



THE HOUSE BUILDERS FEDERATION



BUILDING SUCCESS
THE ECONOMIC ROLE OF NEW HOUSING IN WALES

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Image courtesy of Westbury Homes

EXECUTIVE SUMMARY

A successful Wales depends on the successful provision of new housing.

Providing sufficient new housing of the right type in the right places at the right time is critical to the achievement of the Welsh Assembly's ambitious objective of significantly improving Welsh per capita GDP and its vision of everyone having the opportunity to live in good quality housing.

Many of the conditions which led to the current housing crisis in England are present in Wales. Wales needs to act now therefore to avoid facing a housing crisis in future.

Particular issues are:

- Wales has the oldest housing stock of any Western European nation
- A comparatively high proportion of the stock is in poor condition
- At current rates of demolition of unfit dwellings, today's new homes will have to last over 2,000 years before it is their turn to be replaced
- In numerical terms, 4% fewer homes are being built annually than are needed just to meet projected growth in the number of households
- There is also a backlog of unmet demand for new housing of 33,000 homes
- Upgrading the existing housing stock to provide decent homes for all will require even higher levels of building

Our analysis indicates that to address Wales' needs the following guiding principles should be adopted:

- Sufficient sites should be provided for future housing development to service economic hotspots;

- A robust *Wales Spatial Plan* is vital and should provide a sound basis for determining and delivering housing provision at the unitary authority level;

- The particular challenges posed in economically depressed areas by "low demand" for the existing housing stock must be studied and recognised as an issue in its own right;

- Pending a better long-term housing supply, an effective, non-prescriptive and commercially viable policy approach to the provision of affordable housing is required to ensure delivery whilst avoiding damage to the wider economy.

The comparatively high proportion of old and poor quality houses in Wales needs to be addressed as an important issue. Significant elements of this existing stock are close to being unmarketable, at least to the next generation of purchasers.

Concentrations of older stock contribute to outward migration and the economic decline of communities. Wider political objectives such as improved thermal energy efficiency, are also substantially affected by the reliance on very old housing stock.

The lack of aspirational housing in such areas, and the wider needs of a growing Welsh economy, mean that the number of new homes being built in Wales is clearly insufficient to meet actual housing need.

In the future the supply of new housing will need to be in excess of headline forecast household growth because as Welsh per capita GDP improves, it will fuel (i) the desire for better housing and (ii) the need to increase the rate of replacement of the redundant housing stock.

EXECUTIVE SUMMARY (CONT)

In order to sustain a significant growth in per capita GDP and meet the population's housing aspirations Wales needs policies that enable developers to respond quickly to market demand and to regenerate the stock in areas of prospective low demand.

Our specific recommendations in this respect are for the Assembly to:

- Adopt a public policy position for the future that formally recognises the importance of adequate new housing provision for the realisation of its economic objectives.
 - Formulate and adopt a housing strategy for Wales that clearly addresses the needs of both prospective economic hotspots and the areas of incipient "low demand".
 - Ensure that in order to meet future housing needs it puts in place a *Wales Spatial Plan* with clear and effective provisions to (i) indicate those areas where housing growth is to be accommodated and (ii) targets for local housing provision.
 - Monitor at the national level housing completions to ensure that housing targets are met. Where authorities are failing to meet housing requirement figures, or do not have a 5-year supply of land, the Assembly should ensure that actions are taken to overcome problems.
 - Introduce suitable incentives to ensure that UDPs are adopted by all local authorities by 2006 and maintained and revised as necessary. The Assembly must intervene where necessary to ensure delivery.
 - Develop policy proposals within its economic strategy for speeding up the replacement and repair of Wales' exceptionally old and poor quality housing stock.
 - Study the housing needs of the areas of incipient "low demand" in greater depth in order to formulate appropriate local strategies for regenerating these housing markets. The role and thinking emerging from the "pathfinder" areas in
- England may be a possible model for action, but other possible approaches relevant to these areas' needs should also be considered.
- Adopt a practical, non-prescriptive and commercially viable policy on the provision of "affordable housing" consistent with maximising housing development as a whole.
 - Ensure that a broad mix of house types are provided to meet all forms of demand

INTRODUCTION

The HBF is the voice of the house building industry in England and Wales. Membership ranges from the largest developers through to small, locally based businesses. They are responsible for approximately 80% of all new homes built in Wales in any one year. As well as homes for outright sale, some members specialise in partnership developments with social landlords and local authorities.

