The 2020 group

The housing challenge

The UK is heading for a housing supply crisis. For years housing output has failed to keep pace with growing need. By 2020 on present household projections, if policymakers fail to act, the supply shortage will worsen markedly, with devastating consequential impact on affordability and the social and economic health of the nation.

High house prices over the last few years created an environment in which people's housing choices have become ever more limited, reinforcing the divide between homeownership and other forms of tenure. At the same time, we are suffering from a chronic shortage of both private and social and affordable housing, resulting from decades of undersupply, under-investment and the loss of substantial numbers of dwellings through the right to buy.

The consequences of this situation are devastating both economically and socially. They include: severe financial pressure resulting from high housing costs; constraints on labour mobility if households cannot secure affordable housing where there are employment opportunities; brakes on young people's ability to leave homes and live independently; social deprivation and inequality; and poor health and education outcomes associated with substandard or overcrowded housing. Not only do these affect individuals and families, they also have a major impact on society as a whole by weakening community cohesion and restraining economic growth.

Turmoil in the global credit markets and the ongoing recession in the United Kingdom have exposed the critical state of the UK housing market. The housing shortage, combined with the previous easy availability of cheap credit, has rendered the UK housing market particularly vulnerable to this financial crisis. The collapse in mortgage lending and therefore in house prices has led to a severe drop in private housing supply and poses serious challenges for the stability and future capacity of the housebuilding industry. The drying up of subsidy from developers through section 106 and Low Cost Home Ownership (LCHO) sales means the delivery of the Government's social and affordable housing targets are also under threat. Private housing starts fell by 43% in 2008 and are expected to fall another 32% in 2009 to levels not seen in the UK since 1952[1]. A number of private housebuilders have

[1] Construction Products Association press release, 12 January 2009, "Construction Output Falling Faster Than at Any Time Since Early 80s"

found their financial viability threatened and job losses in the construction sector are predicted to be substantial.

Yet levels of housing need continue to rise: as conditions in the housing and labour markets worsen, we can expect to see the number of individuals and families experiencing homelessness or bad housing grow steadily in the near future. The combination of diminished capacity in the sector and increased demand for new housing presents the very real risk that in the upturn the affordability crisis will rapidly reappear. There is often a significant time lag between a housing market recovery and developers increasing housing supply which could lead to further sharp price rises once the market bottoms out. In this situation it is inevitably the young and the less well-off (including those whose finances have been affected by a period of unemployment) who find their access to suitable housing constrained. As the National Housing and Planning Advice Unit point out,[2] while the present cycle has brought house prices down in the short-run, in the longer-term the fundamentals of income growth and demographic trends will reassert themselves and affordability will deteriorate unless supply is improved.

The 2020 Group

Over recent years, a widespread consensus has developed that there needs to be a substantial increase in the rate of housebuilding in order both to meet arising need and to tackle the historic shortfall in supply. This was reflected in the Government's announcement in 2007 of an ambition to build three million new homes by 2020. This was welcomed by many in the housing industry, and in local Government where many authorities had recognised that the scarcity of housing had been creating significant social and economic problems and were planning for very big increases in local housing numbers. However, there is a danger that, with the challenges posed by today's environment, the delivery of national and local ambitions could be lost.

The purpose of the 2020 Group[3] is therefore **to maintain focus on, and to support the delivery of, sufficient new housing to meet arising need and address the shortage of housing.** While the present situation makes this increasingly hard to achieve, there is as yet no clear evidence that the scale of ambition represented by the three million figure should be re-considered. A wide group of stakeholders, its aim

[2] National Housing and Planning advice Unit 'Affordability Still Matters' July 2008

[3] The members of the 2020 Group are: Kate Barker (Chair), Lord Richard Best, John Calcutt (Vice Chair), Homes and Communities Agency, Local Government Association, Steve Nickell, National Housing Federation, Royal Town Planning Institute, Shelter, Trades Union Congress

is to give strong encouragement to local, regional and national Government to keep housing supply as a priority in both policy and practice. In addition, the group will act as a sounding board and source of ideas for how the housing crisis can be tackled, particularly in the current, challenging economic conditions, where previous models of housing delivery may no longer be effective.

Principles

We believe that action to deliver the three million homes target should be based on four overarching principles. These are:

- Respond to the credit crunch and economic downturn by shifting the balance of activity to **affordable housing provision**
- Put in place measures to enable a **speedy return to housing development** after the downturn
- Develop a vision for how increased supply can contribute towards a more sustainable model of housing provision in the UK, incorporating more **balanced and flexible tenure choices**
- Create ways of **encouraging local commitment** to deliver new housing within a clear national framework and **new models of partnership** between local and national Government and the private and voluntary sectors by which that new housing can be delivered.

