HOME BUILDERS FEDERATION

Submission

HOME BUILDERS FEDERATION SUBMISSION TO HM TREASURY BUDGET 2015

February 2015

The HBF is the principal trade association for private sector home builders in England and Wales and our members produce about 80% of the new homes built each year.

Contents

1. INTRODUCTION

The near consensus that has emerged in recent years around the social and economic consequences of the housing crisis has served to focus minds on the need greatly to expand the number of new homes being delivered.

Having finally overcome the immediate effects of the financial crisis which had long-lasting repercussions for the house building industry, we are now seeing a sustained period of

Home Builders Federation
HBF House, 27 Broadwall, London SE1 9PL
Tel: 0207 960 1600
Email: info@hbf.co.uk Website: www.hbf.co.uk Twitter: @HomeBuildersFed

strong growth in output and a rapid increase in the number of homes being granted planning permission.

The shock of the recession has taken considerable time to recover from and a long-term period of economic stability is now required by the industry. Providing economic and policy stability should be the Government's chief aim in its efforts to increase house building and ultimately tackle the housing crisis. On the demand-side, the Help to Buy Equity Loan scheme has hastened the return to normality within the mortgage market and helped make new homes more affordable to households without very large deposits. Help to Buy Equity Loan has proven to be an unmitigated success with close to 35,000 sales in 18 months but delving deeper into those sales tells an even better story: it has proven most popular in areas outside of London where house prices are lower; almost 85 per cent of purchasers are first-time buyers; 1200 builders have signed up, most of which are small and medium-sized enterprises; and the average sale price has remained around the £200,000 mark.

Help to Buy Equity Loan has successfully released demand that had been there for some time and if buyers can buy, builders will build so supply is now increasing. We therefore very warmly welcomed the Chancellor's announcement earlier this year of an extension of the Help to Buy Equity Loan scheme until the end of the decade. House builders are already reporting that this increased assurance has allowed them to maintain high levels of investment in land, labour and skills.

We have also supported the move by the Bank of England to decouple the housing market from financial policy. Along with the Mortgage Market Review (MMR) this has created a brake in the system which has boosted confidence in the longer-term outlook for lending to homebuyers.

On the supply-side, since its introduction in 2012, the National Planning Policy Framework (NPPF) is already beginning to show signs of success. Even during the relatively short period of time it has been in place, it is clear that the NPPF has had a positive effect on the number of homes progressing through the planning system. More time is now needed to monitor its impact but while there remain some improvements to certain aspects that could improve its effectiveness, there is now universal agreement that the framework is sound.

This improved market conditions has led to the steepest growth in housing starts for 40 years but in spite of these positive developments, housing need continues to outstrip supply and the environment is still too difficult for start-ups to emerge and many small firms to expand. Our submission for consideration at the Budget 2015 is intended to explore how working with industry the government could achieve our shared aim of boosting housing supply to meet the needs of the country.

2. MAXIMISING OUTPUT FROM THE PRIVATE SECTOR

There is more that could still be done to help achieve a genuine step-change in house building over the longer-term. Beyond the immediate period in which the benefits of the NPPF allied to the positive impact on mortgage availability and demand that Help to Buy Equity Loan have had, the long-term ambition to achieve sustained increases in the number of new homes built each year will require new ideas.

Broadly, there are two options for how to transform housing delivery in the long-term. The additional 100,000 homes needed per year for a sustained period could come largely from the social sector or from private house builders. A major increase in output from the local authorities and/or housing associations could be supported through increased public investment or reclassification of debt and other changes to borrowing powers. Clearly, this would involve significant commitment from the Exchequer but would have the benefit (for local and central government) of being entirely under the control of the public sector.

The alternative is to bring about a significant increase in private sector housing delivery which should be an attractive proposition because as well as requiring no impact on the public purse it also provides a proportion of affordable homes as well as other benefits. As noted above, the NPPF has boosted the supply of land for housing and the Help to Buy Equity Loan scheme has unlocked the mortgage market for first-time buyers and others to realise demand. Going further will require either (or most likely both) an increase in the output of large house building companies currently responsible for the majority of new build homes, and growth in the number of smaller firms building up to 50 homes per year.

