

## **HOME BUILDERS FEDERATION 2008 BUDGET SUBMISSION TO HM TREASURY MEASURES TO STIMULATE THE HOUSING MARKET**

1. The measures outlined in the following HBF Budget Submission would, we believe, create a win-win situation: first-time buyers and low-income households would be helped by increasing the supply of affordable rented and intermediate housing, confidence in the wider housing market would be supported, the home building industry would be helped to weather what we hope will be a short-term downturn so that it has the capacity to achieve the Government's long-term housing target, and RSLs would be able to meet their housing targets at excellent value for money. We would of course be happy to discuss other options with you and your officials, whether fiscal measures or direct housing initiatives to assist first-time buyers.
2. The measures below are focused on the short-term need to support housing demand. However we should note two longer-term concerns. First, cutting planning delays, tackling shortages of land with planning permission, and allowing house builders more flexibility to provide a housing mix which meets consumer demand are absolutely essential steps in allowing the industry to lift housing output towards the 2016 target. Second, we must express our growing concern about the escalating cost of regulation and its adverse impact on profitability and development viability. This cost burden threatens to undermine the industry's ability to raise housing output in the medium to longer term, a threat that will be increased if a prolonged slowdown begins to have an impact on land values.

### **Market Conditions**

3. You will be aware the housing market has suffered a serious reversal since the middle of last year. Probably the best measure of the scale of the downturn is the Bank of England's statistics for mortgage approvals for house purchase. These were down 34% on a year ago in the fourth quarter, with a 40% year-on-year decline in the month of December. Other volume indicators show similar trends. A number of key indicators suggest this is the most serious volume downturn since the early 1990s, with the depth and duration indicating that the market is unlikely to recover for some time yet. This may also lead to further pressure on house prices.
4. Early indications for 2008 suggest the market has remained very subdued.
5. The housing market downturn has been caused by a number of factors: interest rate increases between August 2006 and July 2007,

falling real post-tax earnings, a loss of consumer confidence, and the adverse impact of the credit crunch on the supply, price and terms of mortgage lending. This last factor is a unique feature of the current downturn and, according to experts, is not likely to be resolved until the middle of the year at the earliest.

6. The home building industry is committed to raising housing output in the medium to longer term towards meeting the Government's housing target. However in the short term companies are having to take action to protect their financial position. To date house builders have introduced a range of sales incentives. A few new housing schemes have been delayed, especially apartment developments, but we understand such action has so far been limited. However the longer the downturn lasts, the more drastic the action house builders will have to take. Closure of regional offices, redundancies and loss of valuable skills, mothballing of sites, and cutting back on short-term land acquisition, which are already happening, will increase unless there are early signs of a significant pick up in sales. Among smaller companies, which make a significant contribution to housing output, many are heavily reliant on bank borrowing to fund development, so that the credit crunch and market downturn are likely to lead to business closures and failures. Indeed we are already hearing reports of such closures. We know from the early 1990s' slump that capacity and skills, once lost, take a long time to rebuild. Indeed many of those who lost their jobs in the early 1990s never returned to the industry.
7. Reductions in capacity and skills will make it that much more difficult for the industry to increase activity once the recovery emerges. Whether this will seriously damage the industry's ability to lift output towards the 240,000 target by 2016 will depend on the depth and duration of the downturn.
8. The current downturn will also have an adverse impact on Affordable Housing delivery, now that more than half of all Affordable Housing is provided via S106 agreements on private housing sites.
9. The primary policy measure to avert such a situation must be lower interest rates, although we appreciate the MPC's ability to cut rates is constrained by concerns about inflation. We are in close touch with officials at the Bank and members of the MPC.
10. The credit crunch and deteriorating world economic environment are beyond the control of any one national Government. We also understand the budgetary constraints faced by HM Treasury.
11. However we would urge you to consider a number of measures which we believe would soften the scale of the housing market downturn without a dramatic impact on the budget deficit, while at the same time increasing the supply of affordable housing for first-time buyers and households on low incomes. The situation is serious enough to warrant

early action to try to avoid a much longer and deeper downturn which would of course have damaging consequences for the UK economy and the public sector finances, and which would, as noted above, make it more difficult for the home building industry to meet the Government's longer-term house building targets.

