

Briefing: Backbench Business Debate on the British Housebuilding Industry

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, we face a national housing emergency. One that is driven by a long-term failure to build the social homes that this country desperately needs. For generations, social housing played a vital role in meeting the housing needs of ordinary people, giving millions the quality and dignity of life that insecure and unaffordable private renting could not. A steep decline in social housebuilding has contributed to an increase in homelessness and a huge increase in private renting as more and more cannot afford to buy a home. Government is currently spending billions of pounds a year on housing benefit, much of which goes to private landlords, and councils are spending hundreds of millions on temporary accommodation to house homeless households.

In recent years there has been an increase in housebuilding overall. However, social housing delivery remains at historically low levels and there is little reason to believe that our current housing model will deliver these homes.

This is why Shelter is campaigning for 3 million new social homes to be delivered over the next 20 years. To do this we must:

- Rediscover the purpose of social housing as a foundation of community, safety and stability;
- Increase the levels of grant funding made available for social housing providers;
- Reform England's broken land market so that land comes into development at a price that makes the delivery of quality, well-designed and affordable housing possible again.

Impact of the housing emergency

In England, we face a national housing emergency, one driven by a long-term failure to build enough homes, particularly enough social and affordable homes. The results of which are stark:

- There are 277,000 homeless people in England¹, including 83,700 homeless households living in temporary accommodation, including 61,700 families and more than 124,000 children.²
- Home ownership is in decline – the English Housing Survey shows that 63.5% of households owned their own homes in 2017/18, down from 68% a decade ago³. At the same time the average home in England costs eight times more than the average annual pay packet and the share of income that young families spend on housing has trebled over the last 50 years.
- Private renters spend on average 41% of their household income on rent⁴ and 800,000 people who are renting can't even afford to save just £10 a month⁵.
- 27% of private renters receive housing benefit or the housing element of Universal Credit; approximately 1,279,868 households⁶. The government currently spends £21 billion annually on housing benefit.⁷

In the context of this emergency it is positive to see that all political parties are committing to increase housebuilding and to resolving the housing emergency. However, building more homes is only one part of how this is done – we must also think about what we build.

¹ Shelter, Homelessness in Great Britain – the numbers behind the story, 2018

² MHCLG, Live tables on homelessness, Temporary accommodation, Table TA1

³ MHCLG, English Housing Survey, Headline Report, 2017-2018

⁴ ibid

⁵ Shelter, The case for living rent homes, 2017

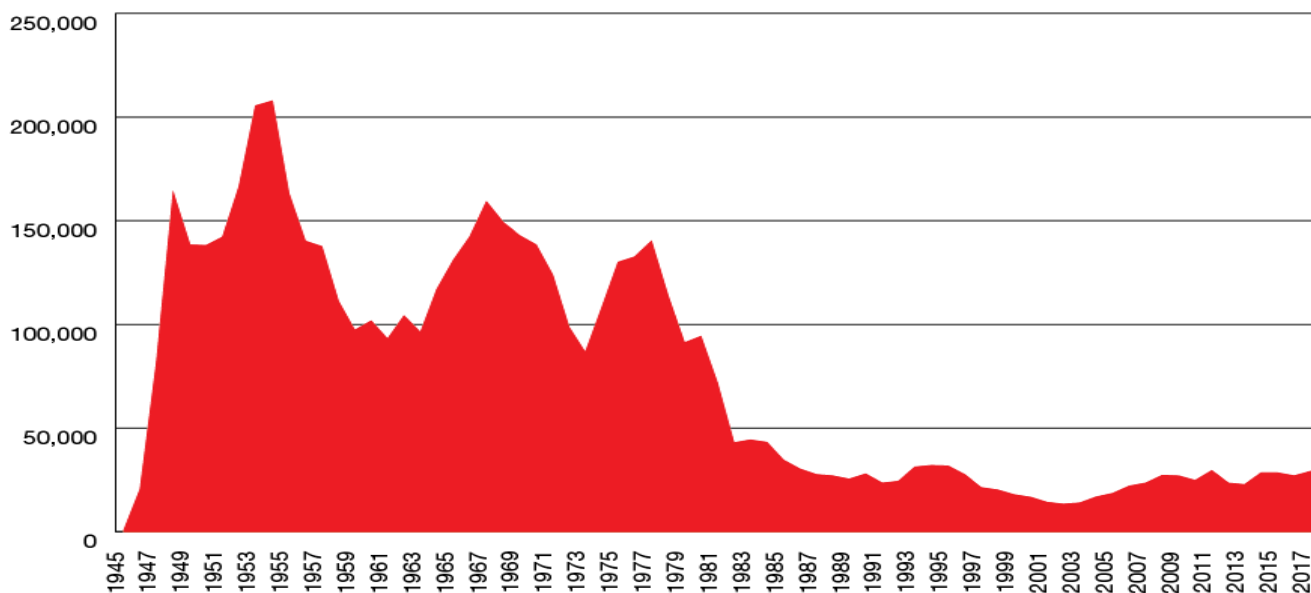
⁶ Office for National Statistics (ONS), UK Private Rented Sector, 2018