As sales-led private companies, a substantial increase in output from house builders will generally require a reduction in the level of risk associated with development. Improving the business environment for house builders in these terms could be done in a number of ways. We explore some of these in the appended discussion paper, *Measures to increase private housing completions*. The paper sets out further reforms for consideration alongside the long-term stability and continuation of positive actions introduced in the recent period which are vital. Its analysis and conclusions are founded on two simple laws of private house building: first, private housing production is sales led; and second, all else being equal, sales are a function of the number of sales outlets.

The paper explores suggestions as to how build-out rates on very large sites could be maximised, fresh thinking about broadening the tenure focus and the range of markets being catered for, a more creative approach to the provision of affordable housing and how private and public sectors can work together more effectively through Joint Ventures.

3. A QUICKER, MORE BUSINESS-FRIENDLY PLANNING PROCESS

End-to-end planning process

We were pleased to see that several of HBF's suggestions submitted to the Chancellor in summer 2013 on how to improve the end-to-end planning process were included in announcements made at the Autumn Statement and we continue to work with officials on the detail underpinning these measures. This includes how best to ensure that the principle of development need only be established once and how to most effectively streamline Section 106 negotiations.

Successful implementation of these measures will bring particular benefits for small and medium-sized house builders for whom development finance is a greater concern. For smaller developers, available finance can often be tied up in a single development. Decreasing the time taken to get from the start of the planning process to the end allows these local and regional house builders to re-invest in more land and increase annual output.

Local Planning Authority resources

Pressure on local government finance is already limiting the ability of house builders to secure a decision on planning applications and slowing the speed at which successful applicants can get on site and start building.

The monopolistic position that planning authorities occupy combined with other factors such as reduced funding and increased pressures on other statutory services, means that in the current climate the productive inefficiency that is a feature of almost all monopoly markets is now an inevitable fact of life for house builders

This is only likely to worsen as house builders work to meet the demands for more new housing while local authority budgets come under increased pressure. Simply imposing higher fees on developers, with no corresponding improvement in service across the board, is not the answer. Some other alternatives proffered by the local government sector involve the provision of an enhanced services for some applicants but are likely to divert resources away from other applicants which does little to increase the overall efficiency of the service or the number of homes permissioned.

Options for how to address this concern may include ring-fencing of planning fees or the creation of a robust financial incentive predicated on service levels. Opportunities for outsourcing certain planning-related local authority legal and planning services should be explored more thoroughly to inject an element of competition into the process. This could help to refocus the system on driving improvements in efficiency and allow the industry and local communities to establish the requirements for timescales and costs.

4. REMOVING BLOCKAGES IN THE PLANNING SYSTEM

Unintended consequences of 6th April cut-off for non-CIL infrastructure charges

One potentially very serious impact on the supply of new homes comes as a result of an unintended consequence arising from the Community Infrastructure Levy (CIL) Regulations, specifically the target date of 6th April 2015 for local authorities to have charging schedules in operation. Beyond that period, planning authorities without a CIL charging schedule in operation cannot pool more than five planning obligations for types of infrastructure or specific infrastructure projects. Once the limit of five has been reached the planning authority will be unable to take account of any further obligations in determining planning applications and thus may choose to refuse planning permission on the basis of the impact of the development on infrastructure which cannot be mitigated by the developer through S106 obligations.

We estimate that in spite of warnings and an extension to the original deadline of April 2014, only approximately 25% of local authorities will have an adopted CIL charging schedule in place by the 6th April this year.

Responsible house builders are strongly committed to ensuring that developments provide for necessary infrastructure improvements but the original expectation was that the cut-off period would focus councils on introducing a CIL charging schedule in line with the regulations that came into force in 2010. From our monitoring statistics it is clear that this has not happened. Further, commercial considerations and contracts with landowners to achieve “best value” would prevent the use of obligations that were not part of the decision making process to overcome this problem.

The industry would welcome Government’s urgent action in helping to resolve the issue which has the potential to result in a fall in housing starts in the coming months as permissions fail to be granted because of this restriction within the CIL regulations. We recommend that this action forms part of a wider review of the operation of CIL which we consider is not fulfilling its original objectives; namely to provide a fairer, faster and more transparent system than Section 106 agreements.

