The HBF PBR submission is split in to two parts:

1. The steps HBF, the recognised home building industry representative body, feels need to be taken to assist the market;

2. The benefits of boosting house building.

Why action makes a difference and delivers early, tangible results.

The past 18 months have seen an unprecedented drop in the number of new homes being built and of employment in house building, primarily due to the lack of mortgage availability following the credit crunch. This year new housing provision will drop to well below half the Government's housing target of 240,000 homes per annum in England, a target that more recent household projections suggest is an underestimate. Between 100,000 and 150,000 home building jobs have been lost. The cumulative under supply of homes is estimated to be approaching at least 1 million.

In recent months a trend of more positive reports and results, assisted by existing Government measures, has started to emerge. However, whilst the market may have stabilised somewhat, it is too early to talk about a sustained recovery. Also, the recovery in new home reservations, tracked in HBF's surveys, is from an extremely low base, so that reservations are still at very low levels, as are wider housing market volumes (mortgage approvals for house purchase, residential transactions) The market is still extremely fragile, with a number of downside risks relating to the availability of mortgage and business finance and wider factors. We cannot at this stage rule out the possibility of a second phase of market softening and our submission is set against this background. Indeed, in the Treasury's September review of independent economic forecasts, more than half of the 22 forecasters predicted that house prices will fall in 2010.

The benefits of maintaining housing output, outlined later in this paper, are quite clear both economically in terms of jobs (an estimated 1.5 jobs created directly per new house built, plus countless others in the supply chain and associated activities) and Government tax revenue; and socially to ensure the provision of both affordable and private housing is adequate to meet the requirements of the UK's population.

It should also be emphasised that these benefits are realised quickly. If new sites can be started, more people will be actively employed on site and in the supply chain from the commencement of work. Equally, stalled sites that have planning permission and can go ahead with the aid of stimulus measures provide clear and tangible prospects for people to obtain new homes within a fairly short period.

These are key issues in any circumstances, but all the more so as we seek to build a wider recovery in the economy and greater confidence. The consequences of not acting to improve housing supply are by contrast stark. The result would be to undermine the flexibility and efficiency of the economy and blight the life chances and housing opportunities of peoples' children and grandchildren.

It is vital that home building industry capacity is maintained and rebuilt throughout the current period to ensure the industry is fit for purpose to deliver the required homes once a fuller recovery is under way.

Private home builders will, we believe, continue to provide the vast majority of new homes – and indeed had been major providers of affordable homes through Section 106 and otherwise prior to the recession. As the first phase of stimulus activity ends and attention begins to focus on how public money can go further in providing affordable solutions, a healthy private sector will be essential to ensure that the full range of market and affordable housing solutions can be achieved in growing numbers.

Within this, a particular focus on the nation's first-time buyers is also needed. The ability of first-time buyers to access the housing market effectively is critical to the sustained health of the housing market as a whole. Without a properly functioning entry route to the market, wider activity is bound to suffer. Here too, what is desirable in terms of social mobility and life chances is also good for the industry and the economy.

The industry's health is therefore vital for Britain's economic and social future. In terms of employment, we have just begun to see the first tentative signs of house builders looking to take on additional staff and it would be extremely damaging to these very early positive signs not to continue to support the industry where necessary so that businesses have confidence to rebuild capacity.

Taking all these considerations into account, it is imperative that the first signs of market stabilisation and improvement that have emerged in recent months, and which have allowed home builders to begin tentatively opening new sites and expanding output and employment, are nurtured and supported against the possible risks of a renewed market softening. The Pre-Budget Report is an ideal opportunity for the Government to underpin these signs with specific and targeted measures to support house building that can bear fruit in the near future, given the progress made so far – and much needed while the vital process of rebuilding mortgage liquidity proceeds.

MEASURES TO BOOST NEW HOME BUILDING

Extension of the current Government stimulus package

The Government's existing stimulus measures for housing have played a significant part in the current market stabilisation.

It is therefore vital that just as we are seeing the first signs of a recovery that these stimuli are not removed, either in total or in part. Each of the measures has contributed to a different element of the market stabilisation, and to the increase in consumer and industry confidence, and therefore must be continued while the clear risk of countervailing factors remains and overall mortgage funding availability remains the serious constraint it is.

Homebuy Direct

A very serious constraint on home purchase at present is highly restrictive loan-to-value ratios, rather than the cost of mortgages. First-time buyers are required to fund substantial deposits which, in many cases, is impossible. Given this constraint on demand, HomeBuy Direct (HBD) is especially valuable as it helps first-time buyers overcome the deposit gap.

