees for private market house building in the 2010 - 2015 parliament, the majority (£25bn) was on the demand-side.

While this did lead to a steady and strong annual increase in supply from the major developers, with growth at around 10% per year after 2013, this was accompanied by even faster house price growth. By 2016 house prices had risen above pre-crisis levels (in London significantly so) but house building remained well below pre-crisis levels.

A new Housing Delivery Plan

To build one million homes in the face of economic uncertainty, we cannot rely on the status quo. Instead we must tackle the key dysfunctions in the current development system in order to:

- Bring many new firms and new models into housebuilding.
- Get land into the system at lower values.
- Continue to devolve planning power away from the centre.
- Put investment into affordable homes and infrastructure.

Without addressing these shortcomings of the current development system there is no chance that one million new homes will be built by 2020. But if the right package of investment and reform is put swiftly into place then that goal can be achieved. Our proposal is for the new government to prepare a Housing Delivery Plan, across two phases.

The first phase should consist of immediate priorities to aid recovery from the current market uncertainty. The objective in this phase is to keep building levels up in the face of a market slow-down, without further entrenching the volume housebuilder model. The second phase is for medium term reform that will improve house building levels and quality over time. These reform areas are also critically important, but less pressing in the face of a market downturn.

We have set out policies below which are grouped into these two phases – but these are not meant to be exhaustive or comprehensive. The new government should draw on the considerable expertise across the housing sector and beyond to make sure that the right policies are put in place to build the million homes we need by 2020.

Housing Delivery Plan to 2020

Phase 1: A sustainable recovery

1. Growing Britain Fund. The government should use historically low borrowing costs to invest in new homes and in infrastructure which unlocks new housing. Prominent Conservatives have recently argued for issuing £100bn of long dated gilts for investment in homes and infrastructure.[6] There are multiple mechanisms by which this sort of investment can then be channelled into new construction and could also be used to leverage additional private investment.
2. Introduce a 'Help to Build' package for SME firms. To grow the development market, government at all levels can take a more assertive role in supporting SME firms to grow. This can be done by forcing public bodies to release smaller plots of public land, incentivising lenders to provide development finance, and directly commissioning multiple smaller firms on large projects.
3. Support the emerging Build to Rent market. Build to Rent has often been identified as a sector which needs to grow to fill the gap in housing supply. In the short term the government could ensure that any stalling conventional schemes can easily be converted into Build to Rent through low cost finance.
4. Directly commission housebuilding. Private sector housebuilding has recovered somewhat from the slump of the last recession, but is still below 2007 levels. To get housing numbers up further, we need direct action from public bodies too – including London Mayors, local authorities, TfL, the Homes and Communities Agency (HCA) and others.
5. Develop a strategy for skills, apprenticeships and modern methods of construction. To build one million new homes will take many more people with the right skills employed in the industry, and it will take innovations in how homes are built. This work should rightly be led by the industry, but government must be coordinated and strategic in how to support firms.

Phase 2: Reform to build more and better homes

6. Make smarter use of public land. Greater release of public land is often identified as a major opportunity to boost housebuilding. In particular, the public sector should be pioneering models where land is invested into development partnerships as equity. Public bodies which don't use their assets for homes should face penalties, such as the prospect of losing control over its development.
7. Give communities stronger planning tools. Currently councils and communities can create Local Plans and Neighbourhood Plans. These are often ambitious in terms of housing numbers, quality and affordability. However these same communities do not have the powers to make development happen, as they do via the planning system in other countries. We should introduce strong zoning powers to get the sites which communities have identified built.
8. Promote land market transparency. In order to take a more proactive role, councils and communities need better data on who owns land, what it is worth and whether it can be built on so that they can better design Local and Neighbourhood Plans and bring forward schemes. If the Land Registry is to be privatised, its should carry an absolute requirement to increase the availability and accessibility of such data.
9. Promote city level strategic planning and growth. Growing our most economically successful mid-sized cities, places like York and Cambridge, is vital. Sometimes there are great partnerships for growth between the local authorities in their city regions and these should be vigorously supported. In other cases though the city needs to be backed to grow with tougher penalties on neighbouring authorities who have proved willing to take the benefits of their local city's economy, without any of the growth.
10. Back high quality garden cities and suburbs. There has been strong interest in recent years in growing our most successful cities into beautiful, clean and sustainable garden cities, or indeed building new garden cities. However the enthusiasm from sucessive governments for this agenda has not yet fulfilled the potential that it offers. Politicians can protect open countryside and reduce pressure on inner city development by backing new urban extensions and garden cities.

Together, the policies outlined in this paper can help the new government fulfil its pledge to reach one million new homes by 2020. This ambition is the right one for our country – and with a shared mission across public, private and voluntary sectors we believe it is possible.

6. Independent, Stephen Crabb [and Sajid Javid] pledges £100bn infrastructure fund to invest in schools and housing, July 2016

The EU vote and the impact on housebuilding

It will take several months before the immediate economic impact of the decision to leave the EU will become fully clear, however there are emerging signals that suggest housebuilding may be impacted. England's housing market, and especially its house building system, is highly sensitive to changes in confidence and could be affected long before it is clear what the scale of broader economic impacts might be.

The majority of house building in England is speculative – based on building homes to sell to unknown future buyers at unknown future prices. This makes builders very risk averse and prone to rapidly slow delivery if they expect sales volumes or prices to decline.

There are already some signs that housing activity may slow in the England following the vote.

Early signs of a slowdown

Major developers were amongst the hardest hit in the slump in share prices following the referendum, with values still around 15% to 25% lower than before the vote. However, share values have started to recover gradually as early results from developers have become available.

Although this fall could reflect market volatility that may yet be reversed, there have been signs in the first quarter of the year that the housing market is already in the process of slowing. As the Bank of England's recent Financial Stability Report notes[7], some of this may also have been due to a pre-announced 3% stamp duty surcharge on second homes that came in to force in April 2016.

This caused a clear peak in seasonally adjusted transactions in March as buyers rushed to complete before the deadline, followed by a sharp drop in April to a lower level and no change in May. It remains to be seen whether the vote to leave will cause another drop in the number of homes changing hands but there are some indications that transactions in June and July will have slowed.

According to RICS , more surveyors saw a reduction than increase in both enquiries from new buyers and