In 2002, the HBF published a highly influential report, *Building a Crisis*, which described the long-term under-supply of new housing in England and outlined the damaging economic consequences of inadequate levels of house building, especially in the south. The Treasury and the Office of the Deputy Prime Minister have now accepted there is a housing crisis in England. The planning system is undergoing major

reforms, policies are being introduced to significantly raise house building numbers in the south and regenerate communities in the Midlands and north, and the Chancellor and Deputy Prime Minister appointed Kate Barker, a member of the Monetary Policy Committee, to carry out a review of constraints on housing supply.

This paper looks at housing supply in Wales:

- Is new housing provision adequate to meet household growth?
- Are levels of new house building sufficient to support achievement of the National Assembly's ambitious economic objectives for Wales?
- Are sufficient new homes being built to replace the country's exceptionally old housing stock with its high proportion of unfit dwellings?



Photograph courtesy of Redrow Homes

HOUSING AND WELSH GOVERNMENT POLICY

Government policies for Wales are set out in a number of key policy documents. The following discussion considers whether these take adequate account of housing's contribution to the Welsh economy.

The most important document is *A Winning Wales; the National Economic Development Strategy of the Welsh Assembly Government*, published in January 2002. This states that:-

"The Assembly Government's aspiration is that, within a generation, the standard of living in Wales will match that of the UK as a whole. Wales will become more prosperous and that prosperity will be sustainable and more evenly spread." Over the next decade, the Assembly's target is to raise per capita gross domestic product (GDP) from 80% to 90% of the UK average.

Raising per capita GDP by 10 percentage points against the UK average by 2010, given that the UK average will itself rise over this period, and by 20 percentage points within a generation, is a very ambitious undertaking.

Between 1991 and 2001, UK per capita Gross Value Added (GVA) grew by 5.0% per year, against a Welsh growth rate of 4.3% per year. If the UK growth rate were to remain at 5.0% per year for the remaining nine years up to 2010, then Welsh per capita GVA would have to grow at 6.9% per year to reach 90% of the UK figure by 2010. **In other words, the growth rate of per capita GVA in Wales would have to be 60% faster than over the last decade.**

The Assembly's employment target is for a 135,000 increase in total employment by 2010, including 20,000 additional jobs in financial and business services.

A Winning Wales identifies the primary causes of low per capita GDP in Wales as *"the proportion of the working age population who have jobs – the employment rate – and the relative lack of highly paid jobs – the occupation structure."* To raise employment and productivity, Wales will need to move away from its above-average dependence on declining or low

value-adding industries. Modernising the industrial structure will require *"a higher share of employment in high-growth, high-skill and high value-adding industries and occupations"*.

To achieve this structural shift, the Assembly recognises that it must remove constraints holding back business start ups and retain and attract entrepreneurs, managers and the highly qualified.

"We need to find the right kind of jobs that will provide opportunities for the more highly qualified products of our higher and further education system to stay within the Welsh economy".

"Wales's past experience is that many of its top entrepreneurs, like its top management talent, move to other parts of the UK or the world."

However there seems little realisation that housing, including new housing, has an important role to play in achieving this "economic transformation". Housing receives no mention in the two opening chapters of *A Winning Wales* which outline the Vision and The Challenge. The relatively low cost of housing in Wales is not regarded as one of the country's "important selling points". The short section on Wales' spatial strategy also makes no mention of housing.

Only one section of the strategy, Creating Strong Communities, gives some prominence to housing. Yet even here there is a comparatively narrow focus on improvements to the existing stock, especially the social stock, rather than on the wider social and economic role of housing.

Welsh housing policies are addressed in *Better Homes for People in Wales; a National Housing Strategy for Wales* and its associated Action Plan. In the strategy's "vision for housing", however, there is no mention of the economic importance of housing:

"We want everyone in Wales to have the opportunity to live in good quality, affordable housing; to be able to choose where they live and decide whether buying or renting is best for them and their families."