HomeBuy Direct (HBD) was developed as a joint Government and industry financed shared-equity scheme. It was a response to industry representations on how it can best assist first-time buyers to enter the housing market at a time when mortgage availability and terms have acted as a major barrier. For home builders benefitting from the scheme – which includes most of the larger companies – a significant proportion (we understand between 15 and 20%) of sales are now achieved with the help of HBD.

Because it is a new scheme it has taken somewhat longer than we or the HCA first envisaged to gain momentum. However there is now a sizeable pipeline of prospective transactions, with more in sight, so it is critical therefore that HBD is able to run its course effectively.

The scheme is set to close at the end of the current financial year. Because of the three months or more it normally takes for initial expressions of interest to become completed sales, this cut-off point would, as it stands, sever the flow of transactions through the scheme now that it has built up a steady momentum. Indeed companies are already seeing the shadow of the cut off point beginning to affect customer confidence in utilising the scheme given the normal impact of the approaching Christmas season on sales activity.

The imminent withdrawal of HBD will begin to have a negative impact on housing production very soon. Companies are now preparing their 2010 budgets and production plans. Because they know HBD will end on 31st March, leading to a reduction in their overall sales for 2010, they will restrict forward production plans accordingly to avoid the risk of a build up of work in progress and unsold stock during 2010.

It is important that we do not allow this unintended consequence of the original scheme design to result in many potential sales being lost, and lower levels of housing production. It would be particularly unfortunate if production had to be cut because HBD had ended just as Kickstart was beginning to boost production.

We are also concerned that it will be extremely difficult to achieve the Government's 10,000 HBD sales target by 31st March, given the level of sales to date and current pipeline.

It is therefore vitally important that the existing deadline for HBD is extended at least until September 2010, and perhaps until the end of the 2010/11 financial year, so that the initiative can achieve its full potential, helping thousands more first-time buyers to get a foot on the housing ladder, helping the industry maintain housing production and jobs, and achieving the Government's sales target for HBD. Also, an early announcement of this extension is crucial so that home builders can adapt to current forward plans to allow for higher production levels during 2010. If the announcement is delayed until next year, this will be too late because companies' financial and production plans will already have been determined.

Discussions with the HCA suggest they are considering a very limited extension, restricting legal completions beyond 31st March only to transactions on which there has been an exchange of contracts by 31st March. We regard this highly restricted relaxation as completely inadequate. To achieve the 10,000 sales target, and to maintain production and employment, there must be a full extension to 30th September of later.

Kickstart

Kickstart finance enables construction on mothballed sites to be quickly recommenced – so giving an instant return on public investment in terms of employment and housing output. We are only now starting to see work actually start on sites from the initial allocation of money in this year's Budget - which was doubled in *"Building Britain's Future"*.

When we proposed such a scheme, the home building industry had many mothballed sites which could, given the right demand and supply stimulus, have been quickly brought into production. We believe measures to pump-prime such sites should remain a primary focus of Government funding. Such funding could, by helping boost housing production, increase private and affordable housing output, increase employment, boost supply chain activity, and help progress towards the zero-carbon homes target.

We urge the Treasury to maintain and, if circumstances so indicate, be prepared to increase the HCA's budget for such measures, as well as giving the HCA maximum flexibility with its existing budget.

There is also a specific need to look at the stimulus measures needed to help home builders restart construction on larger, more strategic sites. Such sites would normally have a construction profile of some years – much longer than the funding envelope so far provided for the Kickstart initiative, which is based of housing completions up to the end of 2011/12. Measures to help unlock such developments could be of considerable economic and social importance for the areas concerned, including regeneration areas.

Stamp duty land tax (SDLT)

The temporary increase in the stamp duty threshold, due to expire at the end of the year should be extended for another year and the limit raised to £250,000. This would mean most new homes would not be required to pay stamp duty, providing a benefit to new home production and not damaging the modest and fragile increase in consumer confidence seen in recent months.

In addition, for many years there have been calls for the current unfair slab system of SDLT to be reformed to a slice system in which buyers crossing one of the price thresholds pay stamp duty at the higher rate only on the price above the threshold. We would strongly urge the Treasury to consider this long-overdue reform. The cost would be relatively modest, given the low levels of transactions, and it would provide a further boost to housing demand and supply.