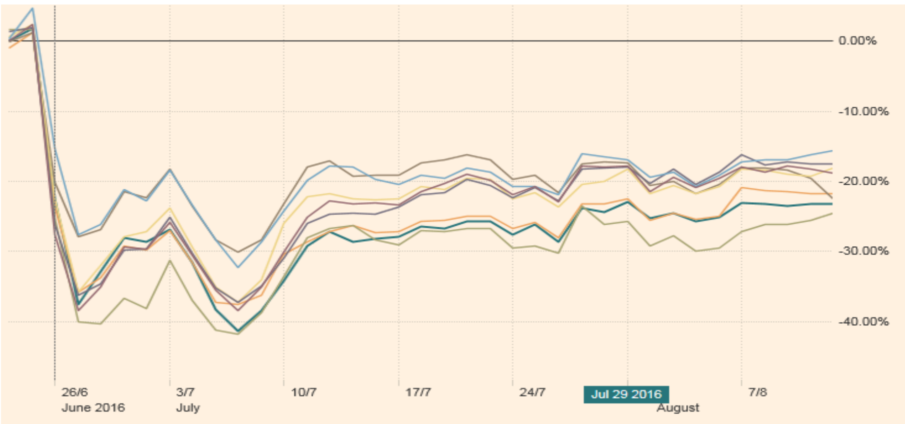


Chart 1: Housebuilder share prices from the EU referendum to early August 2016

Source: FT Market Data, accessed 12th August 2016

National New Vendor Instructions - Past month

Regional New Vendor Instructions - Past month

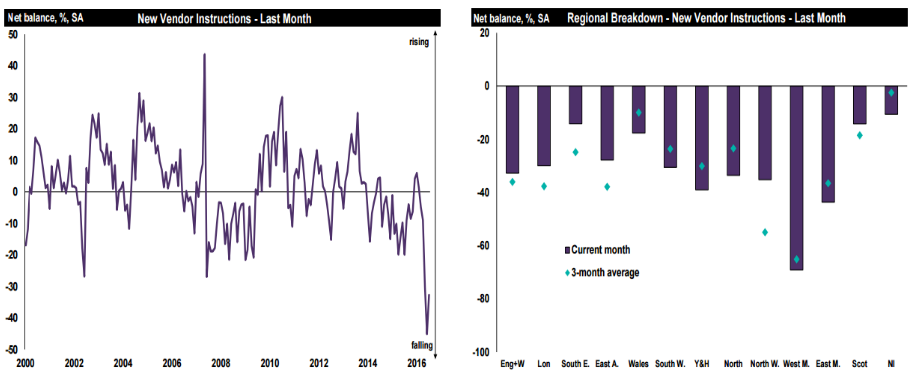


Chart 2: New vendor instructions since 2000 (left) and in the past month (right)

Source: RICS UK Residential Market Survey July 2016

7. Financial Stability Report, July 2016. (Bank of England, July 2016).

new vendor instructions, representing a slowdown in both demand and supply not seen since the Financial Crisis.

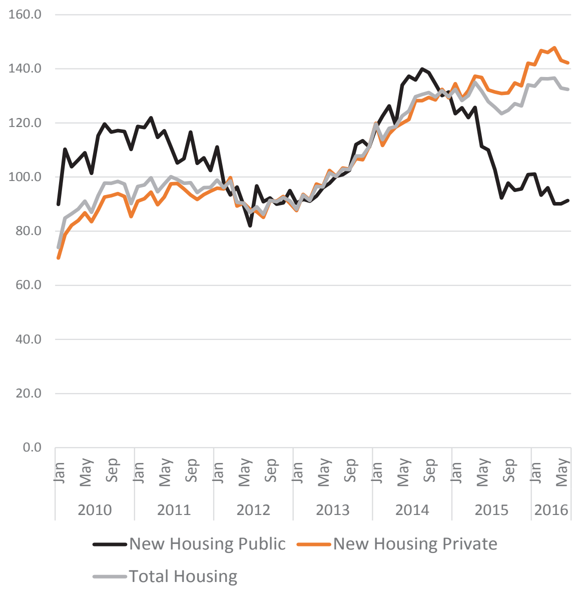
The wait and see attitude on the part of buyers already seems to be filtering through to construction activity. Private new housing output fell by 3.5% between May and April[8] and indicators of future residential construction in June experienced their sharpest drop since December 2012.[9]

This weakness is against a backdrop of mixed housing construction output over the longer term - with public housebuilding declining steeply since late 2014, while private output has risen since 2012 (see right).

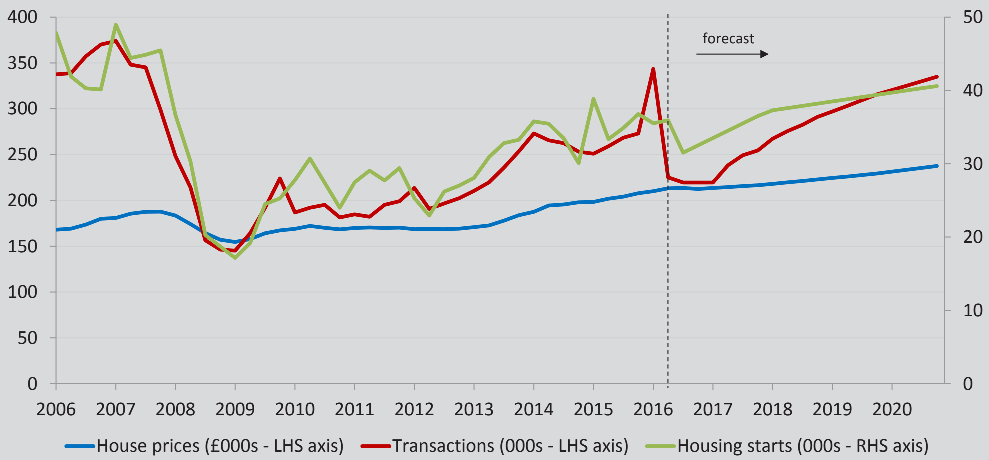
It may be that these economic indicators are premature, or that they are picking up on short term sentiment that will rapidly be reversed. However new forecasts produced by Capital Economics for this paper suggest that the relative weakness of the housebuilding market may continue for the foreseeable future.

Chart 3: Construction Volumes, Seasonally Adjusted Index Numbers (UK)

Source: Office for National Statistics



Housing market forecasts to 2020



Capital Economics have produced new projections for the housing market, set out in full with their methodology in a separate paper.

Their analysis suggests a fall in housing starts over the next year, resulting in 66,000 fewer homes built by 2018 than were expected before the EU vote.

- Over the next year, housing starts will fall 8%
- In total, without further intervention, there will be 734,000 starts this Parliament
- Uncertainty following the EU vote will not substantially impact prices, but will have a longer term drag effect on housebuilding

8. Construction output in Great Britain: May 2016. (ONS, July 2016).
9. Markit/CIPS Purchasing Managers' Index. (Markit, July 2016).

Lessons from the 2007-08 housing slump

If the housing market is entering a slow-down, policy intervention will be needed to ensure the one million homes target can be met. In designing such an intervention, it is vital to properly assess the policy response to the last housing market slowdown after 2008 when housebuilding halved and from which we have not yet fully recovered.

The impacts of the financial crisis on the housing market played out in two phases: from 2007-8 to around 2010-11 when prices softened and housing starts collapsed; and then from 2011/12 onwards when prices rose rapidly and starts picked up moderately.

The policy response from government similarly changed during these periods and so they should be assessed separately.

The 2007-08 Slump

Major housebuilders had taken advantage of ultra-loose credit to increase their borrowing during the boom years, primarily to buy land. They did so on the assumption that similarly loose mortgage lending would keep house prices rising. When the global financial crisis hit in 2007, these developers dramatically cut back building as they feared house prices would crash completely, as they had during the last housing market bust in the 1990s.

Housebuilders therefore suffered big falls in their revenues, and their critical 'Return on Capital Employed' (ROCE) metrics. The market value of their shares and their land banks also plummeted – meaning that many were likely to have been in breach of their banking covenants, putting them at risk of insolvency.

Fortunately for these over-leveraged developers, the context was dramatically different from that following the 1990s bust. Then, soaring interest rates drove repossessions up, crashing house prices further, while simultaneously increasing the cost of developers' debt. In 2007-08 low interest rates lessened both impacts. The banks also had no wish to foreclose on falling assets, as they had plenty of toxic assets already.

So lenders were content for the developers to write down their asset values, mothball their sites and wait for land values and share prices to recover before building again.