⁷ Office for Budget Responsibility (OBR): Economic and fiscal outlook, 2018

For too many of those in housing need the provision of more unaffordable market sale homes will make little or no difference. Only by building significantly more social housing will we be able to address the problems we face. As a product social housing is affordable in all parts of England and offers families the safety and stability they need to put down roots and to save. **Yet, in 2017/18 just 6, 434 new social homes were delivered in England, less than 3% of total housing delivery - despite 1.1 million people being on housing waiting lists.**⁸

This stands in stark comparison with the three and a half decades after the end of the Second World War, when local authorities and housing associations built 4.4 million social homes at an average rate of more than 126,000 a year.⁹

New build annual social housebuilding completions since 1945



This can change. And we can see past successes as a source of inspiration and learnings to encourage us that it is possible. Increasing the supply of social housing is the only way that the government will reach its 300,000 homes per year target – indeed, only when councils and housing associations were building at scale has this level of net additions ever been reached in the past.

To do this again though we have to move past our reliance only on the speculative housebuilding model of the private developers. There is, of course, a place for this model but we cannot and should not expect it to deliver the social homes we need – it is simply not set up to do this.

To solve our national housing emergency, we have to rediscover publicly led social housebuilding and all parties must commit to delivering 3 million, new social rent homes over the course of the next 20 years. A historic investment to ensure the delivery of a new generation of high-quality, affordable homes.

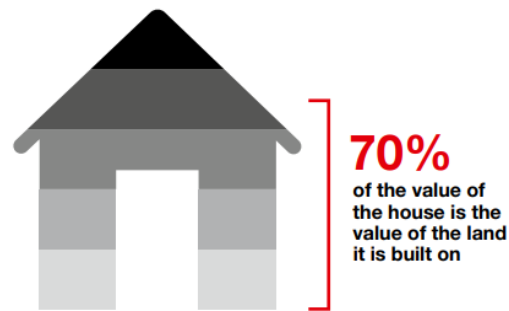
Limitations of Private Housebuilding in England

In England we currently rely on a speculative housebuilding model to deliver the vast majority of the homes we build. Under a speculative housebuilding model, developers compete against each other to buy land and – because land in the right places is finite – they are incentivised to pay high prices and outbid competitors.

⁸ MHCLG, Live tables on affordable housing supply, Affordable housing completions

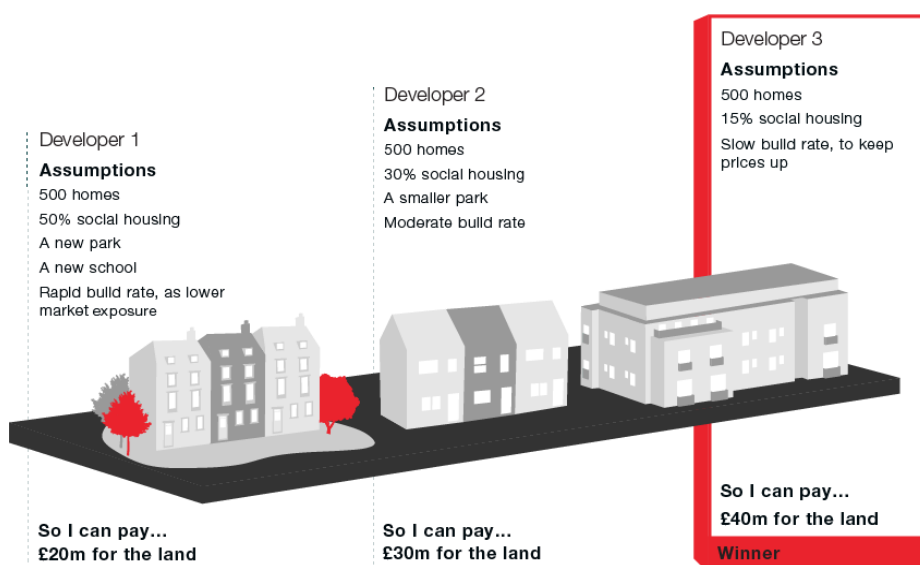
⁹ MHCLG, House building: permanent dwellings started and completed, by tenure, Live Table 244