## **HBF Policy Suggestions**

### **Increase in Stamp Duty Threshold to £250,000**

12. The simplest and quickest measure, apart from cuts in interest rates, would be an immediate rise in the stamp duty threshold to exempt the vast majority of first-time buyers. Figures from the CML suggest raising the threshold to £250,000 would mean 90% of first-time buyers would no longer have to pay stamp duty. Stamp duty must be a particular burden for first-time buyers at the moment in higher priced areas because lenders' cuts in loan-to-value ratios mean many first-time buyers now have to raise a much larger deposit. This measure would also help key workers and other low-income households.

### **Encourage RSL Purchases of New Build Properties**

13. We have heard suggestions that RSL housing programmes may be behind target in some areas. If this is correct, the current situation would seem to provide an ideal opportunity for RSLs to buy properties from house builders, in many cases at very keen prices. This would allow RSLs to meet their targets very quickly, at excellent value for money, while at the same time helping house builders minimise cuts in housing output and industry capacity so that they will be well placed to raise output once the market recovery begins. In other words, there would be rapid benefits all round.
14. Unlike the situation in 1992, when the Government released £577 million for housing associations to buy existing empty homes, primarily from house builders, there is an additional regulatory barrier at the moment.
15. From April 2008, the Housing Corporation is obliged to raise the requirements for RSL new homes, primarily space and sustainability. These are now above those operating in the private sale market where commercial and competitive considerations are much more important. Therefore it would be necessary for the Corporation temporarily to relax these standards, at least to allow purchases of market units from house builders for social rented housing. We would stress that this relaxation would apply for only a limited period. HBF remains firmly committed to working towards the Government's 2016 zero-carbon target.
16. This measure would increase the supply of affordable housing, both social rented and intermediate, thus helping first-time buyers and low-income households.

### **Funding for English Partnerships (EP) First-time Buyer Initiative**

17. House builders report that this initiative has been a very successful way of increasing the supply of affordable housing for first-time buyers. Therefore we are somewhat disappointed to learn that funding for the initiative is about to end. We would urge the Government and EP to review this situation, given the current market climate and affordability constraints on first-time buyers.

### **Fiscal Help for First-time Buyers**

18. We would urge you to consider whether there may be fiscal measures available to assist first-time buyers to get onto the housing ladder. Such measures might include some form of first-time buyer mortgage interest relief, perhaps for a limited period (e.g. five years), and mortgage interest relief for parents helping a son or daughter buy their first home.

### **Residential Investment through SIPPS**

19. We would urge you to reconsider the 2005 proposal to allow SIPP funds to be invested in housing for rent, which was subsequently withdrawn. There is a risk the current downturn and tighter lending criteria will dampen investment in residential properties for rent. The substantial rise in buy-to-let investment has helped transform the private residential sector by substantially increasing supply. This has been good for the housing market and for the wider economy because the sector aids labour mobility. Allowing SIPPS investment should help maintain this momentum, even if buy-to-let demand proves weaker.

### **Residential REITS**

20. We appreciate any measures to encourage establishment of residential REITS would take time, and would not provide a boost to demand in the time required by current market conditions. However we would like to explore with HM Treasury whether barriers to residential REITS might be removed.

### **Contaminated Land Relief**

21. HBF has responded to the consultation on CLR which we regard as an important issue in helping house builders increase the supply of viable brownfield land for housing development. We are very supportive of most of the proposals. However we are concerned that, as yet, no mechanism for determining accelerated relief has been proposed. This is the single most relevant factor for the industry in factoring relief into future development project appraisals. We are also disappointed that HM Treasury is minded to abolish the landfill tax exemption.

John Stewart  
7 February 2008