The discussion in *Better Homes* makes a promising start: "We believe that tackling Welsh housing issues needs a radical approach: an approach that recognises that social, economic, environmental and cultural issues are inextricably linked."



Image courtesy of Westbury Homes

The document does not, however, fully follow through the implications of this statement. It focuses on issues such as housing stock quality, tenure, social housing and support for vulnerable groups. While these are important policy issues, which any Government must address, the focus on such housing problems diverts attention away from the positive role of housing and how the right approach to new housing provision as a whole can help achieve

wider social and economic objectives. In particular, despite acknowledging housing's economic importance early in the document (see the quote above), there is no subsequent discussion of its economic role.

Planning Policy Wales, published in March 2002, makes no mention of housing's economic role in its broad housing Objectives (Chapter 9). However economic requirements are included in the guidance on UDPs and new housing provision. Local authority settlement strategies must establish "a spatial pattern of housing development balancing social, economic and environmental needs". In planning for the provision of new housing, local authorities must take account of a range of factors, including "the needs of the local and national economy". Although the Assembly Government says it will monitor UDPs and their implementation to ensure, among other things, "that economic development and related job opportunities are not unreasonably constrained", it is not clear whether inadequate housing provision, either in the right locations or of the right types, would be regarded as such a constraint.

People, Places, Futures; the Wales Spatial Plan, published in October 2003, is very disappointing in its treatment of housing requirements.

Because housing typically accounts for about seven tenths of land in urban uses (Bibby and Shepherd, 1995), urbanization and residential land use should be a major focus of a Spatial Strategy. Although there are passing references to urban growth in the *Wales Spatial Plan*, and occasional mention of housing pressures, they do not receive anything like the prominence they should receive.

In addition, housing has a major role to play in the economic growth and change of an area (see below). Yet where the need for housing growth is acknowledged in the Plan, it is discussed largely in terms of changing lifestyles and demographic pressures. The crucial role new housing needs to play in helping the Assembly meet its ambitious economic objectives is not acknowledged at all. Housing is not mentioned in the section on 'Increasing and Spreading Prosperity'.

At a more detailed level, in the discussion of the Pink Zones, which experience "strengthening housing and employment markets", the only housing reference is to "affordable housing". The Orange Zones are the only areas in which there is a clear acknowledgement of the need to "provide a range of housing opportunities".

In the *Spatial Plan* sections on individual areas, consideration of the need to "establish the potential and requirements for housing and employment development within the area" is limited to South East Wales. Yet this should be a key concern in every area, and a major focus of the whole *Spatial Plan*.

HOUSING AND THE WELSH ECONOMY

HOUSING AND THE ECONOMY

In the UK, housing investment - both new build and improvements to the existing stock - accounts for around 3% of gross domestic product (GDP) and 17% of gross fixed capital formation. Investment in new private dwellings contributed 1.2% to GDP in 2000. Total housing expenditure represents approximately 13% of GDP.

A study for the Council of Mortgage Lenders (Pickernell et al, 2002) estimated that housing-related activities accounted for approximately 4.5% of total employment in Wales in 2000, half as much again as employment in the automotive and electronics sectors.

The same study also found that for every extra job generated in the construction sector, a further 0.41 full-time equivalent jobs were created in the wider Welsh economy. *"Increases in housing related activity can therefore bring positive economic benefits to the Welsh economy."*

Job opportunities in the house building industry are diverse, ranging from trades to management, and opportunities exist for promotion to the highest level. According to CITB Wales it is estimated that the construction industry needs an extra 17,500 building apprentices over the next 5 years.

FUTURE HOUSING DEMAND

In a new study for the Council of Mortgage Lenders (Holmans, 2003), Alan Holmans estimates Wales will need 8,600 new dwellings per year from 1998-2016 to meet anticipated household growth. In addition, Holmans reported a backlog of unmet need of some 33,000 dwellings. Here demand is defined as effective demand, where households have the ability to buy or rent in the housing market with their own funds. Housing need is the needs of those people with insufficient income, or access to credit, to obtain adequate housing with their own funds.

In the first five years of this period (1998-2002), housing completions averaged 8,235 per year 4% short of what is required. So despite a sharp reduction, compared with past estimates, in projected

household growth and housing need, house building is below the levels needed to meet projected need and is inadequate to begin reducing the backlog of unmet need.