The response

The government response to the fall in house building came in two phases, corresponding to the bail-out of the sector in the immediate aftermath of the crisis, and then the period in which house building partially recovered after 2012.

Phase 1: Bail-out

In response to the collapse in supply, the withdrawal of mortgage credit and fears that there would be a repeat of the 1990s repossessions crisis, the Labour government introduced a package of rescue measures, mostly in the 2009 Budget.

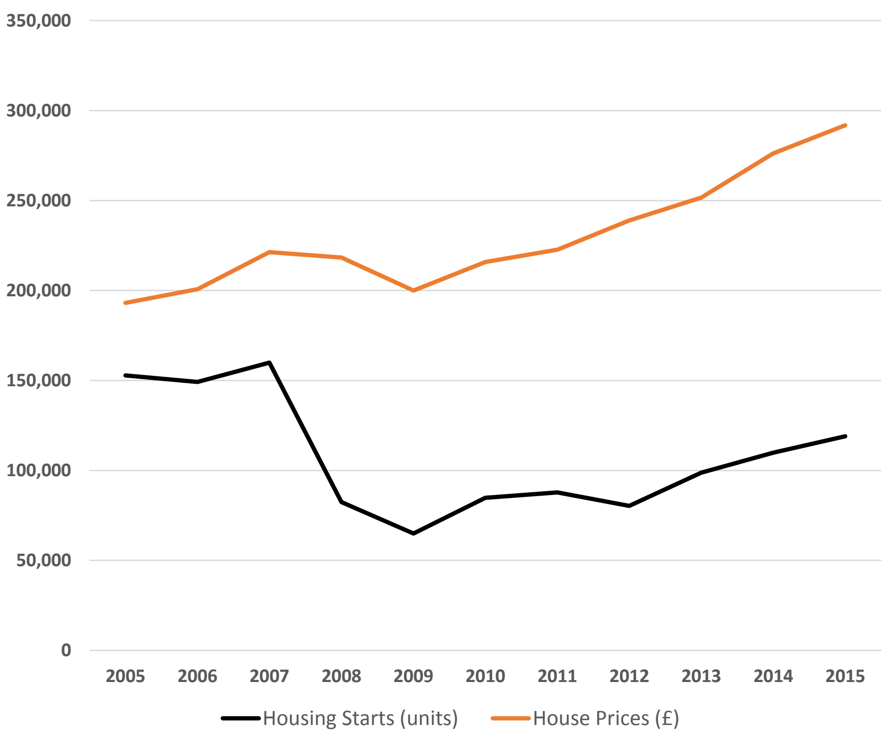


Chart 4: House Prices and Housing Starts England 2005 - 2015

Source: Office for National Statistics House Price Index and DCLG Live Table 244

Capital funding was directed to developers to close financial gaps in their live schemes, and to housing associations to allow them to take on stalled private building projects. Demand-side support was provided to home buyers and mortgage rescue schemes for mortgage holders in trouble. Even councils were encouraged to start building again.

In particular support for affordable housing was increased as part of the £8.4bn National Affordable Housing Programme from 2008 - 2011, with grant providing support for schemes developed by both private builders and housing associations. This stimulus may have helped prevent a complete collapse in house building, but completions were still down by half by 2009. The supply-side response was simply not strong enough to maintain housing construction in the face of massively falling consumer demand.

One success of the package was that (along with bank forbearance) it helped prevent the failure of any of the major house builders. Even the most exposed were able to write-down some of their assets and survive, while the better capitalised seized the opportunity to acquire new land banks cheaply.

The other perspective on the bail-out is that by preventing forced land sales or bankruptcies, this response prevented the market from clearing and so denied new entrants the opportunity to buy up schemes or sites at low prices. Inevitably, this limited the extent to which the recession could trigger innovation or initiate new competitive pressure.

The result was to leave all of the major players of the UK housebuilding sector, and all of its structural problems, firmly entrenched. While the banks were

Tables: Government schemes to specifically support private market housebuilding[10]

Announced during the period 2008 – 2011			
Private house building intervention	Date	Size of intervention	Supply/ Demand side
Home Buy Direct	September 2008	£400m	Demand
Kick Start 1	April 2009	£425m	Supply
Kick Start 2	November 2011	£550m	Supply
Public Land Initiative	2010	£53m plus access to public land	Supply
		Total: £1.4bn	

Announced during the period 2010 - 2015			
Private house building intervention	Date	Size of intervention	Supply/ Demand side
FirstBuy Direct	March 2011	£400m	Demand
Build Now, Pay Later	November 2011	Access to public land and subsidized finance	Supply
Get Britain Building	November 2011	£570m	Supply
Build to Rent 1	November 2011	£200m	Supply
NewBuy MIG	November 2011	£1bn guarantee	Demand
Growing Places Fund	November 2011	£500m	Supply
FirstBuy extension	September 2012	£280m	Demand
NewBuy MIG extension	January 2013	Extension of guarantees	Demand
Help to Buy equity loan scheme	March 2013	£3.5bn equity loans	Demand
Build to Rent 2	March 2013	£800m	Supply
Help to Buy Mortgage Guarantee	March 2013	£12bn guarantees	Demand
PRS guarantee scheme	June 2013	£3.5bn guarantees	Supply
Builders Finance Fund	April 2014	£525m loans extended to March 2017	Supply
Housing Zones	August 2014	£400m (£200m grant and £200m loans)	Supply
Help to Buy equity loan scheme extension	March 2015	£6.2bn additional equity loans to 2021	Demand
Help to Buy ISA	March 2015	£2bn ongoing, may migrate into Lifetime ISA	Demand
Starter Homes Fund and Brownfield Land Fund	August 2015	£36m	Supply
		Total = £31.9 billion grants, loans, guarantees	

10. Author's analysis on supply/ demand. Scheme values taken from House of Commons Library, Stimulating Housing Supply – government initiatives, June 2016 and CIH, UK Housing Market Review 2016. Does not include the share of NAHP or the AHP taken by private developers.

rescued by direct injection of capital, the developers were spared by bank forbearance and demand subsidies. Recovery then entered the second phase.

Phase 2: Re-inflation

By 2012-2013 mortgage lending remained relatively tight, with a continued requirement for larger deposits than before the crisis. The comprehensive Mortgage Market Review (MMR) formalised stricter lending, with controls on the amount that banks could lend to borrowers. To many home buyers these tough deposit requirements felt like the single biggest barrier to homeownership. However safer lending practices were precisely what policymakers intended from the MMR, to prevent a future financial crisis. These reforms were eminently sensible, and protected the system from yet another mortgage market bubble. However they inevitably made it harder for home buyers to access high levels of credit relative to their income.

On the supply-side, the Coalition government introduced several packages of support for private market housebuilding, along with maintaining some (although much less) grant for housing associations. As a result private market supply did increase slowly and steadily from its post-slump trough, particularly after 2013. Housing associations managed to maintain their steady level of 20,000 to 25,000 completions per year, albeit with a shift in the tenure of what they built away from the lowest rent products.

The main focus of the Coalition government's intervention was towards re-inflating demand from home buyers: especially first time buyers. Our analysis above suggests that of almost £32bn in grants, loans and guarantees which were allocated for private market housebuilding during the last Parliament, the majority (£25bn) was on the demand-side.[11] This remains the case even when including subsidy to private developers to build affordable housing.[12]

In particular, the Help to Buy schemes skewed government spending on private market development towards demand rather than supply subsidy. These schemes were introduced from 2013 onwards on a temporary basis (the Equity Loan scheme was initial due to expire in 2017). However they increasingly appear to have become a permanent support to private housebuilding - with some concern that there may be an inflationary pressure on prices as a result.[13]

The significant fiscal support for buying homes coincided with the longest extended period of low interest rates in British history. This monetary support made credit for house purchases as cheap as it had ever been – again boosting demand.

