31 March 2009

Home Builders Federation (HBF)
Budget Submission 2009

A. THE BENEFITS OF BOOSTING HOME BUILDING

Housing building is likely to fall to record low levels in 2009, and most forecasters expect a subdued recovery in 2010. The industry has suffered large-scale loss of capacity. The primary focus of the following recommendations is on **demand** **and** **supply** measures to boost the industry's ability to increase housing output. This would bring benefits in the short term, but it would also help prepare the industry for the recovery when it will be expected to lift housing completions towards the Government's housing targets.

Fiscal measures to help home builders 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.

With evidence from the HBF and RICS surveys and the latest mortgage approvals statistics all suggesting that the housing market may be nearing the trough, we believe this is just the right time to be providing a boost to the housing market and home building. Targeted measures now would help nurture an upturn.

Measures to boost house building would have many important benefits:

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 a 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 are 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 already recorded by CLG and NHBC, 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 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.

Bringing Local Infrastructure Delivery

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.

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 recovery, 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.

Supporting Housing Demand and First-time Buyers

The longer the housing market is in recession, the greater the level of pent-up demand as potential buyers are forced to delay home purchase. 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.

Timescales

House building will eventually begin to recover as the housing market recovers. However without Government intervention this will be a long, slow process, and in the meantime the industry risks losing further capacity. Therefore we need measures to help open up mothballed sites <u>now</u>, so that the industry is better placed to lift output when the market recovery begins to get under way.

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.

B MEASURES TO BOOST NEW HOME BUILDING

1. Supporting Home Building: HCA Measures

The industry has very much welcomed the measures already introduced by the Homes and Communities Agency (HCA). The Clearing House has helped larger companies reduced stock levels. There is very strong support for the demand-boosting HomeBuy Direct. However more needs to be done to maximise the impact of the HCA's funds on housing output. The home building industry has many sites ready to go with appropriate support from the HCA on both the supply (equity or gap funding, Affordable Housing grant) and demand (HomeBuy Direct, Affordable Housing, private rented sector) sides.

The watchword for the HCA must be <u>flexibility</u> in both the use of funds and timing.

We would urge the Treasury to allocate additional funds to the HCA's budget for the next two financial years to help support home building. As discussed above, this would bring many early economic benefits.

In addition, we understand much of the HCA's budget is in ring-fenced expenditure categories, a situation which limits its ability to re-allocate funds to achieve the maximum impact. Therefore we would urge the Treasury and CLG to allow the HCA maximum flexibility to re-allocate funds from programmes that are likely to be under-spent into more productive programmes.

We would also urge the Treasury to give the HCA greater flexibility over the timing of expenditure by allowing it to carry over unspent allocations from 2009-10 into 2010-11. House building can be turned on quite quickly. However a company's activity must be planned over a reasonable timescale. A company will be much more likely to open up a new or mothballed site if it knows a stimulus to supply or demand will continue over two years than if it knows funding will end by March 2010, less than a year away. Also, while the tap can be turned on very quickly on ready-to-go sites, it inevitably takes time to build and complete the homes on a development.

To achieve the maximum impact, the HCA needs to have a portfolio of supply and demand measures which can be tailored to the particular circumstances of individual sites.

1.1 Supply: Opening Up Mothballed Sites

Now that stock levels have been reduced to generally more manageable levels, the focus needs to shift to increasing housing starts and completions. The home building industry has many mothballed sites which could, given the right demand and supply stimulus, be quickly brought into production. We believe measures to pump-prime such sites should be a primary focus of HCA funding. Such funding could help kick-start production, thereby increasing private and Affordable Housing output, increasing employment, boosting supply chain activity, and helping progress towards the zero-carbon target. We urge the Treasury to increase the HCA's budget for such measures, as well as giving the HCA maximum flexibility with its existing budget.

HBF and the industry have been holding valuable discussions with the HCA over risk-sharing measures to open up mothballed sites, for example through up-front equity or gap funding for infrastructure, or funding of S106 payments, where payment for these acts as a barrier to opening up sites. We have collected evidence from larger home builders of sites which have planning permission and which would be ready to go with pump-priming from the HCA.

Without such pump-priming, the number of new or mothballed site starts will remain low, and housing output will remain at very low levels.

1.2 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.

1.3 Demand: HomeBuy Direct (HBD) and First-time Buyers

The £480 million allocated for HBD could lead to some £3 billion of additional new home sales, giving a significant boost to housing production. Initial buyer interest is very encouraging.

There have been some teething problems with setting up this scheme, but most are being resolved. The one major concern remains the support of lenders. Four have "signed up" to the scheme, but because lenders will wish to limit their exposure to any one site, we need more lenders to support the scheme. In particular, all the Government-supported lenders should be required to give strong support to HBD.

While it is too early yet to judge the success of HBD, as noted above initial levels of interest have been very high. To help companies plan their production programmes for 2010, we would urge the Treasury and HCA to keep open the possibility of allocating more funds beyond the current allocation. We should begin to gain a clearer idea of the rate of sales, and the speed with which the current allocation will be used up, over the next three months.

1.4 Demand: Supporting 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.

2. Mortgage Funding: the Key to Housing Market Recovery

The absolutely critical ingredient for recovery in the wider housing market is a restoration of mortgage funding and some easing of mortgage terms. The Government's guarantee of mortgage-backed securities, to be launched in April, is critically important and must be adequately funded and designed to meet the needs of lenders and investors so that it achieves maximum support. House building can only achieve a sustained recovery if the whole housing market recovers, and mortgage lending is the key to housing market recovery.

2. SDLT

The temporary increase in the stamp duty threshold should be extended for another year and the limit raised to £250,000. This would take most new homes out of stamp duty, providing a benefit to new home production.

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 in the 2009 Budget. The cost would be relatively modest, given the low levels of transactions, and it would provide a further boost to housing demand.

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 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.

3. Residential Investment in SIPPS

We would urge the Treasury to reconsider its previous decision not to allow housing investment within SIPPs. At the time there was a risk this might add fuel to an already booming market. Clearly that is not the case today. This would provide a new source of demand for housing and benefit private home building at no additional cost to the Treasury. We believe this would be a particularly attractive proposition at present with savings rates so low and house prices at much more affordable levels. It would be a more stable, long-term source of investment in housing than the buy-to-let market which is unlikely to return on the scale seen up until late 2007.

4. 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 need 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 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.

5. 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 extension 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.

6. Business Rates

The Valuation Agency Office is considering an increase in the business rate which would increase the costs for developers of running show-houses and sales offices. Government is urged to cancel the review of business rates and to keep the current measures for a further 5 years.

7. Carry-back of Tax Losses

The Pre-Budget Report in December 2008 granted a £50,000 carry back of tax losses. A three-year carry back of tax losses would greatly assist the industry.

8. Council Tax on Empty Properties

The current council tax exemption for unsold completed new home stock is for a maximum of six months. It would be very beneficial for the home building industry, given current very difficult market conditions, if this could be extended to 12 months. While industry-wide stock levels have been reduced to much more manageable levels, the remaining stock tends to be heavily concentrated on individual sites, such as inner-city apartment schemes. Empty properties will not be making any demands on council services and, in some cases, even the roads will not have been adopted by local authority highways.

John Stewart
Director of
Economic Affairs