Strengthen the NPPF to provide a greater mix of housing sites

The introduction of the NPPF has substantially improved the availability of land for housing but further improvements within the overall framework would help build towards the delivery of the number of homes the country actually needs. In this respect, we recommend two areas for action be considered to strengthen the NPPF. In particular we believe that these changes would bring considerable benefits to small and medium-sized house builders. Since 1988, the number of developers building up to 100 homes per year has fallen by 78%. It is extremely important that there is a diverse range of house builders operating within the industry. Greater pluralism does not just benefit homebuyers by increasing the range of products on offer it helps to insulate the market from external shocks and boost overall industry capacity.

Proposals to strengthen the NPPF

1) Under the plan-led system, it is an essential requirement that authorities objectively assess the likely level of housing need for their area and account for a detailed five-year supply of land to meet the need locally. Too frequently, local authorities tend to treat a five year supply (plus buffer) as a maximum rather than a minimum threshold. Estimates of housing requirements should also be treated as a minimum requirement if local authorities are fully to plan for the needs of communities. To maximise housing delivery, **Local Plan allocations should include an additional 'implementation gap' allowance**, over and above the estimated housing need because inevitably not all allocated sites will be developable within the five year period concerned.

2) As discussed in the paper included as an appendix to this submission, we would advocate strengthening the relevant paragraphs of the NPPF to **provide a greater mix of sites within Local Plans**. By giving consideration to ensuring a suitable blend of sites according to size, location and market, authorities could allocate an ample supply of deliverable sites that meet the needs of a wide range of households whilst supporting the small and medium-sized house builders whose activities are so beneficial for local economies. For political and logistical reasons, it can be attractive to planning authorities to focus development in one or two areas through the release of very large sites in Local Plans. For the reasons discussed in the appended paper natural build rates and sales rates will then affect the speed with which new homes can be delivered. We believe that this improvement to Local Plans could be achieved without excessive prescription instead through consideration of incentives for local authorities to take this approach when allocating land in Plans.

5. A FAIR FISCAL ENVIRONMENT TO PROMOTE INVESTMENT

End double-taxation on land sales

The perpetuation of double taxation on land sales continues to penalise new developments and make marginal residential sites less likely to be built. The inclusion of VAT on the land value that qualifies for payment of Stamp Duty Land Tax (SDLT), so that SDLT is levied on the VAT, is grossly unfair and has an impact on the viability of prospective developments, particularly in circumstances where the viability of the project is marginal.

Avoid the negative consequences of discouraging investment in new housing

Measures announced in recent Budget statements aimed at levelling the playing field between overseas buyers of new homes and domestic buyers have been successful in achieving their aims. Furthermore, in relation to the London market, the HBF members' Voluntary Commitment on Marketing and the subsequent Mayoral Concordat has provided transparency and given domestic buyers of new homes in the capital equal or greater chance to purchase a property compared with those buying overseas.

Further intervention to penalise, tax or generally discourage investment from abroad would prove counter-productive. The scale and nature of some residential construction schemes, particularly in central London, means that investment is needed early on in the project in order to finance the development. With owner-occupier buyers typically only able to secure a mortgage offer that is valid for six months, finance can often be reliant on those able to provide funding without a mortgage and these buyers tend to be households (either UK-based or based abroad) who are in a position to pay with cash or investors in private rented homes (again, either UK based or overseas).

Instead of discouraging the investment in new house building that leads to the construction of thousands of new homes of all tenures, including a significant number of affordable homes, the industry is interested in working with government and mortgage lenders on the action necessary for banks and building societies to make longer-term mortgage offers for buyers purchasing new build homes.

6. MAKE BETTER USE OF PUBLIC LAND

Make development on public land more competitive to increase overall supply and generate returns for taxpayers

We welcome the transfer of powers to the Homes and Communities Agency (HCA), to act as a single channel for the disposal of the vast majority of surplus central government land. As it is incentivised to conduct its business efficiently and with a clearer remit we anticipate an improvement in the way the Agency disposes of public land operates. We are already working with the HCA to put forward ideas on how to improve the system and ultimately reducing the complexity and cost that is too often associated with acquiring public land for residential development.

While there is still a long way to go in making enough land available to meet the housing needs of a growing population, the introduction of the NPPF has improved the environment and the HCA, along with other organisations such as local authorities, must understand that they are sellers in a wider marketplace for land so imposing restrictions which add to the costs and risks already evident in that market make the product less attractive.