House prices were firmly in recovery mode by late 2013 and accelerated back towards their long-run, real-terms trend through 2014 and 2015. In London, prices exceeded their real-terms peak and continued to climb, almost reaching £500,000 on average by summer 2016: more than eleven times average wages in the capital.

Outside of the capital prices re-inflated much less quickly, especially in the North of England. In the North West, prices only returned to their 2007 peaks in July 2016. However the story is not just London versus the rest. The most recent market data suggests some of the fastest inflating house prices are in areas outside the capital, such as the East of England.[14]

Lessons

Learning the lessons from the previous crisis, there is likely to be a need and an opportunity for a bold package of interventions. These interventions must not simply underwrite over-priced developments, as we did after the last crisis, but seize the opportunity to both maintain delivery in the short run and prevent a loss of affordability in the medium term. This can be achieved if intervention is targeted at the most strategic points in the supply process, focusing on live schemes and developers' and others' land banks. Any approach which focuses predominantly on demand-side interventions will only further inflate house prices and force the industry to become even more reliant on rising land and house prices.

There is a now huge opportunity for government to get a grip on our dysfunctional housing market. We have run out of road with the approach of the last three decades, but a new model can be forged. It will have to bring together the best of the private and public sectors, concentrate growth in the best places, use long term investment rather than short term speculative finance, and deliver high quality, affordable, beautiful communities. All of that is possible with the right approach.

11. This is resources allocated during the period 2010 – 2015, but not necessarily spent during that period.

12. The AHP was worth a total of £4.5bn during 2011 - 2015, but much of this support went to development by housing associations rather than private market developers.

13. In 2015 Shelter estimated that the Help to Buy schemes had added over £8,000 to the average house price. Shelter, How much help is Help to Buy?, 2015

14. ONS, House Price Index, July 2016

New Housing Delivery Plan

The new government should develop a Housing Delivery Plan, setting out the policies which will take housebuilding to the level required. This plan must include both new investment and policy reform that addresses the dysfunctions and weaknesses within the current English housebuilding market. The policies set out below are based on previous work by Shelter and others and provide a starting point for that Plan, although are not intended to be fully comprehensive.

Phase 1: A sustainable recovery

1. Create a Growing Britain Fund

> *The Treasury should issue long-dated gilts to create a 'Growing Britain Fund'. This would be borrowing specifically to invest in infrastructure and housing projects. This would include the spending commitments already made in last year's Comprehensive Spending Review, but also go further.*

Government borrowing costs are currently at historic lows. Ten year gilts are being sold with yields below 1%, while shorter term debt is in some cases being sold with negative yields.[15] In other words investors are willing to pay the UK government to hold the value of their capital. If homebuyers were offered mortgages where the bank was willing to pay them for taking out the loan, it would rightly be seen as an incredible investment opportunity. This is now the situation for Britain's public finances as a whole: financial markets are willing the UK government to borrow, and particularly to fund much-needed infrastructure.

As we move towards an ever-more knowledge-intensive economy, housing is increasingly recognised as a vital form of infrastructure: many of the business sectors of the future are highly mobile and flexible in their commercial property needs, so the availability of good quality, affordable housing for their staff is increasingly the major factor in their locational choices and the biggest constraint on their growth.[16]

Housing investment boosts economic growth, creates thousands of jobs in construction and the supply chain, and the returns to the Treasury from extra tax generated are substantial.[17]

- Every £1 spent on construction generates a further £2.09 of economic output, higher than the return to most other sectors from investment including advanced manufacturing and finance;
- For every £1 spent 92p stays in the UK;
- For every £1 invested by government, 56p returns to the Exchequer of which 36p is direct savings in tax and benefits.[18]

With debt so cheap for the Treasury the economic case for borrowing to invest in infrastructure and housing is even clearer. In fact, investment in new rented housing is in many ways even more effective than investment in other forms of infrastructure. It is generally much quicker to plan and deliver, and crucially it a can create both an appreciating asset and an income stream. No other asset class can achieve this combination of safety, yield and social benefit.

In the most Spending Review and previously, the government has set aside significant resources for housing. However much of this is in the form of loans, guarantees and subsidies for home buyers rather than direct spending on housing supply (for example the new Lifetime ISA).[19] From 2015/16 onwards there is just £1.7bn of direct spending allocated for Affordable and Social Rented housing out of a total of £44bn resources (including loans, guarantees and grants).

There is therefore a case for borrowing for direct spending to be increased for housing supply and associated infrastructure over the coming Parliament. This is what we propose is re-named the 'Growing Britain Fund'. The 'Fund' is just a way of communicating to the public the significant government resources set aside for increasing housing supply, but with an increased emphasis on mechanisms which deliver affordable homes to rent and buy, or unlock significant volumes of new housing.

The 'Growing Britain Fund' could be channelled into housing through several mechanisms, many of which are explored in more detail later in this paper. They include:

- Grant funding to housing associations. There is already significant grant available out to 2021 for housing associations, but the majority is for low cost home ownership products which may be harder to sell (and therefore build) in a period of market weakness. Housing associations should have the flexibility to spend grant on a range of products to keep output high.

15. UK Debt Management Office, July 2016
16. London First, Moving Out: how London's housing shortage is threatening the capital's competitiveness, 2014
17. FTI Consulting, Housing and its contribution to economic growth, 2011
18. UK Contractors Group (2011) Construction in the UK Economy: The Benefits of Investment, London: UK Contractors Group
19. CIH, UK Housing Review 2016 p.11

- Funding into large scale projects. Some resources are set aside for large projects such as Ebbsfleet and Bicester Garden Cities. However if projects are stalling then additional funding may be required to keep them building. In some cases, homes could be bought for Build to Rent to allow developers to continue building, as set out in the policy recommendation below.
- Additional resources at a city-level. Cities are increasingly a focus for housebuilding and could use additional resources for local infrastructure. This could be delivered through updated City Deals, along with a wider package of devolved planning powers (see policy on city-level planning below).
- Directly commissioning new housebuilding. Another way for government to quickly stimulate house building would be by directly commissioning it, as it has already begun piloting on a number of sites.

Additionally investment in transport projects and vital local infrastructure unlocks housing and makes it more likely to be accepted by existing communities. The 'Growing Britain Fund' could include those aspects of government spending too, to make clear to the public that the government is linking investment in housing supply with the additional infrastructure required to support it.

2. Introduce a 'Help to Build' package

The Treasury and DCLG should introduce a 'Help to Build' package of support for SME firms, so that they can help themselves to grow and thrive. The focus should be on support to access land and development finance and it should include direct commissioning of new homes.