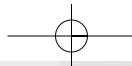
- The Welsh housing stock is exceptionally old and in poor condition.

More than one third (34.5%) of the stock is pre-1919, with another 12.1% built between the first and second world wars, so that approaching half (46.6%) is pre-1945. By contrast, 40% of the English stock is pre-1945, split equally between pre-1919 and 1919-1944.

- Western European comparisons show Wales has by far the largest proportion of pre-1919 dwellings (European Commission 1999).
- In 1998, an estimated 8.5% of the Welsh housing stock was classified as unfit, with a total repair cost of £1.1 billion. In England in 1996, 7.4% of the stock was classified as unfit, a figure that had fallen to 4.2% by 2001.

Results from the 2001 Census show a vacancy rate of 1 in 25 (4.0%) in Wales, with another 1 in 100 (1.2%) classified as second homes, against rates of 3.2% and 0.6% respectively in England (ODPM, 2003).

- New building over the last five years has added only 0.65% annually to the housing stock. At recent rates of demolition and closure of unfit dwellings, representing 0.05% of the stock each year, today's new homes will have to last over 2,100 years before it is their turn for demolition, roughly equivalent to the time that has elapsed since Julius Caesar invaded Britain in 54 BC. The demolition rate in England, long considered far too low, is nearly twice the Welsh rate.
- Although poor housing conditions tend to be disproportionately a feature of the oldest housing, this is not the only reason why the stock needs to be renewed. Vacancies and poor conditions tend to be concentrated in areas of



economic decline. In addition, the oldest dwellings will often not meet modern needs in terms of design, accommodation, facilities, materials, quality, and sound and heat insulation. In the long term, the housing stock has to respond to social and economic change. New housing must reflect the changing needs of households, as well as the changing geographical needs of the economy.

Evidence from England shows it is in the areas of older, poorer quality housing that the market has moved on. People no longer want to live in the housing that is currently available, even if they do not wish to leave the area. Policy needs to allow for this preference.

In addition, the British Medical Association (BMA) warned the government earlier this year that the health of children and the elderly is being harmed by having to live in damp, cold and overcrowded homes. The report *Housing and Health* identified that poor housing is linked to heart disease, strokes, asthma,

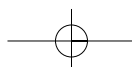
infectious diseases and mental health problems. The best way to reduce health inequalities is to improve living standards.

It is clear for these reasons that the provision of new housing is not simply a numbers game in which the rate at which new homes are being built matches household growth. Building rates in reality need to be higher than this to replace obsolete and unfit stock and to meet the demand for newer, better quality housing generated by rising incomes and aspirations. Given the Assembly's ambitious objectives for growth and employment, this requirement is perhaps even more important than in England.

Unduly restricting housing supply in the more buoyant areas, and focusing activity in areas of decline without the right understanding of local market needs, will not reverse these tidal forces. Instead, as has now been accepted in England, such policies come at a very high economic and social cost. Growth areas are strangled, while economic decline continues unabated in many of the most depressed areas.



Photograph courtesy of Persimmon Homes



THE ECONOMIC ROLE OF NEW HOUSING

SUPPORTING ECONOMIC GROWTH AND PROSPERITY

Achieving the Assembly's ambitious targets for per capita GDP and employment growth will require giving the maximum possible encouragement to all the available economic drivers in Wales. Any national or local government policies which hold back GDP growth, employment creation or productivity improvements will undermine achievement of the Assembly's targets. A positive attitude towards economic growth will be especially important in the more buoyant areas of Wales as these will have to make the largest contribution towards meeting the Assembly's growth and employment objectives.

As noted above, much of the discussion about housing in Wales in official documents focuses on problems such as poor conditions, the age of the stock, regeneration needs and the links between poor housing and social problems such as poverty, unemployment and health. While this focus is understandable, the danger is that the housing glass is always seen as half empty. The positive contributions the right approach to new housing provision can make to the Welsh economy and to higher living standards are in danger of being overlooked.

- **Housing plays a major positive long-term role in any economy beyond its directly measured contribution to GDP.**

In particular, the number, type and geographical distribution of new homes will have a long-term impact on economic growth, productivity and the prosperity of its people.