Whilst there is a clear sense that the HCA is focused on improving its processes and becoming more efficient to generate returns and meet Government's target to build 150,000 homes on surplus public sector land between 2015 and 2020, the next challenge will be to consider how local authorities could bring forward more of their own sites to meet the housing needs of their residents.

7. A SKILLED WORKFORCE TO BUILD TOMORROW'S COMMUNITIES

The industry must address the skills required to increase output. Recognising that this is a challenge to which the solutions are best dealt with by the industry, the HBF is leading the sector's work on addressing the current shortage of skills and going further to generate interest in house building amongst younger people.

Our strategy includes a positive image campaign, better engagement with the education sector and developing tailored training and qualifications. HBF is currently working with members to develop new industry-wide ways to recruit and train more entrants to the trades and professions, including the recruitment of experienced workers with relevant skills and knowledge as well as more young people entering the workforce for the first time.

While the onus is on the industry to work positively on such initiatives, it is vital that they are properly supported by Government and other bodies where appropriate. In particular, our strategy requires both the Construction Industry Training Board (CITB) and Government (BIS) to take a fresh look at identifying the best structure and form of funding support to enable companies to maximise their own investment in new talent to meet industry requirements. We would recommend a joint commitment between HBF and Government to discuss and agree a future investment strategy for house building skills that would seek to identify and bring together clear funding streams to deliver identified industry requirements.

8. MORE HOUSING FOR OLDER PEOPLE TO BRING WIDER SOCIAL BENEFITS

The prospects for first-time buyers and especially buyers of family homes would be given a considerable boost through the introduction of a targeted measure to promote and incentivise downsizing amongst the older population. The most obvious avenue for this would be to consider some form of Stamp Duty relief for older people downsizing and freeing up larger family homes.

The reforms to the Stamp Duty Land Tax regime announced by the Chancellor at the Autumn Statement in December 2014 were welcome in eliminating the perverse effects of the cliff-edges at each Stamp Duty threshold, particularly around the £250,000 threshold which is evidently relevant in particular to first-time buyers.

Previous research conducted by the think tank, Demos found that one in four over 60s would be interested in purchasing a retirement property but current availability is extremely limited. The introduction of Stamp Duty incentives for older people could vitalise this market and bring wider benefits to society, particularly in light of rising demands on social care services for older people.

We are aware the Government is giving further consideration to measures that might be taken in the light of the research it has itself commissioned from Demos. It is important that the industry can work with Government to develop a comprehensive set of policies and incentives on both the supply and demand side to encourage and enable a better supply of housing to meet the range of requirements that older people have.

David O'Leary

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david.oleary@hbf.co.uk

020 7960 1612

APPENDIX

Measures to increase private housing completions

An HBF Discussion Paper

February 2015

1. The key to increased private housing supply is more sales outlets, from sites of all sizes and in the widest possible range of market locations, thus allowing home builders to offer the widest possible range of products to meet the broadest range of market and other demand.

Setting the scene

2. Two laws of private home building are relevant to the following discussion:

   First, private housing production is sales led;

   Second, all else being equal, sales are a function of the number of sales outlets.

3. The first law means that private home builders can only build if they have funded customers to sell to. These can include owner occupiers, small-scale private investors, corporate or institutional investors, affordable housing providers such as housing associations (e.g. for S106 units), custom builders, local or central government. Sales may be ordinary, plot-by-plot market sales, or they can be bulk sales, such as to a housing association or a large investor.

4. The second law means that market sales are a function of the number of sales outlets and not just the number of sites (a large site can have more than one sales outlet) or the total area of permissioned land. All else being equal, we would expect more market sales (and production) over any given period from 10 sites of 100 units than from 2 sites of 500 units or one site of 1000 units. Sales from a single outlet will be influenced by external factors – e.g. sales may rise because the housing market becomes more buoyant. However “all else being equal” means that, aside from such external influences over which the home builder has little or no control, if a home builder wishes to increase annual sales and production by, say, 10%, it will require roughly 10% more sales outlets. In other

words, a house builder cannot simply decide to build and sell 10% more homes from existing sales outlets[1], all else being equal.