The first priority to get more homes built must be broadening the development market, supporting small firms to grow and bringing in more firms. This is about helping those individuals and firms with huge drive and ambition to grow to actually be able to do so. The biggest barriers preventing SME building firms from expanding according to a recent survey[20] are:

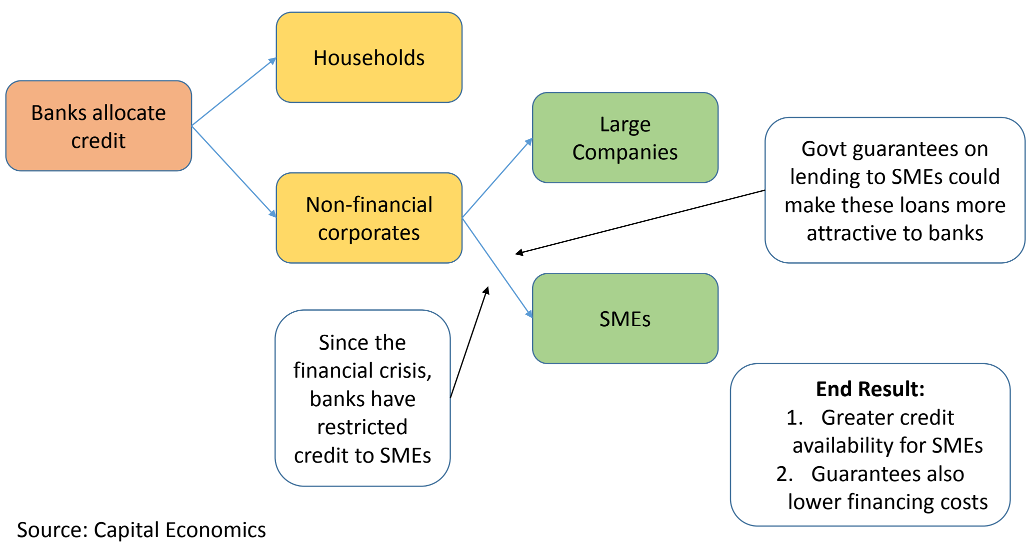
- Obtaining planning permission
- Obtaining development finance
- Availability and cost of land

The planning system is already being reformed to make it easier for firms to obtain permissions, for example through the 'Permission in Principle' reforms of the Housing and Planning Act 2016.[21] More can be done and planning is considered more thoroughly later in this paper in the form of proactive planning. However development finance and land are two areas where government can support SME developers quickly and effectively.

Finance

To get more development finance into the hands of SMEs there must be stronger incentives for lenders to allocate them credit. The barrier here is credit rationing, which has existed since the financial crisis and means

Diagram: Help to Build Scheme



Source: Capital Economics

20. NHBC Foundation, Improving the prospects for small house builders and developers, 2014
21. NLP Planning, Housing and Planning Act 2016 – Essential Guide to PIPs

that lenders prefer to allocate resources into some sectors more than others.

Capital Economics recommends that the government could utilise unused resources in the Help to Buy Mortgage Guarantee programme to provide a Help to Build Guarantee. This could give many more small and medium sized enterprises access to bank credit by making them as attractive to banks as other larger businesses and households. Their increasing attractiveness to banks comes from the reduction in potential losses the bank would suffer if the borrower defaulted. The potential losses are made smaller by the guarantee because the guarantor covers some of the cost of the loss.

To overcome any moral hazard, it is important the government does not take all the risk. There would have to be a risk sharing arrangement so that banks aren't incentivised to just extend credit to any firm. In this form the government would share any loss with the bank, according to a pre-determined split, and the risks would be shared.

Land

The other major barrier for SME firms is in accessing land. Increasing transparency in the land market will help (see below) but equally firms need to have more sites available to buy in the right places and at lower values which allow better quality, more affordable homes to be built. Public land can be a starting point for this, but wider land market modernisation is also needed to release more private land too.

As a starting point all public sector landowners should have to assess their land holdings for housing capacity in a systematic way and DCLG and the Cabinet Office should create a process for getting small sites (sub-100 units) into the hands of SME builders. This could include looking at disposals in some cases, but also whether a freehold/ leasehold model or joint venture (JV) model[22] could be pioneered so that there is no upfront cost for the land, but the public sector takes payment either as long term revenue, or as a share of development profit.

These reforms would send a clear signal from government that another model is possible, which doesn't rely so heavily on the slow build-to-sell model of the volume housebuilders.

3. Convert stalling schemes to Build to Rent

The Treasury should create a dedicated recyclable loan scheme, with government guarantees, to convert stalled housing projects into Build to Rent schemes.

To keep building homes in the short term despite economic uncertainty, the most important element is developer confidence. Confidence evaporates when developers do not believe that there will be buyers for their products at the price they require. However, government cannot simply step in and pay the price that developers would have got from the over-inflated market. If the government steps in to bail-out stalling schemes, then there must be a quid pro quo.

The Treasury should create a large, dedicated long-term fund to co-invest in house building schemes, to turn them from build to sell schemes into Build to Rent schemes. This fund would be administered through the HCA or London or other regional government.

When investing, the scheme's administrators would look to partner with a private Build to Rent provider or housing association who would actually manage the new homes. This policy would therefore give the burgeoning Build to Rent sector the opportunity it needs to scale up.

The Build to Rent fund should be guaranteed by the government's balance sheet and therefore provide the lowest possible financing cost. It could be created by reviewing and re-allocating some of the loan and grant funding already set aside in the Comprehensive Spending Review, if new market conditions make it hard or unwise for that funding to be spent. This included:

- A £2.3bn fund to support the delivery of 60,000 Starter Homes. In the event of a downturn where prices are falling, it will be hard to judge the 20% discounts fairly because prices will be shifting and developers will not want to lose even more than 20% of potential value from these homes. There's a risk public funding could therefore be lost.
- A further £2.3bn in loans for the regeneration of large council estates and other major housing developments.[23]

The proposed Build to Rent fund would be a bail-out for struggling schemes which had been financed on a

22. For more detail see Capital Economics, Increasing Investment in affordable housing, 2014

23. Comprehensive Spending Review 2015 p.41

build-to-sell model by developers, so it is obviously vital that the intervention secures real benefits for taxpayers. It would not be acceptable or desirable for government to buy schemes at the prices that developers expected to sell at before any downturn. The conditions on an intervention should therefore be:

- The scheme becomes 100% rented.
- There is a significant and increased level of affordable housing on the site. This increased level would need to be judged by examining the viability of the scheme and trimming the developers' expected margin (which is usually at 20%).

Developers would therefore have a guaranteed buyer for all the units on their scheme, but with a quid pro quo that there would be more affordable homes on the site than under a build to sell model. They would also be incentivised to accept this offer by new holding costs on their permissioned land banks (outlined below).

Government would be making an investment and should expect to get its money back. This would be done by eventually selling its stake in the PRS and affordable homes on the site to institutional investors and housing associations.

4. Directly commission new homes

The government and other public bodies should directly commission new homes in affordable tenures on both public and private land. Homes can be sold on to housing associations to manage.

The government has recognised that it needs to take a more direct role to get homes built, by introducing a series of pilots in which it will commission housebuilding itself. The current plan to commission 13,000 homes on four sites outside of London and to directly commission homes within the Old Oak and Park Royal Development Corporation (OPDC) in London.[24] This direct commissioning approach can link particularly well with the goal of helping SME developers to expand or enter the market, because it can provide a steady source of demand across market cycles.

Currently, the pilot projects are all on public land – and the government could continue with that approach, once a more systematic mapping of public bodies' landholdings is complete (see above). However pilots could also be extended to private land, especially if linked with the more proactive planning tools such as Housing Zones outlined above.