New housing's most important economic role is its long-term influence on the labour market. The Welsh Assembly's target is to raise total employment by 135,000 by 2010 and to shift the structure of employment towards high value-adding jobs. It is only by increasing productivity that the Assembly's ambition to raise per capita GDP will be achieved. Those filling these jobs will need sufficient homes of the right quality and type in the right locations.

- **A thriving economy requires adequate numbers of the right homes in the right locations to meet changing economic and employment needs, and of the right type to meet the needs of the whole population.**

Because the existing stock is spatially fixed, new housing provides the most important mechanism by which the housing stock can adapt, over time, to economic, employment and social change. If this adaptation is unduly constrained, it will have far-reaching economic consequences.

- **Too few homes to meet the rising labour needs of an area will lead to labour shortages, rising wages and loss of competitiveness in relation to other areas where housing provision is adequate and housing more affordable.**

If the homes provided are not adequate in number, size or quality to meet the needs of the local labour market, employers will find it more difficult - and therefore more expensive - to attract suitably qualified staff. London and the South East of England face acute labour shortages of so-called "key workers" primarily because there are too few homes that are affordable. However the growth of an area may also be constrained if too few larger, higher-value homes are provided to meet the needs of educated and skilled employees, managers, professionals and entrepreneurs. Retaining such people, and shifting the occupational structure to higher-skilled, higher value-adding activities, is fundamental to the Assembly's economic objectives for Wales.

This latter point touches on the dual role of housing as both cause and effect. The provision of adequate numbers of homes, of the right types in the right locations, is an essential requirement for economic growth and prosperity. But demand for better - which often means larger - homes in good neighbourhoods is also a consequence of economic prosperity.

- **Skilled and highly qualified employees, managers and entrepreneurs are usually well paid, and therefore demand high-quality housing.**

And because they have high incomes, they have discretion over where they live and are much more mobile than lower-paid workers.

This is demonstrated in a recent study of working-age migration within Britain.

"People with higher levels of education are much more likely to move for employment reasons." (Dixon, 2003) The research also found that "employment-related migration is more common among people working in managerial, professional, and semi-professional occupations than lower down the occupational hierarchy".

At a more general level, the study concluded: *"Geographical mobility can play an important role in matching people to jobs, thus increasing employment. It can also match skilled people to appropriate jobs, thus improving productivity".*

- **The links between mobility, housing and productivity were acknowledged by the Treasury in its 2003 Budget report:**

"A flexible and mobile workforce plays an important role in matching people to jobs and, in particular, matching those with specific skills to appropriate jobs. Current evidence suggests that while increased labour mobility can make a significant contribution to increasing employment, it can make an even greater impact on improving productivity."

"A stable and flexible housing market is essential to a healthy economy and housing market imbalances are a potential brake on economic development. ...Reducing volatility in the housing market will therefore promote macroeconomic stability. The Government has recognised that reforms are needed to help increase the supply of housing, reduce volatility and promote stability in the wider economy."

"One barrier to labour mobility is variation in house prices and house price to earnings ratios, which can prevent people moving from low to high price areas. For instance, in the UK these differences can prevent people from migrating into high demand areas such as London and the South-East. ...These variations can create labour shortages and put upward pressure on wages in both private and public sectors."

These Budget quotes sound a warning for Wales. By ignoring the economic consequences of inadequate housing supply in England for so long, the Government is now having to introduce a raft of economic, planning and housing policy reforms and find billions of pounds for new infrastructure provision. It will be many years, and possibly several decades, before the damage done by past restraint policies has been repaired.

- **Sufficient and good quality housing provision is critical to securing inward investment.**

Wales has enjoyed success in attracting inward investment. Continued success will make an important contribution to economic value. The quality and availability of new housing in key areas will remain an important consideration for potential inward investors in deciding on location.

At the aggregate level, expansion of the housing stock has not kept up with need, and the problems of "low demand" areas have not been as well recognised as in England.

Many of the planning policies and practices now emerging in Wales have worrying similarities to those which produced the current housing crisis in England and it is certainly not too early to address them or the particular challenges of "low demand" areas.

SELLING HOUSING

The average house price in Wales in the second quarter of 2003 was £98,186 according to HM Land Registry, only 60% of the South West average price, 50% of the South East average and 40% of the London average. Among the English regions, only the North and North West had lower average prices. The average price in Wales is only two thirds the average for England and Wales.