Policy proposals

Responding to the crisis over the shorter term

The 2020 Group wants to look beyond responding to the current crisis. But we also believe there is an urgent need for short term measures that will help to address the current slowdown in delivery, and preserve capacity for the longer term. Both central government and local authorities will need to take an active role in supporting the housebuilding sector, particularly through financial investment. This will be vital until the mortgage market is able to find a new equilibrium and private housebuilders can again have the confidence that new build for sale will be profitable. The proposals below will require considerable public funding in the short-term, and there will be hard choices to be made between the different approaches. We recognise that public funds are under pressure – but believe that investing in housing today offers good long-term value among competing priorities.

- ***Additional funding for social housing investment***: The drying up of private housebuilding leaves social housing as the sector with the most potential to

increase supply in the short-term. If the Government wishes to move towards its 2020 target, more emphasis – and funding – must be targeted on social housebuilding during this period of economic recession, not least through moving rapidly to enable a resumption of development by councils. This could be a highly valuable part of the Government's programme of economic stimulus as well as preserving the ongoing capacity of the housebuilding sector, reducing the predicted loss of construction industry jobs and improving the ability of the industry to deliver quickly once economic conditions improve.

This is a major challenge for the newly-established Homes and Communities Agency (HCA). In order to sustain new social housing supply, the HCA is being more flexible in relation to the levels of grant subsidy for social housing, in order to reflect the changed market environment. However, some new finance should be made available in the form of equity, particularly if sites are developed as a mixture of social and intermediate rent, in order that the HCA can reinvest profit if and when intermediate tenants are able to move into owner occupation. This structure would also help to ensure that these new communities are genuinely mixed in the future. Private housing for sale or intermediate rent, perhaps with the option of future purchase, therefore needs to be included in any programme of development. In cases where this is not feasible today, the affordable housing on a site could be built out first, with the market housing to follow in the upturn.

- ***Public sector funding of land acquisition***: Under this proposal the HCA would purchase appropriate land for future development from any private developers who wished to divest some of their permissioned land holdings. While this land may be available only to a limited extent, such additional sites would be immensely valuable in the short term. RSLs might also pursue this route where funding is available. This would enable the public sector to capitalise on current lower land values, and ensure the availability of suitable land for development in the recovery period to come.
- ***Renegotiation of Section 106 agreements***: Local authorities should actively engage with developers and other stakeholders on all planned developments that have been put on hold as a result of the downturn. Previously agreed planning obligations should be reassessed and renegotiated if doing so would make the project viable without compromising the quality of the development. When looking at the affordable housing offer that had been agreed it may be appropriate to shift the tenure mix away from low cost home owners and towards more social or intermediate rent, in view of the current climate.
- ***Extending the life of planning permissions:*** Generally, planning consents expire within three years, unless work has been started but not yet finished within that period. There is a case for exploring whether, for a time limited period, the

life of planning permissions could be extended, on a case by case basis, for housing developments that have been put on hold due to the downturn. This would help ensure that there is a sufficient supply of land ready for development once the market recovers, and avoiding the need to re-invest time and resources in the planning process for developments that retain support from local authorities, the community and developers.

- ***Public sector investment in infrastructure projects***: The Government has already committed to a number of large public infrastructure projects such as Crossrail and bringing forward funding for Building Schools for the Future. We support this as another means of maintaining jobs within the construction industry. But in addition to these large scale projects, direct investment in infrastructure development at the local/ regional level by either central government or local authorities would both support capacity within the construction industry and enable the delivery of new housing. This infrastructure investment would include both transport links and the public facilities needed to support new housing projects.
- ***Skill retention:*** Apart from concern about construction industry skills, there are broader issues about the retention of skills in planning departments. Local authorities are of course also under financial pressure, but the downturn in planning applications provides the opportunity to invest in staff skills, especially in light of emerging policy which aims to reduce the number of minor applications. It is vital that planning departments are able to deal with the eventual upturn in major applications in the recovery period.
- ***Making public sector land available for development***: Land that is currently owned by the public sector, such as the Ministry of Defence, the NHS and local authorities should be brought forward for development. This could be by transferring or selling the land to private developers, RSLs, the HCA, or if the land is already owned by the HCA using it as an equity stake in a development. It may be necessary to place conditions on the sale to guarantee the delivery of affordable housing (primarily social rent) to certain standards (including both overall design and environmental standards) and that the development would be underway or completed within a certain timeframe. Large plots might be broken up into smaller units to enable development of at least part of a site, where infrastructure provision permitted. To enable the release by Government of land for affordable housing at below market prices, the Government will need to review, and possibly amend, the Government Accounting Rules (local authorities already have some scope for deviation from best value principles).
- ***Investment in Regeneration:*** Priority should also be given to existing and new regeneration projects, where the changes in the market have rendered their

development unviable. Additional pump-priming finance to stalled projects will preserve and create employment opportunities, whilst also addressing long term housing need. Regeneration projects are often long-term, and communities could suffer reverses if these programmes do not receive additional political and financial support.