Government, local authorities and cities should all be able to pilot the direct commissioning of new homes in a range of affordable housing tenures – not just for Starter Homes, but shared ownership, social rent and new and innovative models such as Rent to Buy. Homes built can then be sold on to local housing associations to manage. In particular smaller sites should be prioritised which are additional to the development pipeline and can help SME firms to grow and expand.

This policy should be combined with the Growing Britain Fund and public land policies in order to bring sites forward at lower upfront land values and with low cost, long term financing.

5. Develop a strategy for skills, apprenticeships and modern methods of construction

The new Department of Business, Energy and Industrial Strategy should work with DCLG and the Treasury to develop a cross-Whitehall strategy to build the skills and construction methods which can allow England to deliver enough homes.

Increasing annual housebuilding by more than a third will be tough, but without the people and the industrial methods to build these homes it will be impossible. Government must vigorously back new jobs and skills in construction, through apprenticeships policy and by working with colleges and schools. We should learn from others around the world and find best practice here in England to replicate.

Just as important will be growing modern methods of construction, such as the factory assembly of homes which can then be put on site rapidly. As with 'Build to Rent' this has been a zeitgeist area within housing policy for some time, but results have been patchy and inconsistent. However there are now signs that the industry really is gearing up for off-site assembly to make a much more serious contribution. For example Legal & General recently invested £55m in an off-site manufacturing facility for housebuilding in West Yorkshire.

The role of government is not necessarily to lead this work – industry is best placed to do that. However government can and should be supporting the skills and modern construction agenda with investment, tax-breaks, guarantees and coordination. A proper strategy developed across Whitehall would be the best way to map out the contribution government could make, with full input and consultation from the industry.

24. Gov.uk Press Release, January 2016

Phase 2: Reform to build more and better homes

Once a more sustainable recovery is underway it will be vital to institute policies that can help us build more and better homes over the medium term. These policies are ones that will bear most fruit into the second term of a government and demonstrate to the public that real progress is being made.

6. Make smarter use of public land

> *Public land must be used more effectively to deliver genuinely affordable housing. Land should be rigorously mapped for housing feasibility and replicable models developed for using it for maximum public benefit. Public bodies should be penalised where they do bring forward plans for housing on their land.*

Public land is very often identified as a solution for the housing shortage, but so far progress in using it has been sclerotic. The National Audit Office (NAO) found in July 2016 that just 8% of the government's target for public land release for homes this Parliament had been achieved and that there is very poor reporting of what outcomes have been achieved on it. In 2015 the NAO found that the first phase of the public land release programme (2011 – 2015) could provide no evidence as to how it had helped relieve the housing shortage or provided value for money.[25]

Clearly, more can and should be done. The benefits of using public land for housing are clear:

- Public landowners usually have a long term stake in the area in which they own land (i.e. they are the council, or an NHS Trust). This means that long term development models based on revenues (rented homes) rather than capital receipts are more attractive.
- Public land holdings are often in operational use, but given the scale of public bodies it can be possible to intensify uses on a smaller number of sites – or even build over existing operational assets.
- Public sector bodies are major employers and will have many staff on low and middle incomes struggling with housing costs. Contributing to efforts to relieve the housing shortage will have a positive impact on their staff and their services.

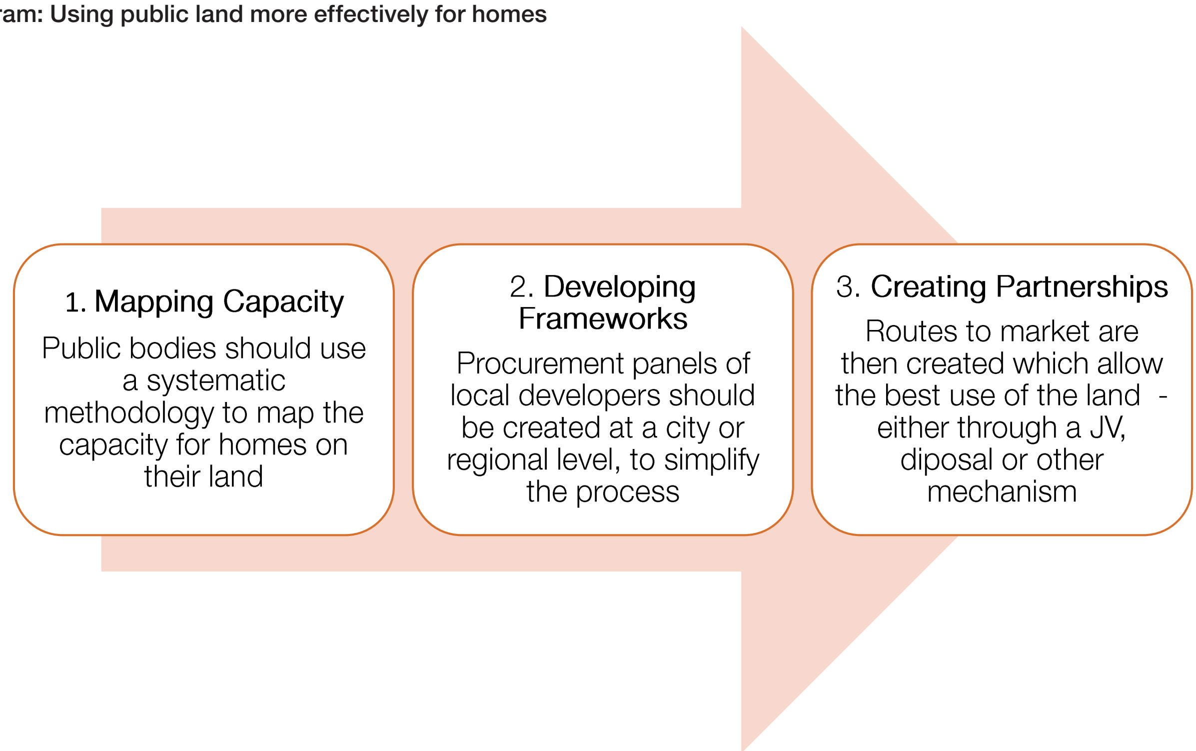
To get progress to happen more quickly with public land, a smarter approach is needed than simply setting targets which are not properly monitored. Some public bodies are far more advanced in plans for house building than others.

The staged process is required, with the recognition that some public bodies are further along this already than others.

First, it is vital that public land is systematically mapped for its housing capacity. Different public bodies are doing this in different ways and some bodies have no central database of all their landholdings at all.

The best attempt to systematically map land in the public sector so far has been the London Land Commission, but even this has had mixed results and

Diagram: Using public land more effectively for homes



25. NAO, Disposal of public land – a progress report, 2016

could be much more detailed. DCLG and the Cabinet Office should design a systematic process for mapping public sector land and then roll this out across the public sector, by order of priority. This would create a national 'Domesday Book' of public land. The process must use desktop analysis to give topline land values, based on costs for enabling works, existing use values and a policy compliant level of affordable housing. It must also give an indication of planning feasibility based on whether the site is allocated in a Local Plan already, has complications, or has a status which makes gaining consent more unlikely.

Once land is mapped, processes need to be designed to ensure that the public receive best value when the land is used – both in terms of returns to the public land owners, but also in the quality and affordability of housing. Procurement panels could be established at a city level (as with the London Development Panel) to make it easier to process land transactions. Equally processes should be designed which allow freehold/leasehold relationships so that public authorities do not need to sell land, or Joint Ventures which allow a greater degree of public sector control over outcomes.