The house price/earnings ratio in Wales in the second quarter of 2003 was 4.1. This compares with a GB average of 5.2 and ratios of 6.7 in the South West, 6.8 in the South East and 5.4 in London.

THE ECONOMIC ROLE OF NEW HOUSING (CONT)

According to the Cheltenham & Gloucester housing affordability index, in the second quarter of 2003 mortgage interest payments on the average house price in Wales represented 24.1% of average male take-home pay. The average for Great Britain was 31.3%, rising to 39.9% in the South West, 40.8% in the South East and 32.9% in London.



Photograph courtesy of Bellway plc

Of course relatively low house prices and housing costs may not be entirely positive because they may reflect the depressing effect of low-quality, low-value housing on the overall average price. However even in the more buoyant areas of Wales, average house prices are low compared to many other areas of Britain.

- Given the relatively low cost of housing in Wales, both in absolute terms and in relation to incomes, housing could be a major selling point for the country, helping to retain its best people and attract investment from high-cost areas elsewhere.

However cost is not the only consideration. The quality and size of dwellings, their proximity to jobs, the quality of neighbourhoods, schools and the environment, and the adequacy of the transport infrastructure will all influence home buying decisions.

- Creating good quality housing, in the right areas - i.e. where the high valued-added jobs will be created - is an essential condition for the creation of 135,000 new jobs by 2010, raising skill levels and shifting the industrial and occupational structure of the Welsh economy towards high value-added activity.

Emergent areas of "low demand" for existing housing also need to be considered. Unless aspirational housing can be provided in such areas as part of a wider approach to regeneration, the inadequacy of the housing stock will undermine efforts to revitalise the local economy.

ENCOURAGING SUCCESS, REVERSING DECLINE

A Winning Wales also identifies low economic participation rates as one cause of relatively low per capita GDP. The economically inactive and unemployed tend to be geographically concentrated. Many of these people, if they are to be employed, are unlikely to fill high value-added jobs unless they are retrained in new skills.

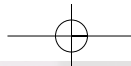
So there are two largely separate issues. First, depressed areas will require regeneration and the creation of jobs for the economically inactive, many of whom are older. Upgrading poor quality existing housing, or replacing it with new housing, should be a major focus in these areas in order to revitalise their communities.

Second, adequate new housing will have to be provided in more prosperous areas to ensure the right kinds of people are available to fill the new high valued-added jobs.

Meeting the needs of growth in prosperous areas, and arresting economic decline in other areas, are not alternatives. Both are needed for different reasons.

Given Wales' economic ambitions, it cannot afford the luxury of suppressing growth in high-growth areas in the hope that economic activity and employment will be diverted automatically to less prosperous areas of Wales. As has now been accepted in southern England, constraint policies in high-growth areas run the risk of driving economic activity into other prosperous regions of the UK, or even to other countries.

Constraint policies are relevant not just to industrial and commercial land, but to residential land. If planning policies keep the housing supply in an area below demand, house prices will rise, employers will face skill shortages and wages and salaries will be driven up in order to attract employees, with damaging consequences for competitiveness, productivity and prosperity. Also, housing shortages and high house prices have most impact on households on middle and lower incomes, including



most first-time buyers. Many "key workers" fall into this group, people who play an essential role in any community.

The very ambitious economic objectives of *A Winning Wales* will only be achievable if new housing is allowed to play its full economic role.

PLANNING FOR GROWTH

As noted above, there are signs that Wales is beginning to follow some of the same policies which have produced a housing crisis in England.

In particular, by devolving responsibility for housing provision to local planning authorities, without an adequate national strategy (i.e. the *Wales Spatial Plan*), there is a risk that housing provision will be insufficient to support the Assembly's ambitious national targets for growth and employment.

One of the more difficult aspects of planning is achieving a sensible balance between local and national responsibilities. Local authorities are sensitive to local concerns about the environment or infrastructure, as well as to more general pressures to resist development and change.