The result of this aggressive bidding process is that the cost of acquiring land becomes by far the single biggest expense to a developer, and for every pound spent on that acquisition less becomes available for investment in design, placemaking, community infrastructure. In fact, the cost of land now makes up 70% of the overall cost of a home.¹⁰



This is not the fault of the landowner or the developer – they are operating under the conditions that the market has created. In addition, they are private companies who need to ensure the profit made on a development is enough to enable the development. This means they have no choice but to minimise costs elsewhere.

The high cost of land also then acts as a barrier to all but the largest private developers. A council, housing association or SME builder who want to deliver a different type of scheme - one using innovative design or with a high percentage of social housing - still have to compete in the same land market. This makes delivering great schemes increasingly difficult.



The development model also contributes to issues such as the slow pace of housebuilding. As the Letwin Review 2018 highlighted, in a speculative development model developers can only build homes as fast as they can sell them **without impacting local market prices**.¹¹ Having made an assumption on selling prices of homes when purchasing the land, the developer then cannot take steps that would impact these negatively – such as building too quickly.

However, as the Letwin Review also highlighted, non-market housing products do not suffer from this issue. In fact, when it comes to social housing the level of demand for the product is almost unlimited and delivering more of it would have no impact on market prices.¹² As such, schemes with higher levels of grant-funded social housing would build quicker and would boost housebuilding numbers overall. In many instances, innovations and new technologies have also thrived on the certainty of demand for social housing, creating new opportunities to expand development capacity. It is no coincidence that the last time that modern methods of construction made a major contribution to overall housing supply was when local authorities were commissioning large numbers of social homes.

¹⁰ Office for National Statistics, The UK national balance sheet: 2017 estimates, 2017, Figure 3 <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/nationalbalancesheet/2017estimates>

¹¹ Letwin. O, Independent review of build out: draft analysis also Letwin. O, Independent review of build out: final report

¹² Ibid

Increasing Social Housing Delivery

To address the housing emergency we face, we must look outside of the standard speculative development model and invest in a long-term programme of social housebuilding. Not as a replacement for private sector housebuilding, but as an addition. To enable such a we must take a number of steps.

1. Rediscover the purpose of social housing

How we think about social housing has changed dramatically over the years. Where in the past it was viewed as a basis for strong society and community it has increasingly come to be seen as an ‘ambulance service’, something for only those in the greatest need.

This change in purpose is reflected in the planning system. The National Planning Policy Framework (NPPF) definition of ‘affordable housing’ has broadened so that it now includes less affordable tenures such as shared ownership and ‘Affordable Rent’. Recent changes to the NPPF in July 2018 made it explicit that ‘low-cost’ homeownership schemes are to be prioritised over the social rent homes we need most urgently.¹³

While ‘Affordable Rent’ homes can meet the needs of some households in some parts of the country, overall Shelter does not believe these homes can be considered truly affordable. Social rent housing sets rents using a formula linked to local incomes, making social housing affordable by design. By contrast, rents in ‘Affordable Rent’ housing can be set at up to 80% of local market rents – themselves increasingly unaffordable in many areas of the country. ‘Affordable’ rents for typical two-bed properties work out at 36% more expensive than social rents, amounting to £1,737 per year more on average.¹⁴

If the government is to ensure the sustainable delivery of housing to meet the needs of low-income renters, the focus of new affordable housing supply must be switched back to social rent housing. In 1997/98, 75% of all affordable housing delivered in England was at social rent. In 2017/18, this had fallen to just 14%.¹⁵ To support this shift, the government must also set out that more social rent housing is needed and ensure it is planned for locally. **We therefore recommend the government tightens its definition of ‘affordable housing’. Affordability must be defined in terms of local people’s ability to afford their housing costs.**

Recognising that social housing has a value to all of society in building strong communities and providing families with the safety and stability they need is a vital first step in addressing our housing crisis.