Where progress on using public land is slow, there must be a process by which the ability to develop land is transferred away from the owning body and to a team capable of development. For example, in some cities there could be a 'star chamber' set up at which public bodies are scrutinised for their development plans with the ultimate incentive that the city authority or Mayor could take control of the land's development if a plan is not advanced.

7. Housing Zones: give communities stronger planning tools

> *DCLG should use the next wave of planning reform to add proactive planning tools into our system at a City Level. As in Dutch and German cities, these would help set land prices upfront and allow communities to direct development in the ways they want.*

The planning system is obviously critical to housebuilding in England. The debate so far has typically been about how much planning rules can be cut back to allow more development. This view of planning as a system that just says "no" is widespread. But while government reforms have been successful at increasing planning permissions, there has not been a significant increase in development.[26]

In other European countries such as the Netherlands and Germany, planning has a different primary function. Rather than being seen as a system to say "no" it is a proactive way to shape how places change and grow and create a level playing field for business. European cities plan thoroughly for their growth to balance competing priorities: housing, services, infrastructure and green space. They then have the planning and development tools available to ensure that their plans become reality, and can let the private sector get on with delivery.

Our planning system has echoes of this European model, but without sufficient powers or capacity to see it through. Local authorities have the ability to produce strategic 'Local Plans', while at an even more local level community fora can produce 'Neighbourhood Plans'.

These Local and Neighbourhood Plans often have ambitious goals. For example, they might set out the level of affordable housing or quality of development which they want to support generally in their area, or even for specific sites. However, the authority or community does not then have any power to actually make their plans happen. Often authorities will identify strategic brownfield land where they want high quality, ambitious growth to happen – but then be frustrated when landowners either don't bring it forward or bring forward less ambitious schemes.

For example, many London boroughs' Local Plans specify the need for 40% or 50% affordable housing on new schemes. However just 13% of homes on permitted schemes in the development pipeline in the capital are affordable.[27] The ambitions of Local Plans do not reflect what actually happens on the ground.

Ultimately, the Local and Neighbourhood Plan system is a very weak way of creating positive changes to land use and a mediocre way of blocking negative changes to land use. Communities should instead be supported with powers to develop their areas in the ways they want.

Two changes could support proactive planning in England:

Housing Zones

Stronger policies, financial and legislative support for cities, local authorities and neighbourhoods to proactively master-plan how they want areas to develop. This could build on the 'Housing Zones' policy under the previous government. Local

26. In the year to March 2015 there were 260,000 planning permissions for homes granted in England, but in the following year to March 2016 just 160,000 homes were actually started. DCLG Live Tables.

27. City Hall press release, May 2016

authorities and communities can already use Local and Neighbourhood Plans to set out how they want to see a particular area develop – in terms of types of housing, quality, affordable tenures and community facilities. Communities and councils should now be given the power to designate sites in their plans as Housing Zones – requiring the owners of them to bring forward development in line with the plan. To make the requirement effective, local authorities should be able to issue a strong, credible threat of compulsory purchase of the land if landowners don't bring forward development on a reasonable timetable. Landowners would still be able to block a Compulsory Purchase Order if they could show that the proposed scheme is not viable (at the existing use value for land).

CPO reform

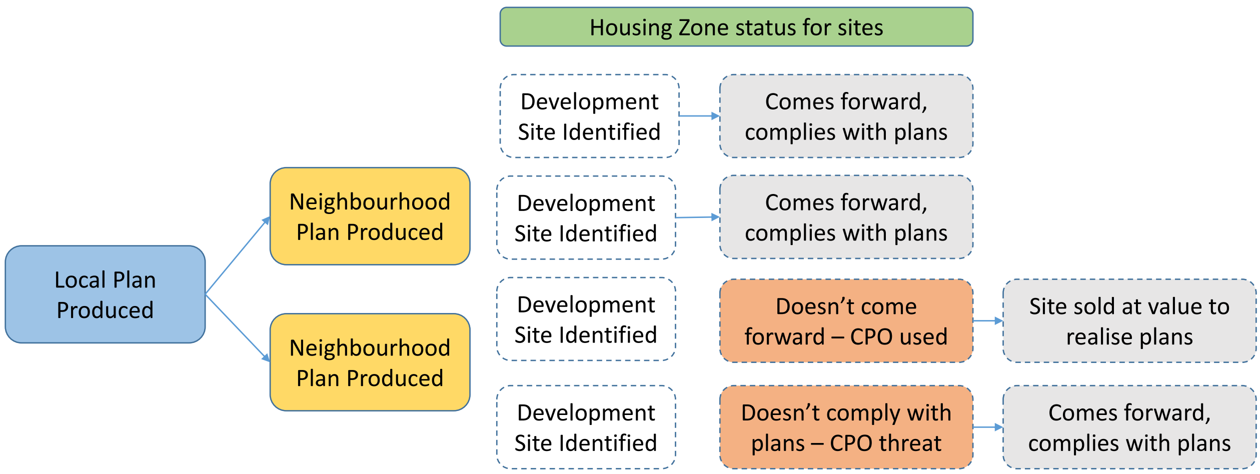
To support Housing Zones and incentivise landowners and developers to build out permitted schemes, the rules on compulsory purchase need to be reformed – as DCLG and HMT are already planning to do in the forthcoming Neighbourhood Planning and Infrastructure Bill. Clearer and stronger CPO powers would allow public authorities to buy land that has been zoned at its market value in a 'no scheme' world, which would disregards any uplift in value created by the Local or Neighbourhood Plan.

With these changes in place cities, local authorities or neighbourhoods would be able to proactively plan for how a part of their area could develop and then see intervention to make it happen. For example, by creating a Housing Zone status in a Local Plan the community would strongly incentivise the land owner to bring it forward for development to the specification set out in the Plan. If they do not bring the site forward and it sits empty, the local authority would be able to CPO the land at the no-scheme world value. The authority could then sell it on to another firm at a price which they know makes the development in the Local/ Neighbourhood plan viable.

The main aim of these reforms would be to tip the balance of landowner incentives in favour of development now, rather than mothballing sites in hope of future price rises. Over time, the market would deliver lower and more stable land prices, as the gains to be made from speculatively buying land in the hope that it is allocated in a Local Plan would reduce. Authorities would also need financial support to develop the skills and capacity to buy land in this way and bring it to market in ways that allow communities to see their ambitions realised (see policy 9 below).

The designation of the New Homes Zone would give local communities real powers to realise their ambitions for their local area, helping to improve public perceptions of development and reduce NIMBYism.

Diagram: How Housing Zones and CPO could be used by communities



8. Promote transparency in the land market

To help SME builders, local authorities and others to access or release land for development the government should require the release of data from relevant agencies in a simple format.

For SME housebuilding firms it can be prohibitively hard to find out who owns land, what its current value is, what its planning history is and whether it is covered by an ‘option agreement’. In practice, this means that small firms operate in a highly risky environment in which they can never be sure there will be a pipeline of sites in the right places

Equally, local authorities and Neighbourhood Forums would benefit hugely from a more transparent land market in designing their Local or Neighbourhood Plans: at present, plans must be drawn up without knowing who really controls potential development sites.