5. The rate of ordinary market sales per outlet per time period will be dependent on local market conditions: the size of the local market and types of demand, the types of products offered by the home builder and their prices, the local market's capacity to absorb additional dwellings for private sale, the number of new home competitors, etc. The rate of sale from an outlet will clearly also be dependent on wider economic and market conditions, interest rates, the availability of mortgages, etc. Since April 2013, the rate of sales has been heavily influenced by the Help to Buy Equity Loan (HtB1) scheme. This external intervention significantly increased the number of customers for new homes. Bulk sales will be driven by different influences, such as the requirements of a S106 agreement or an investor's requirements.

6. However the second law needs to be qualified, in that beyond a certain rate of sales (and production) other constraints will kick in. Depending on the type of building (houses, flats in small blocks, flats in large blocks, etc.), at some point building capacity constraints will limit the house builder's ability to increase production on a site. If this happens before the site's sales potential has been exhausted, it will limit the rate of sales. In addition, most mortgage offers are for six months. Therefore a house builder will find it difficult to sell properties scheduled for physical completion much beyond six months to customers requiring a mortgage as the buyer's mortgage offer will expire before legal completion can take place. The HtB1 scheme imposes a similar constraint: the HCA allows no more than six months between exchange of contracts and legal completion, which means that buyers cannot exchange contracts on properties scheduled for physical completion beyond six months.

7. House builders with large sites will often open multiple outlets, or sell phases to competitors who open additional outlets, so that the number of sales from a large site can be increased. However there are likely to be diminishing returns, such that beyond perhaps four or five outlets, sales per outlet will decline as yet more outlets are opened.

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[1] A frequent accusation is that house builders control the rate of sales and production on a site "to protect their profit margin". This is quite true, but not for any sinister reason. House builders are price takers, in that the prices they will charge on a site will be determined by prices in the local market. If a house builder tried to factor in lower prices than in the local market into their land purchase bid they would not be able to compete against other bidders factoring in local market prices. Once a site is purchased, the land value becomes a fixed cost and there is very little an efficient builder can do to cut other costs during production (e.g. build, infrastructure, fees, etc.). Therefore the only flexible element on a site already under production is the profit margin. Assuming constant market conditions, if the house builder were to cut sales prices, more homes could be sold. However the drop in revenue from lower sales prices would have to be absorbed by a lower profit margin. If this was done persistently, the company would go out of business. So protecting profit margins is another way of saying that companies stay in business.

8. The rest of this paper looks at measures that could be taken by local planning authorities and house builders to increase the supply of new homes, given the fundamental conditions outlined above. It does not address wider macro-economic issues, nor the supply of mortgage finance. These have an enormous influence on new home sales, and therefore supply. However they are external influences, outside the control of the industry. This paper is focused on practical measures that are largely within the control of the industry or local planning authorities.

Government demand products accelerate housing supply

9. The continuation of HtB1 at least until 2020 is an absolutely essential ingredient in boosting housing supply. It has allowed many thousands of buyers to buy who would not otherwise have been able to bridge the deposit gap and/or afford a home at full market price, and it matches this increased demand with increased supply. The scheme has accelerated delivery beyond what would have been possible if we had relied solely on unassisted open-market demand and mortgage availability.

10. The Starter Homes scheme should offer another opportunity to boost demand, and so supply.

Local Plans could facilitate more home building

11. Under our plan-led system, the first, essential requirement for land and housing supply is that every local authority must have an adopted Local Plan, based on objectively assessed housing need, along with a properly researched five-year supply of land that is updated annually. At present only about 40% of local authorities have a Local Plan that has been declared sound or adopted post-NPPF

12. The second law of private home building - all else being equal, sales are a function of the number of outlets – means that the industry's ability to sell, and therefore build homes, is heavily influenced by the number and nature (e.g. size) of sites granted planning permission, and their location in relation to market demand.

13. The planning system has a tendency to release a few large sites, often concentrated in a few principle urban areas. This means housing sales and production are lower than would be possible if there had been a wider range of sites, of all sizes, in as many locations as possible, with products to meet the needs of different segments of market demand. Local Plans should therefore be required to ensure permission is granted for sites of all sizes in as many local markets as possible.