We would also urge the Treasury to change the rules regarding the stamp duty treatment of multiple purchases by residential landlords. It is one of the deterrents to the establishment of a large-scale, professional, institutionally-funded private rented sector that multiple purchases are liable for 4% stamp duty as they are treated as a single transaction, whereas a private buy-to-let landlord will usually pay the lowest rate, or avoid stamp duty altogether, when buying one or two properties independently. This change should not mean any significant reduction in revenue for the Treasury because such transactions are currently not very common.

Support for first time buyers

First-time buyers, a key section of the market, have been hit hardest by the reduction in mortgage availability, and are now being asked for significant deposits to obtain a mortgage when reduced purchase prices and low interest rates would normally be working in their favour. Many young people, especially those whose families cannot help them bridge the deposit gap, are unable to buy.

With the regulatory focus resting on responsible lending, **we would urge the Government to give full consideration to helping first-time buyers by introducing a dedicated Government-backed national Home Deposit Savings Scheme.** We would suggest a model under which savers would have up to five years to accumulate a maximum of £30,000, at which point they would receive a 25 per cent tax-free bonus or concession, pushing the maximum possible total to £37,500. This final figure would provide a 20 per cent deposit on a typical new home, plus Stamp Duty, legal fees and other costs.

This was in principle an idea that the Prime Minister supported in his response to the Queen's speech last December and it remains very pertinent to the challenges the industry and the public continue to face. We are disappointed that, despite holding discussions with Treasury officials earlier this year, this idea does not appear to have been progressed.

Such a scheme would not only help re-establish longer-term saving habits, but could also help improve liquidity in the mortgage market.

Government Mortgage Indemnity Guarantee (MIG)

As part of a comprehensive and flexible stimulus package for housing, we would also propose the introduction of a Mortgage Indemnity Guarantee (MIG) scheme for house purchase. A MIG scheme could in our view be an expenditure efficient means of complementing, and perhaps ultimately replacing HBD as the market begins to recover.

A scheme might work by providing insurance on a top slice of up to, say 10%, of the mortgaged value, so reducing risk for the lender against possible price fluctuations should the house be repossessed and sold to clear debts, and the property would not raise enough to

cover the outstanding debt. House builders could also contribute to the success of such a scheme by underwriting, say, 5% of the mortgaged value.
Unlike HomeBuy Direct, whereby the Government has to pay a 15% contribution upfront for the property purchase, a Government MIG would only result in outlay in a small percentage of cases when home owners defaulted. However by offering lenders a Government guarantee, they would feel more secure lending against new build properties and so potentially incentivise them to enter the market to a greater extent and be prepared to offer purchasers somewhat higher loan-to-value ratios than at present.
By encouraging lenders to offer higher (though not excessively high) loan-to-value mortgages, and so bringing more first-time buyers into the market, a MIG scheme would help smaller home builders, most of whom are not able to take advantage of rather complex measures such as HBD or Kickstart.
As any MIG scheme would need to be worked up and discussed with the lenders, we would see this as a measure that could come into its own in 2010, complementing the support available via other schemes including HBD. Longer term it might be a useful adjunct to any new regulatory rules for mortgage lending. Assuming that other stimulus measures are assisting continued recovery in the market, we believe that insurance premia for a MIG scheme would also be manageable.

Supporting the private rented sector

Treasury should continue to explore with the private sector, including HBF and home builders, what tax and other measures (in addition to the above SDLT proposal) are needed to help establishment of a long-term, viable, institutionally-funded, professional private rented sector.

This would offer an important new source of demand for new homes, and so help house builders boost housing output and make the Government's housing targets more achievable. It is clear that, in future, there is going to be a large group of intermediate buyers with incomes too high to qualify for social rented housing, but too low to buy in the open market given likely ongoing restrictions to mortgage funding volumes and lending terms. These households will still require housing. The needs of this potentially large group would benefit from an expansion of the private rented sector.

We strongly support the HCA's efforts to provide a catalyst to establishment of a professional, institutionally-funded private rented sector and would urge the Treasury to allow the HCA maximum flexibility to achieve this objective. Although there are many organisations interested in the sector, it clearly needs an organisation like the HCA to make the first step, acting as a catalyst to get an initiative up and running. If the HCA's efforts are successful, others will follow, with potentially very large benefits for the housing market and home builders. We also hope the HCA initiative will help identify appropriate fiscal and other measures needed to help stimulate private rented housing supply.

Affordable housing delivery

We also support the HCA's flexibility over grant rates for Affordable Housing. This will help with delivery of Affordable Housing through S106 agreements. In addition, because increased RSL funding increases demand for house builders' products, this will help them open up new or mothballed sites, and so also increase the supply of open-market housing.

