

## Briefing: House of Lords Debate on ‘Residential construction sector, modern methods of construction, and the steps being taken to boost housing supply’

Shelter is the UK’s largest housing and homelessness charity. Last year we gave information, support and advice to millions of people experiencing bad housing and homelessness.

Today in England we face a national housing emergency driven by a long-term failure to build enough homes, and particularly enough social homes. A steep decline in social housebuilding has contributed to huge increases in private renting, rising homelessness and escalating house prices. At the same time the government is spending billions of pounds on housing benefit and councils are spending hundreds of millions on temporary accommodation for homeless households.

This is why Shelter is calling on the government to make an **ambitious, long-term commitment to building social housing**. This would not only be a more efficient use of public funds in the long-run, but would also provide many with the affordable, secure housing they currently have no chance of accessing.

A major programme of social housing can be the foundation of a successful housing market, supporting much needed innovation in the construction sector. Our housebuilding system today is far too reliant on homes for market sale, for which demand is volatile and limited by affordability pressures. By contrast, the demand for social homes in many areas is virtually unlimited. **Building social housing at scale holds out the prospect of a stable order book for the construction industry, supporting predictability of demand for labour, skills and materials, as well as for Modern Methods of Construction.**

Sitting outside of our standard development model, an ambitious social housing programme could be the chance to both end our national housing emergency and develop a better, more robust and modern

### The national housing emergency

In England today, we are facing a national housing emergency, one driven by the failure of successive governments to build enough of the homes we need, and particularly enough homes for social rent. The impact of this failure is stark:

- Homeownership in England is now at its **lowest level for 30 years**. The percentage of homes that are owned has fallen from 71% a decade ago to 63% now.
- The average home in England in 2018 cost **eight times more** to buy than the average annual pay packet.
- More than **277,000 people in England are homeless**, including 123,000 children.
- **4,667 people are sleeping rough**, while a further 78,000 households are living in temporary accommodation.

To address all aspects of this crisis we urgently need to build more homes, a fact acknowledged by politicians from across the political spectrum. However, we must recognise that the challenge lies not only in how many new homes we deliver but also in the type of home.

In January 2019, Shelter’s Independent Commission on Social Housing delivered its final report: [Building for our future: A vision for social housing](#). Our commissioners – who represented a range of political views and life experiences – all agreed that the single biggest issue in social housing today is the lack of it. They advocated a generational shift in the delivery of social housing and the delivery of 3.1 million additional social homes over the course of the next 20 years.

This level of social housing delivery is possible. We know this because we’ve done it before: in the three and a half decades after the Second World War local authorities and housing

associations delivered **4.4 million** social homes at an average rate of more than **126,000 a year**. However, by 2017/18 we delivered just **6,463** new homes for social rent.

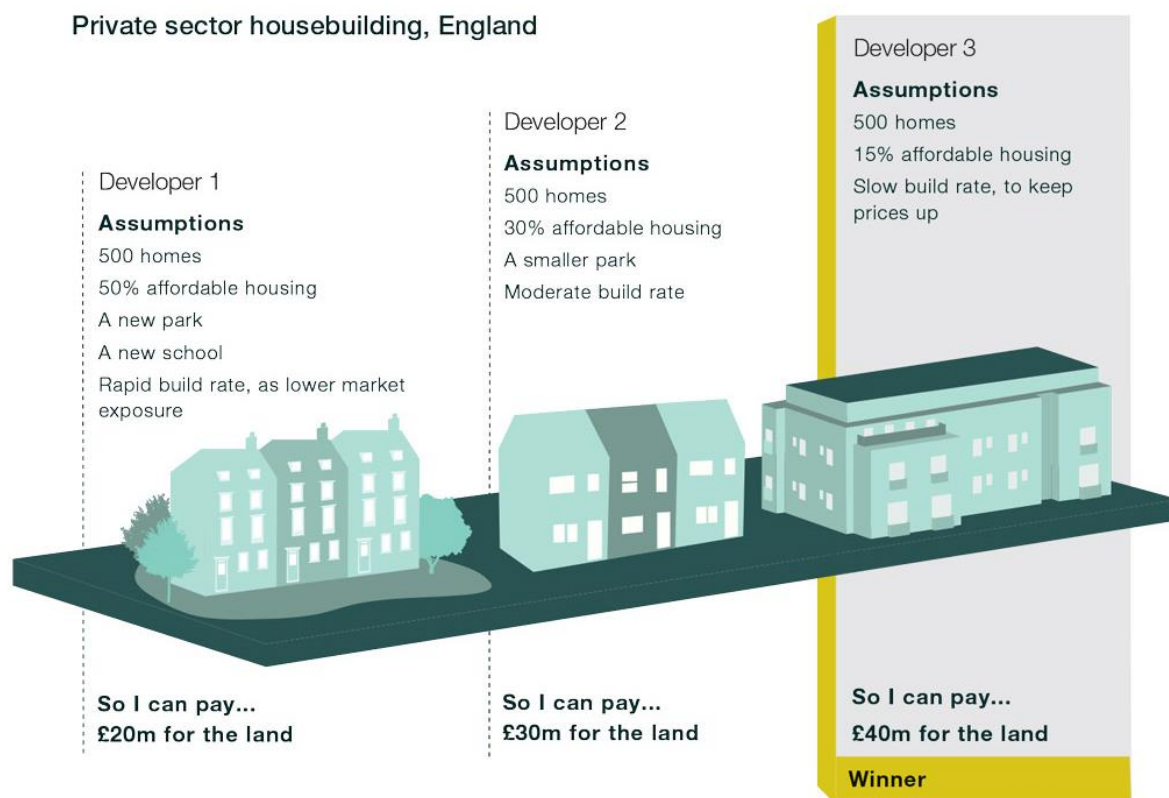
**This failure to deliver social homes over many decades has not only exacerbated our housing emergency. It has also removed a vital source of counter-cyclical housing supply that was once vital to support SMEs, enable innovation and the use of modern methods of construction and meet ambitious overall housing supply targets, such as the current government’s target for 300,000 annual net additions.**