2. Increase the available grant funding for social housing

To build homes for low-income households to rent, providers require grant. As a recent report from the Greater London Authority outlined, even if providers maximise every other available funding stream, asset and mechanism for delivering social housing, a gap remains.

At the beginning of the 1990s, grants covered around three quarters of the costs of building new sub-market homes, this fell to 39% after the financial crash.¹⁶ The 2011–15 Affordable Homes Programme gave no grant at all to social housing, and the current Shared Ownership and Affordable Homes Programme for 2016–21 was only expanded to provide some funding for social housing in some areas in June 2018. At the same time, the costs of building new homes have escalated, driven by rising land costs.

Grant rates have simply been too low for many social housing schemes to go ahead. In the absence of grant funding, social housing providers struggle to combine finance in ways that meet government and investor conditions, whilst also delivering the social housing people need. They have relied more heavily on other sources of finance, above all on borrowing.

¹³ MHCLG, National Planning Policy Framework, February 2019, Paragraph 64

¹⁴ Shelter analysis of MHCLG, Local authority housing statistics: year ending March 2018 and Regulator of Social Housing, Statistical Data Returns

¹⁵ MHCLG, Live tables on affordable housing supply, Affordable housing completions

¹⁶ J. Chaloner, A. Dreisin and M. Pragnell, Building New Social Rent Homes: An Economic Appraisal, 2015, p.11

The lifting of the cap on local authority borrowing under their Housing Revenue Accounts in 2018 was a welcome step. However, social rent homes cannot be built on borrowing alone. While grant does not generally need to be paid back, borrowing does, and that borrowing is generally secured against existing social homes and serviced by rents. The end result is the higher, often unaffordable rents characteristic of 'Affordable Rent' housing, which in turn require higher levels of ongoing expenditure on Housing Benefit.

Shelter has joined with the National Housing Association, Crisis, the Chartered Institute for Housing and the Campaign for Rural England to call for £12.8 billion of annual investment in social rent and other sub-market homes in England.

3. Reform England's broken land market

Access to land is a major constraint on social housebuilding.¹⁷ However, things weren't always this way. Social housebuilding in the post-war period benefited from legislation that decoupled its land costs from those prevailing for market housing. This stabilised the costs of developing social housing, providing a secure supply of affordable land on which truly affordable housing could be built.

This situation was phased out from 1959, and currently, the 1961 Land Compensation Act enshrines in law the right to 'hope value'. Put simply 'hope value' is the value that land *may* have *if* the land were ultimately used for a purpose for which it currently has no permission. In other words, it allows landowners to require they are compensated based on what they might one day have received consent to do with their land, with little regard to the reality of if that would ever come to fruition. **Essentially it means that land is priced according to the most profitable use to which it might ever have been put.**

As a result of this landowners have – over a number of years – developed unrealistic expectations about the value of their land. In addition, they have no incentive to sell their land or invest it into a scheme unless these unrealistic expectations are met. And this then means that good development that is characterised by affordability, good design and excellent local services is almost impossible to deliver.

Any organisation or group that did want to do development better would have to break through this financial barrier created by the 1961 Act. A council, mayor or community group wanting to build an ambitious new settlement in the style of Letchworth Garden City or the post-war New Towns would find themselves paying for land at a price which then made it impossible to deliver the scheme as planned – at least not without ever significant public subsidy. If they tried to Compulsory Purchase the land, they would be faced with a compensation bill based on the same unaffordable price.

Removing 'hope value' from the 1961 Act would change this and would send a clear market signal that land assembly is done on the basis of what is actually going to be delivered – rather than what might. This would enable a new generation of large-scale, strategic, developments with levels of social housing that reflect current need to be delivered.

These new schemes will also be financed not through increased taxation but by capturing more of the billions of pounds of land value windfall that is currently accrued by a small number of private landowners.¹⁸

Further reading

- *Building for our Future* – Report of Shelter's Independent Commission on Social Housing
- *Grounds for Change* – Collection of essays on the need for land reform in England collated by Shelter;
- *Learning from International examples of affordable housing* – Report compiled for Shelter by URBED Trust;
- *New Civic Housebuilding* – Shelter report on the speculative development model and the need for an additional housebuilding model in England.

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¹⁷ See Shelter response to the Housing, Communities and Local Government Select Committee Inquiry into Social Housing Delivery

¹⁸ See T. Aubrey; *Gathering the Windfall*