14. To achieve this the relevant paragraphs of the NPPF need to be strengthened. Paragraph 47 refers to providing deliverable sites "to ensure choice and competition in the market for land", while Paragraph 50 refers to providing "a mix of housing" to meet different current and future needs. There needs to be a clear link made between providing a wide mix of sites (location, size, markets, etc.) to enable house builders to provide the widest possible mix of housing, for the widest possible range of markets, and so increase overall housing supply.

15. There is a great deal of concern about the massive fall in small and medium-sized home builders (SMEs) over the last 25 years – from 12,200 in 1988 to 2,700 in 2013. Ensuring there are as many site opportunities as possible, including smaller sites, in as many locations as possible, will automatically help stimulate activity by SME house builders.

16. To ensure housing delivery is maximised, Local Plan allocations should include an additional 'implementation gap' allowance, over and above estimates of housing requirements, given that not all allocated sites will be developed, or developed in the anticipated time. In addition, Local Plan estimates of housing requirements should be treated as a minimum, not a maximum (as is often the case now), so that allocations should also contain an additional 20% 'buffer' to accommodate home building beyond estimated requirements. (Barker recommended additional provision for both an 'implementation gap' plus a 20-40% 'buffer.) To achieve, say, 200,000 annual housing completions (e.g. 150-160,000 private, 40-50,000 affordable) probably requires something like 250,000 permissioned plots across all local planning authorities.

Meeting the widest range of housing requirements to maximise housing supply

17. The first law of private home building - that production is sales led – means that to boost private housing supply home builders need to offer the widest possible range of products to meet the broadest range of market and other demand: from those requiring subsidised Affordable Housing, through very cash-strapped open-market buyers (including first-time buyers), across the usual range of housing for couples and families able to buy unassisted across all price ranges, into the enormous potential trade-down market created by the retiring baby-boomer generation[2], through to purpose-built retirement housing.

18. As noted above, part of the solution is to ensure Local Plans allow the widest range of sites, of all sizes, in all local markets, so that as many companies as

[2] Not only will the population bulge of post-war baby boomers swell retirement numbers over the next 10-20 years, but because this group – which is now in the pre and early retirement age groups – has very high rates of home ownership, the number of owner-occupier baby boomers will show enormous growth.

possible can offer the broadest possible range of products and locations, and thus maximise sales and production, with SMEs benefitting in particular.

Exploiting new market opportunities to expand housing supply

19. Are there new, largely untapped markets for new housing that could enable home builders to boost annual production, provided of course the supply of permissioned, viable land increased accordingly? As noted above, there may be a very large unmet need for empty-nester trade-down homes. Research has shown that a key reason for not moving out of a large family home is the lack of satisfactory housing. Empty nesters will be looking for good quality housing, with plenty of living space, but perhaps fewer bedrooms, in good locations, possibly across a wider area than was possible when they were still working and so had to be within easy access of the workplace. If house builders could continue to offer the range of products they currently offer, but add to this products for the empty-nester market, this should boost overall supply, provided suitable permissioned sites are available.

20. There may be other market segments which are as yet untapped to their full potential and which could help boost supply.

Maximising build-out rates on large sites

21. On large sites house builders will tend to focus on the lower-middle ranges of the house price distribution, effectively the mass market. This tends to leave the lowest priced market housing, and the long tail of more expensive and specialist housing, to other players.

22. So we need to consider whether there are ways to speed up production on larger sites (say over 600 units) without financial damage to larger developers.

23. As noted above, one way to increase the build-out rate of large sites is to open up new outlets, whether this is done by the primary developer or via sales of phases to competitors. One option might be to release later phases to SMEs to build housing that doesn't compete with the products offered by the primary developer and in a way that is not financially detrimental to the primary developer. It might also be possible to design some form of planning or financial incentive to persuade house builders to release later phases earlier.

24. It is striking that a recent NHBC Foundation study of SMEs concluded:

    > "a good proportion of small builders and developers (32%) will consider opportunities for building alongside volume builders on larger sites, and some were recognising benefits of working in this way."

25. However in the context of whether SMEs would wish to bid for public sector land, the report also commented:

> "though most (74%) small builders and developers prefer to build on small stand-alone plots".