- **Stimulating the mortgage market:** The significant drop in the flow of lending both to home buyers and to residential housebuilders has been a major cause of the fall in supply. Supporting the flow of lending into housing, particularly for first time buyers, is therefore a vital pre-requisite for recovery. We welcome the Government's positive commitment to improving the flow of mortgage finance in the near-term. While the flow of finance is unlikely to return to pre-crisis levels, it is essential that Government takes steps to limit the potential for damaging downward overshooting in the housing market.

Longer-term improvements

The primary focus of the 2020 Group is advocating new delivery models and policy prescriptions that will strengthen and enable the housebuilding sector to deliver much needed new housing by 2020. However, what is created must deliver to a vision of a fairer, more sustainable housing system, which avoids some of the problems of the past. There needs to be a shift towards a locally-driven approach, which encourages local ambition to meet local housing need through a policy model which incentivises and supports councils and other local partners. On this basis, the Group suggests the following proposals:

- ***Encourage flexibility of tenure***: We need to take a less divisive view of tenure to ensure the efficient use of housing stock so that housing supply better matches housing need. Encouraging greater variety and less rigidity around tenure could include more provision of private intermediate renting as part of bridging the present sharp divide in the UK housing sector between homeownership and the social rented sector, and enabling households to staircase between tenure in the same dwelling. We would also support more flexible use of buildings in terms of switching between residential and partial commercial uses being permitted where there is no adverse impact on neighbours, to increase the numbers of live/work properties. Live/work, under the right conditions, can also make an important contribution to reducing energy consumption.
- ***Encouraging a greater role for local authorities***: Local authorities need to be enabled and incentivised to take a leadership role in housing in their areas and, in suitable cases, become directly involved in stimulating housing supply. This

was prefigured by the Prime Minister in his speech to the New Local Government Network on 30 January. Local authorities could be provided with direct incentives, via a restructuring of local authority funding, as well as the potential revenue from the Community Infrastructure Levy, to support, rather than oppose, suitable new housing in their areas. They should also be encouraged and resourced to use their ability to borrow prudentially to invest directly in new housing provision and in the infrastructure needed to support it. The system of council house finance must be reformed to allow councils flexibility to invest in new and existing homes and end the 'taxing' of councils' rental income by the Treasury. However, this must be additional to existing funding streams; we cannot merely replace direct Government grant with Local Authority borrowing. In the short-term, the impact of any additional local authority borrowing on the overall availability of lending for housing development will need to be monitored.

- ***Taking a broader view of how to respond to the challenges of housing supply, quality design and climate change***: The HCA, and regional and local authorities, need to identify and support a broader range of responses (some experimental) to deliver well designed and environmentally sustainable housing developments. For example, a complementary approach to the proposed eco-towns could be the creation of eco-quarters in existing communities. And there should be greater focus on energy usage once a development is occupied, with covenants requiring certain levels of energy consumption monitored by local authorities, or energy specialists.
- ***Review the regulatory requirements on development***: In recent years new developments have been required to meet a number of new regulatory requirements, many of which appropriately focus on quality and environmental standards, and the social infrastructure needed to support new development. However, over the longer term, and in periods of lower house values, these may impact on the viability of development, especially on brownfield sites. The 2020 Group considers that these requirements should be reviewed, with a view to streamlining or prioritising obligations, and improving the process for introducing additional costs on development. This work should look to balance the need for quality including high environmental standards, without compromising viability of development. A greater burden of infrastructure costs may need to be borne by the public sector than has been the case in recent years, and if Government wants to see development revive, then some of the currently proposed regulatory burden may need to be re-considered..
- ***Improve the planning system:*** Government should expedite its programme to simplify both the national planning policy framework and the secondary legislation for the processing of planning applications. This would provide a clearer policy

framework for a more positive approach to development management and reduce unnecessary complexity and burdens for all parties engaged in the process. An urgent priority in this regard should be to take forward the recommendations on improving the planning process that have come out of the Killian Pretty review.

Conclusion

This is a challenging and ambitious programme of work, particularly at a time when the economic conditions are so unfavourable and Government finances are straitened. However, the 2020 target of access to a decent home for all is essential and must be attained. The Government, and all engaged in the housing industry, must reaffirm our commitment to the vision set out in 2007. The economic and social costs of failing to act are too profound to ignore.