Mortgage funding: the key to housing market recovery

The absolutely critical ingredient for ultimate recovery in the wider housing market is a restoration of mortgage funding and some easing of mortgage terms, especially loan-to-value ratios. House building can only achieve a sustained recovery if the whole housing market recovers, and mortgage lending is the key to housing market recovery. **We urge the Government to continue to examine ways to restore the flow of mortgage finance on affordable terms and maintain pressure on lenders to increase mortgage lending.**

Extension of land remediation relief

The 2007 Budget introduced a consultation process for the extension of relief for de-contaminating land which concluded with the Pre-Budget Report of December 2008. The intention of HM Treasury at the start of the process was for the extens ion of this relief to be revenue neutral. Current proposals would severely restrict the benefit from the relief, and the HBF urges Government to adhere to the original intentions of the consultation.

THE BENEFITS OF BOOSTING HOME BUILDING

Fiscal measures to help home building have many benefits: they have an almost immediate impact on house building activity, and so bring early economic benefits; they boost skills and jobs and help maintain industry capacity so that the industry will be better able to respond in the upturn; they boost the delivery of Affordable Housing as well as open-market housing; they deliver community infrastructure and other local benefits through S106 contributions; and they assist the industry and supply chain to prepare for the 2016 zero-carbon target.

Rapid domestic economic benefits

House building is more labour-intensive than many other industries, so any increase in production would immediately begin to increase employment. The industry would be able to respond relatively quickly. House builders already have many 'ready-to-go' sites with planning permission which have been mothballed, but which could be put into production very quickly with the right demand and supply stimulus. Any increase in housing production would quickly boost product demand and jobs down the supply chain because the industry holds limited product and material stocks. House building has relatively low import content, so that any stimulus would not suffer from a massive leakage out of the domestic economy.

Increasing affordable housing delivery

Because affordable housing delivery is now inextricably linked to private housing delivery through S106 planning obligations agreements – approaching two thirds of new affordable homes were being provided through such agreements – the downturn in private housing is having a big impact on affordable housing delivery. Therefore to lift affordable housing production we need both direct financial measures to help fund affordable housing, as well as measures to boost private housing production which will in turn bring increased S106 affordable housing delivery.

Boosting jobs and skills

Based on the steep fall in housing completions recorded by CLG in the past 18 months, along with individual company announcements, it seems likely that somewhere between 100,000 and 150,000 house building jobs have been lost out of total peak house building employment in 2007 of around 320,000. Research for HBF found that, on average, there are approximately 1.5 direct house building jobs per new dwelling, with further employment benefits down the supply chain and on into the wider economy. So for every 10,000 additional homes completed, we might expect 15,000 additional direct house building jobs, plus a multiplied increase down the supply chain.

Boosting industry capacity

The industry has already lost considerable capacity, hampering its ability to lift housing output in the recovery. The sooner companies can begin to boost output, the sooner they can begin to rebuild skills and capacity ready for the upturn.

Providing local infrastructure

Because most housing developments have planning obligations (S106) agreements attached to the planning permission, if house building activity is started on mothballed sites, this brings additional benefits to the local community, such as infrastructure, open space, contributions to education, etc. By contrast, the loss of these benefits when sites are mothballed or not started can leave communities with gaps in their planned infrastructure or in funding for activities such as education provision.

Reducing the medium-term house price inflation risk

We are concerned about the potential medium-term inflationary implications of the steep fall in housing output. The long-term imbalance between supply and demand/need, identified by the Barker Review, will worsen substantially with current historically low levels of housing completions. The longer supply remains at such low levels, the greater the level of pent-up demand that will build up. Once the recovery begins, there is a risk that demand will quickly run ahead of supply, leading to a sharp rise in house prices. It would be a tragedy if one of the consequences of the current economic crisis was another house price boom.

Helping to achieve the zero carbon target

The Government's target for all new homes to be zero carbon requires substantial R&D, new investment, innovation, new skills and building the required supply chain, all of which require time. This is why the industry supported a ten-year timetable. Unfortunately the deep recession has delayed progress in all these areas. Existing skills have been lost and new skills are not being acquired, R&D, investment and innovation have been delayed, companies in the supply chain have not been able to develop new products and some companies have gone out of business. The longer it takes for the home building and supply industries to recover, the more difficult it will be to achieve the zero-carbon target. Therefore measures to give an early boost to housing output will benefit progress towards the zero-carbon target.

Making the housing targets more achievable

The quicker the industry recovers from the downturn, the better the chances of moving towards the Government's 2016 and 2020 housing targets.

John Stewart
Director of Economic Affairs