26. The difference between these two apparently inconsistent comments is probably between "will consider" and "prefer".

More creative approaches to Affordable Housing (AH) could boost supply

27. One constraint on the build-out rate of sites is pepper potting of AH. While it is seen as producing a desirable social mix, an unintended downside is slower production.

28. One way to increase AH output would be for local authorities to be more flexible in the products they demand from S106 agreements, most of which are nil-grant. Social rented housing requires a very high land-value subsidy per unit. Allowing shared equity or discounted market sale, for example, would achieve more units for any given level of land-value subsidy.

29. Given that is a certain quantity of land-value subsidy is required from a S106 agreement, the private sector should be able to offer some forms of AH without state subsidy and without involving a housing association. As noted above, this might include discounted market sale and shared equity. It is quite possible house builders could produce substantially more units for any given level of land-value subsidy using such private AH schemes than would be possible with social rented, affordable rent or shared-ownership housing.

Private rented housing could boost supply

30. Most home builders will not become direct investors. The cost of capital for a developer is too high, and the returns from PRS housing too low; house builders are experts at developing, not managing housing; and by locking up capital in long-term PRS investments they would reduce housing development, the opposite of what we want to achieve.

31. Some companies, though very few of the Majors, are building for the PRS using the Government's Build to Rent fund and/or its Guarantee scheme for long-term PRS finance. The key problem in solving the quest for institutional investment is that it seems to be extremely difficult, if not impossible, to buy land competitively against developers buying to develop for market sale, achieve a developer margin

(though reduced because there is a guaranteed bulk buyer) and sell to an institutional investor at a price that allows the investor to achieve an institutional yield, without some special measure – e.g. waiving all Affordable Housing requirements, or a local authority putting the land into a scheme as a patient long-term investor. The yield sought by an institution is a function of rents and capital values. Rents are closely tied to earnings/incomes (whereas housing capital values have a much more elastic relationship to incomes). Therefore increasing the rental yield requires reducing the capital value. A house builder will usually not be willing to do this by offering a sizeable discount – effectively a sharp cut in profit margin. Therefore capital values have to be reduced in other ways.

32. It looks as though the solution will often have to be found by institutions themselves, commissioning architects, contractors and managing agents, but excluding mainstream housing developers. This is unfortunate because the institutions are looking for purpose built new homes, at scale, which should be a valuable opportunity for home builders.

33. However it may be possible for private developers with large sites to develop later phases for institutional investors that provide an adequate institutional yield and do not damage the financial viability of the overall development.

34. Regeneration sites may also offer opportunities. Where the land value is very low or nil, an early phase developed for the PRS, which will probably allow development and occupation more quickly than would be possible from open-market sales, could help boost residential values in the area and increase the financial viability of later open-market phases. I.e. using a PRS phase to kick start a regeneration project.

35. Planning could help. A special planning use class is not the answer and is opposed by PRS investors. However local planning authorities, by taking a more proactive approach to the provision of PRS housing in their area, could help home builders make projects work financially, and so accelerate delivery on larger housing sites.

JVs with land owners allow companies to increase supply

36. If a land owner, public or private, puts the land into a scheme on some sort of deferred payment method, this would seem to open up more housing opportunities? Some home builders may be prepared to grow more with such arrangements than they would from the normal business model where land is bought up front. Such JVs reduce the capital required by the developer and change the ROCE calculation. This would seem to be an especially fertile area to explore with public-sector land owners, given the Government's focus on increasing housing supply.

37. The industry could work with local authorities and other public sector land owners, whether directly or via the HCA, to encourage a more flexible and longer-term approach to the use of public-sector land.

Reform of the end-to-end planning application process would boost supply

38. The reforms HBF has proposed in July 2014, while designed to simplify and speed up the planning application process, should also increase the supply of new housing. In particular, only having to establish the principle of development once, and re-establishing ‘red line’ permissions, would encourage SMEs to apply for more planning permissions and should therefore increase SME output – though only if the planning system increases the supply of permissioned smaller sites accordingly.

Conclusion

39. None of the measures discussed above provides a magic bullet. However they offer a range of options which, taken together, could have a material impact on the supply of new housing. Some require consideration by the industry on its own, some require changes to planning, while others require cooperation between house builders and public sector bodies such as local authorities or public-sector land owners.