- **But the Welsh Assembly has to be mindful of its strategic role in ensuring sufficient homes are produced, in the right places, to meet household growth and changing economic and social needs.**

It must also make sure local authorities make realistic assumptions about the housing needs generated by economic growth. It is often tempting for local authorities to support the creation of jobs, while at the same time constraining housing provision. Reconciling the conflicts that can arise in meeting economic, social and environmental objectives should be one of the most important roles of the *Wales Spatial Plan*.

However unpopular, central government has to take important strategic decisions, including ensuring all the individual UDPs add up to a sensible overall total. Central government must also make sure its will is enforced and that housing numbers in UDPs are delivered.

In England, especially in the south, powerful local anti-development pressures, and weak strategic direction from central government, have led to chronic housing shortages and economic damage.

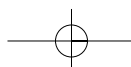
In Wales, the National Assembly has set ambitious economic targets. What is currently missing from the Assembly's strategy is a means of using the planning system to ensure that housing supply supports the achievement of these targets.

The plan-led system introduced in England in 1991 attempted to resolve this local-national tension. By 1995, all local authorities in England were required to prepare local plans which would ensure sufficient housing was produced to meet need. Yet in 2001, a decade later, the government announced that "13% of local authorities have still to put their first plan in place and 214 current plans are now out of date". (DTLR, 2001)

The same delays are now being seen in Wales. Following re-organisation in 1996, each local planning authority was required to prepare a unitary development plan (UDP) by 2000. Yet to date only one authority has an adopted plan. At the present rate of plan preparation, it is likely that less than half of the authorities will have a plan in place by 2006.

Wales, like England, has abandoned the so-called "predict and provide" approach to housing provision. Instead, assessment of housing requirements is left to individual local authorities, taking some account of the Assembly's household projections (which are now, however, well out of date). In consequence, unless a strategic framework for the whole of Wales is enforced, there is a risk local decisions will not add up to a coherent national total. As already noted, this should be a central role of the *Wales Spatial Plan*.

- **The Assembly should give particular attention to agreeing a Spatial Plan which includes having provision figures in order to avoid the risks of inadequate housing supply that may otherwise arise.**



HOUSING IN WALES

FACTUAL POSITION

In April 2001 there were 1.27 million homes in Wales and 1.21 million households, a surplus of 65,000 homes, equivalent to 5.4% of the stock.

In the five years 1996-2001, total household numbers grew by 30,673, the total housing stock expanded by 41,000 and there were 43,296 new housing completions. In purely numerical terms, therefore, housing supply appears to be keeping up with the growth in household numbers. Further analysis suggests, however, that this purely numerical assessment does not adequately reflect true housing needs in Wales. In addition, new work by Alan Holmans suggests recent rates of new building have been well below projected demographic needs (Holmans, 2003).

- The availability of suitable housing is insufficient.

Welsh demolition and replacement rates are extremely low. For example, although on paper there are surpluses of homes over households along the buoyant M4 corridor, the reality of these figures is brought into question after taking account of vacancy and unfitness rates. For example, the numerical 3.5% stock surplus in Cardiff in 2001 was not far short of

the 2.8% vacancy rate and well below the 9.1% unfitness rate. In Monmouthshire, the stock surplus (2.2%) was below the vacancy rate (3.6%) and well below the proportion of homes judged unfit (8.6%).

In other words, although Wales appears to have sufficient homes in crude numerical terms, there is much work to be done before everyone has access to a good quality home, before the age and condition of the stock is substantially improved, and before Wales can meet its economic ambitions.

- The lesson from England is that once a housing crisis is allowed to develop, it requires drastic policies, large quantities of money and a long time to repair the damage.

PROVISION OF "AFFORDABLE HOUSING"

We recognise the Assembly's objective of increasing the supply of affordable housing, and of ensuring that housing is generally affordable.

Developers are increasingly exploring and implementing innovative ways of providing a range of affordable housing solutions as part of their developments, both in association with partners such as RSLs, Local Authorities and independently.



Photographs courtesy of Redrow Homes

In effect, however, current Section 106 agreements relating to affordable housing requirements have shifted the provision of subsidised housing for households on low incomes from the state to private land owners.

We are concerned that obliging house builders to build more affordable housing on what, in many cases, is a subsidised basis, will ultimately be self-defeating unless the total quantity of housing – which effectively means the number of residential planning permissions – is increased.