A sensible package of reforms to open up the land and housing markets would include appropriate public bodies (the VOA, MOD, NHS, Land Registry, ONS, local authorities) collecting and publishing data on:

- Land prices by site and by hectare in a format that could easily be used by non-experts.[28]
- Land ownership in a format that could be mapped. This would make it easier for land assembly to take place as currently it can be difficult for planning bodies to understanding the geography of land ownership.
- Planning permissions granted in a form that can be mapped, with date of permission granted, what the permission is for (i.e. number of units) and status of the development.
- New housing units granted planning permission by floor space. This would make it easier to assess trends in the size of new build homes, and hence to measure value properly.
- Ownership of new build, by type of owner and nationality. This would make it much easier to assess across England who is buying new build homes and how they are buying them.

Once data is released there are a variety of start-up firms who will no doubt take advantage of it to provide detailed ‘cadastral’ mapping, so that all interested parties can easily access information on land ownership and status. Critically, all such data must be made genuinely accessible and usable by the use of common standards and formats for data release.

9. Resource local planning, and promote city-level strategic growth

The Treasury, the Department for Business, Energy and Industrial Strategy (BEIS) and DCLG should strongly incentivise city-level strategic growth. Areas where local authorities partner together for growth should be rewarded with devolution packages, whereas areas which block city growth should see more power put into the hands of the under-bounded city authority.

All actors in the market now recognise that local authority planning departments are severely under-resourced, resulting in unacceptable delays to planning decisions and routine planning processes. Most of the industry would readily pay significantly higher planning fees, if that would enable them to resource up to deliver permissions more quickly: the government should permit local authorities to levy sufficient fees to recover the full cost of providing planning services.

At the strategic level, over the last decade, England has moved from a planning system with a strong but unaccountable regional tier (the Regional Development Authorities) to one with high accountability but little strategic planning above councils (localism). The benefits of Localism are clearly its much stronger accountability and closeness between decision makers and people, but there have been downsides too. This is particularly felt with strategic planning at the city level, which is much harder when a city is tightly bounded by its administrative geography – such as in Bristol, York, Cambridge, Oxford and Brighton.

The current ‘duty to co-operate’ is simply not strong enough to promote cross-boundary growth. This is especially true where one (often urban) authority is pro-growth and another (often surrounding) authority is determined to slow or block it. The current system is meant to create equal partnerships between local authorities – but often one member of the partnership doesn’t want to develop.

Ultimately, we need reform to retain the democratic element of the current system, while helping growing cities to be able to plan strategically beyond their boundaries and incentivise their neighbours to participate in and benefit from this growth. IPPR and

28. At a minimum this could include re-introducing the VOA’s Land Price data that was scrapped in 2011.

Shelter[29] have proposed a two part system of reform to promote city-level strategic planning and growth:

Enhanced city regions

For those city regions where there is strong co-operation between neighbouring authorities already the government should reward this with an enhanced package of devolved funding and powers for housing and growth. This could include devolving Affordable Housing budgets from the HCA to the city-region, helping to set up a Joint Strategic Planning Authority and devolving powers to create Development Corporations. City regions are already emerging via the City Deals being negotiated with combined authorities: these deals should be enhanced, to include comprehensive strategic planning and investment powers.

City pace-setters

If enhanced co-operation across boundaries cannot be achieved, the alternative is to increase the ability of growing cities to set the pace of housing growth themselves. Devolution of funding and powers would concentrated on to the city authority, with the neighbouring authorities seen to get a less generous settlement from government. This would particularly be the case for transport investment for schemes which provide better links into the city from other authorities – it should be made plain that only be accepting some of the city's growth can you gain better access to the benefits that the city is creating.

This approach will still run up against the fundamental constraints of tight administrative boundaries. So this model should be seen as a second best option, to be used only in the absence of real co-operation from neighbouring authorities. All authorities in city regions should therefore be strongly incentivised to co-operate fully, via funding and strategic planning arrangements. But to overcome the central problem of under-bounded cities, and more importantly to incentivise co-operation in an enhanced city region, those cities designated as pace-setters would be able in extremis to take direct control of their housing future by triggering a boundary review and expanding the area under their control.

10. Back high quality garden cities and suburbs

Our most successful cities should be expanded through sustainable urban extensions on the Dutch model, to relieve pressure on open countryside and on urban infill sites.

As well as backing smaller developers by providing small sites, government should also be planning for larger settlements to meet England's housing needs. This includes major urban regeneration schemes, suburb extensions along transport corridors and even new settlements. Such large scale housing schemes (eg over 1,000 units) should be classified as national infrastructure, enabling their promoters to use the National Strategic Infrastructure Planning route. This would enable garden cities to be planned without forcing local politicians to choose between doing the right thing in meeting national needs, and prioritising their own chances of re-election.

Ideas for how to deliver new settlements in partnership between the public and private sectors were developed in the 2014 Wolfson Economics Prize, which asked participants to design a new garden city. The winning entry by URBED emphasised the need to expand existing, successful cities rather than trying to create new ones. They argued that this should be achieved through the use of sustainable urban extensions along transport corridors and by releasing one hectare of public greenspace for every hectare developed. Other finalists – including Shelter who won the runner-up prize – gave locations and mechanisms for delivering new garden cities. Despite a wave of enthusiasm for the garden city concept in government over the past few years, no significant no plans have yet emerged (although some existing large schemes have been re-branded as garden cities).

Turning existing cities into larger Garden Cities on the URBED model could significantly increase good development in England. For example the Dutch VINEX spatial strategy in the 1990s significantly increased the country's housing capacity (by nearly 10%) and quality by focusing on sustainable urban extensions to existing settlements. The Dutch strategy is to preserve open countryside from sprawl or scattered development by focusing growth first within the urban area and then abutting the existing urban area.[30]

Sadly England has not been able to forge this sort of progressive settlement for growth for decades. Successive governments have talk about 'brownfield first' but in practice planning policy means that there is a presumption in favour of sustainable development on greenfield sites, so long as they are not designated 'greenbelt'. The result is huge pressure on land prices and densities on urban infill sites, combined with scattergun development on open countryside beyond city greenbelts.

29. IPPR and Shelter, Growing Cities, 2014

30. Needham, Dutch land use planning, 2014

Instead, URBED argue we should protect sites of beauty and public value and open them up to greater public access. Land around existing cities can be improved with forests, country parks, waterways and areas of re-wilding. At the same time, mono-crop, low-grade farmland can be used to sustainably extend our most successful cities with high quality, walkable suburbs with beautiful homes and community facilities. This can all be self-financing over time due to the huge value differential between agricultural and residential land.

It will take visionary, bold politicians to start this process – but the reward will be a legacy of popular, affordable, thriving cities and accessible, beautiful countryside. The alternative is ever more conflicted debates in both our cities and the countryside. Open land will continue to be forcibly released to build low quality housing estates, while cities will see very high density, unaffordable towers packed onto the last remaining brownfield sites.

Conclusion

It is a great credit to the new government that they have reaffirmed their ambition to build one million new homes this Parliament. We strongly support this ambition, with the essential caveat that it must include a full range of homes affordable to people on different incomes.

To realise this ambition in the context even of economic uncertainty following the Brexit vote will take strong reform and investment. Nothing less will successfully overcome the structural weaknesses of our housebuilding system. We'll need a wider range of firms building, the public sector playing its part, and clear strategies for expanding our successful cities. All this is possible, if the new government takes the opportunities before it and grasps the nettles that previous governments have avoided. The policies that we've outlined in this paper are intended to be positive contributing to this debate. Working together in a shared mission this may finally be the time that England gets a grip on its housing shortage and the next generation's prospects of a decent place to call home start to improve.

Image: Shelter and PRP Architects entry to the Wolfson Economics Prize 2014

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