Current housing and planning policies fail to break open the speculative development model or truly challenge the status quo of low supply, slow build out, high prices, instability and rising homelessness. Radical change through an ambitious new social housing programme, however, can do just that, by:

- Providing secure, high-quality homes affordable homes to those who cannot afford decent market housing;
- Expanding overall housing supply, because demand for social homes in much of the country is both virtually unlimited and separate from demand for market sale homes;
- Expanding capacity and productivity in the construction sector through modern methods of construction, by providing a secure flow of future orders large enough to encourage capital investment in new factories and machinery.

### The barrier of speculative development

There is now mounting evidence and a growing consensus across the political spectrum that the problems of unaffordable housing, slow build out rates, and lack of innovation are inherent in our speculative housebuilding system. Speculative housebuilding is also a barrier to embracing modern methods of construction, which benefit from less cyclical models.



In the speculative housebuilding system, developers compete against each other to pay the most for land by assuming house prices will remain at current unaffordable highs, which ratchets land prices upwards. In fact, land prices in England have doubled in the past five years.

Having taken on a large upfront risk, developers then need to recoup their investment and make profit, which strongly incentivises them to build for the top of local housing markets, building as slowly as necessary to maintain prices and squeezing costs by cutting corners wherever

possible.<sup>1</sup> The competitive nature of this model drives down quality, infrastructure provision and the levels of social and affordable housing delivered through the Section 106 system.

Private housebuilders cannot be expected to build so many homes that the price falls. To do so would be to undermine their own profitability. This is borne out in practice. Whenever sales prices have softened, even moderately, market housing starts have dropped rapidly, leading to abrupt retractions in the demand for skills and materials. In this situation, many construction workers simply leave the sector, never to return.

This system is incapable of supporting the government's target of 300,000 annual net additions. A survey of housebuilders in 2018 found that just 1% believe it will be possible to surpass the government's target of 300,000 annual net additions by 2022.<sup>2</sup>

**Similarly, the long-heralded shift to large scale off-site manufacture of housing has still yet to materialise, because the short-term speculative nature of the industry makes the expense and risk of investment in innovation unattractive.** Investors generally do not want to commit to factories which will be moth-balled at the first signs of the next housing market slowdown.

To break out of this cycle of low supply, slow build out rates, low productivity, low technical construction capacity and poor housing outcomes, government needs to do something different. **Investing in a major programme of social housebuilding, which sits outside the speculative housebuilding model, offers a tried and tested way to expand construction capacity, increase overall housing supply and meet the nation's housing needs.**

### **Social housing is the foundation of a modern housebuilding system**

In the 2018 interim report of his Review of Build Out, Sir Oliver Letwin MP identified that the major barrier to increasing the speed at which we build new homes is the absorption rate inherent in the speculative model. Social housing offers a way to avoid this barrier.

Sir Oliver himself has described the demand for new social rented homes as 'virtually unlimited' and observed that it is not constrained in the same way as market sale homes that are produced via the general speculative development model.<sup>3</sup>

In a mixed housebuilding system, the booms and busts of market supply are to some extent stabilised by social supply. As the seminal 'Farmer Review of the UK Construction Labour Model' found in 2016, a major programme of social housing – backed up by long-term finance - supports predictability of demand for labour, skills and materials,<sup>4</sup> resulting in a less risky operating environment for housebuilders, developers and planners.