If overall supply is below actual need, as we have argued above, then seeking to reserve an increasing share of this inadequate supply for those lucky enough to qualify for subsidised "affordable" housing units – with the subsidy coming either from land owners or, in the case of social housing, central government – merely reduces the supply of units onto the market without subsidy. As this number is reduced, non-subsidised house prices will be forced up still further, thus worsening the affordability problems of households without access to the subsidised "affordable" housing. This in turn would fuel a requirement for even more affordable housing.

- **The only realistic long-term solution to affordability, therefore, is to make housing more affordable, not to provide more affordable housing. This can only be done by ensuring the overall supply of housing meets housing need over the longer term.**

If the supply of residential planning permissions is sufficient overall, the industry will be able to supply homes for a wide range of market demand, including lower priced, more affordable units for middle and lower income households.

There will always be households whose income excludes them from market housing, whatever the level of house prices and interest rates. The issue is where in the distribution of incomes the cut-off occurs between those who can house themselves without subsidy and those who require assistance. If housing supply is allowed to respond to rising demand, house prices will be kept down in relation to incomes and

many more households will be able to afford unsubsidised housing.

MEETING SHORTER TERM NEEDS

We accept that in higher priced areas this set of problems cannot be fully resolved in the short term. Pending a longer-term market solution stemming from higher overall output, therefore, we recommend that the Assembly gives serious attention to how planning policy can best promote an effective and increased supply of affordable housing. More planning consents will certainly help, but we also recommend that a more flexible approach to the provision of affordable housing is needed to increase shorter term supply.

In particular, we recommend that the Assembly's policy should be to avoid prescriptive approaches and instead provide for full flexibility in the ways affordable housing is delivered in terms of:

- Tenure;
- Partnership arrangements;
- Site allocation;
- Development mix.

All agreements relating to the provision of affordable housing should also be rooted in properly conducted housing needs surveys taking account of all local requirements within the development plan, not just social housing need.

If such an approach is adopted, we believe it will ensure the viability of developments involving affordable housing and so increase the total volume of affordable housing provided. **An additional benefit will be that in ensuring the most competitive partnership arrangements are entered into, the public money available for such schemes can be spread much further than would otherwise be the case. This will help the private sector and the RSLs together to deliver greater volumes.**

Success will also depend, however, on there being sufficient public money available over a sufficient forward period to underpin contributions from RSLs to partnerships with the private sector and for developers to be able to provide "subsidised" units.

RECOMMENDATIONS FOR ENSURING WALES BUILDS SUCCESS

HBF's analysis of Welsh housing needs, and the role new housing can play in facilitating achievement of the Welsh Assembly's ambitious economic objectives, suggests that there are a number of actions that can be taken to ensure there is no future housing crisis, and that the needs of local communities can be met. In particular, we recommend that the Assembly should:

- Adopt a public policy position for the future that formally recognises the importance of adequate new housing provision for the realisation of its economic objectives.
- Formulate and adopt a housing strategy for Wales that clearly addresses the needs of both prospective economic hotspots and the areas of incipient "low demand".
- Ensure that in order to meet future housing needs it puts in place a *Wales Spatial Plan* with clear and effective provisions to (i) indicate those areas where housing growth is to be accommodated and (ii) targets for local housing provision.
- Monitor at the national level housing completions to ensure that housing targets are met. Where authorities are failing to meet housing requirement figures, or do not have a 5-year supply of land, the Assembly should ensure that actions are taken to overcome problems.
- Introduce suitable incentives to ensure that UDPs are adopted by all local authorities by 2006 and maintained and revised as necessary. The Assembly must intervene where necessary to ensure delivery.
- Develop policy proposals within its economic strategy for speeding up the replacement and repair of Wales' exceptionally old and poor quality housing stock.
- Study the housing needs of the areas of incipient "low demand" in greater depth in order to formulate appropriate local strategies for regenerating these housing markets. The role and thinking emerging from the "pathfinder" areas in England may be a possible model for action, but other possible approaches relevant to these areas' needs should also be considered.
- Adopt a practical, non-prescriptive and commercially viable policy on the provision of "affordable housing" consistent with maximising housing development as a whole.
- Ensure that a broad mix of house types are provided to meet all forms of demand.

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