**This is just what is needed to kick-start innovation: a major programme of public works, creating a secure flow of future orders large enough to encourage capital investment in new factories and machinery. Indeed, as part of his review Farmer recommended that government promote more pre-manufactured social housebuilding through Registered Providers and engage in direct commissioning of pre-manufactured housing.**<sup>5</sup>

Modern methods of construction need scale for potential cost benefits to be realised. Housebuilding which is restricted is unlikely to ever be able to provide this scale outside a few very high-demand locations. It is no coincidence that the last time that modern methods of construction made a major contribution to overall housing supply was when councils were commissioning large numbers of social rent homes, unaffected by market absorption barriers.

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<sup>1</sup> Shelter [Green Book: 50 years on](#), 2016

<sup>2</sup> Knight Frank, [Housebuilding Report 2018](#)

<sup>3</sup> Sir Oliver Letwin quoted in Inside Housing, '[Letwin: large sites take more than 15 years to build on average](#)', June 2018

<sup>4</sup> Farmer, M., [The Farmer Review of the UK Construction Labour Model](#), p.48

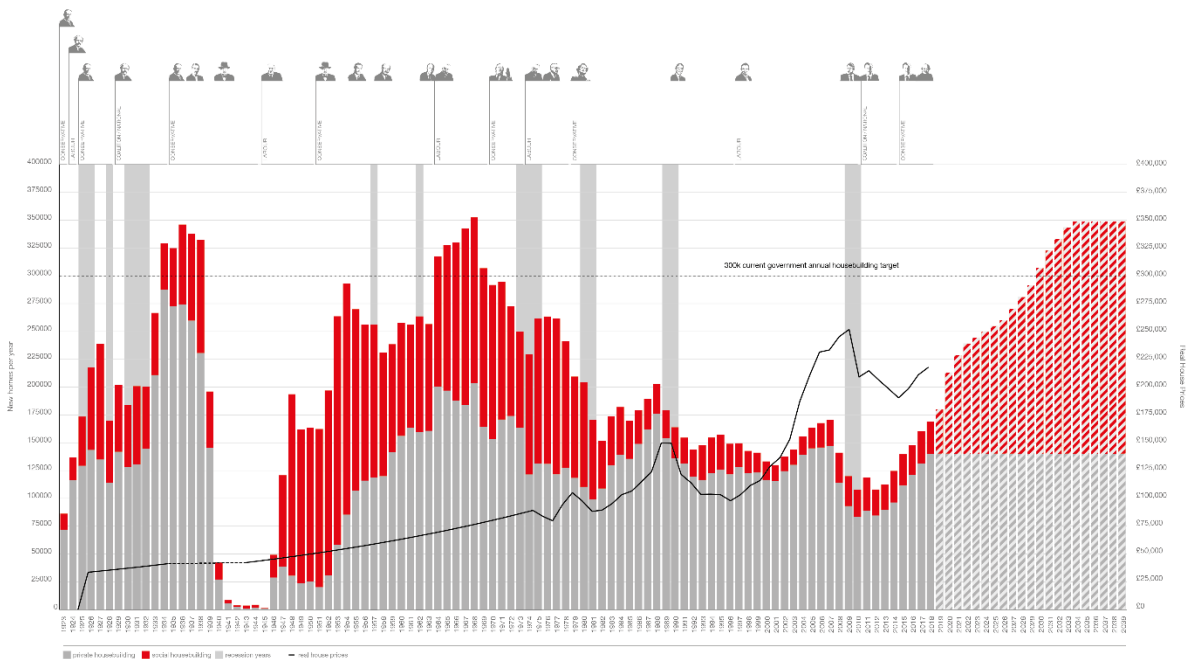
<sup>5</sup> *Ibid.*, p64

## Reaching 300,000 homes a year

Shelter supports the governments ambition to increase housing delivery to 300,000 a year, which underlines the importance being attached to solving our national housing emergency. However, the historical record demonstrates that England has only ever really built sufficient new homes when a large proportion of these have been for the social sector.

By investing in social housing again – as recommended by Shelter’s Social Housing Commission – the government could ensure that it meets its ambitious target, as well as supporting improvements in the construction industry in general, as both private developers and social housing providers would benefit from a secure supply of materials, skills and modern methods of construction.

Annual house building in England 1923-2039, including our modelled 20-year vision for social housing



## How we do it

Delivering a new generation of social homes is something that can only be achieved if the political will and support for change is in place. To deliver the change that is needed the government must:

- 1. Invest more money in social housing at the 2019 Spending Review:** The Spending Review is an opportunity for government to demonstrate it is serious about increasing social housing delivery to tackle our housing emergency and support improvements in how we build homes in England. The government should take this opportunity to make the biggest investment in funding for social housebuilding for a generation.
- 2. Reform England’s broken land market:** The speculative development model is built on a broken land market that ensures landowners get a premium price for their land at the expense of good quality, affordable development that benefits local communities. We can change this. Reforming the 1961 Land Compensation Act to change how we think about land prices and begin to ensure that land comes into development at a value that makes a better housing offer possible.

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