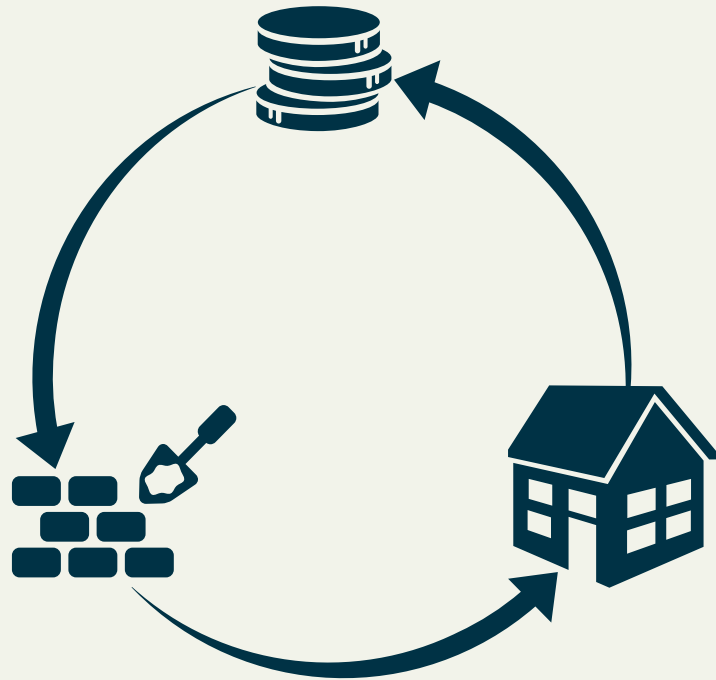
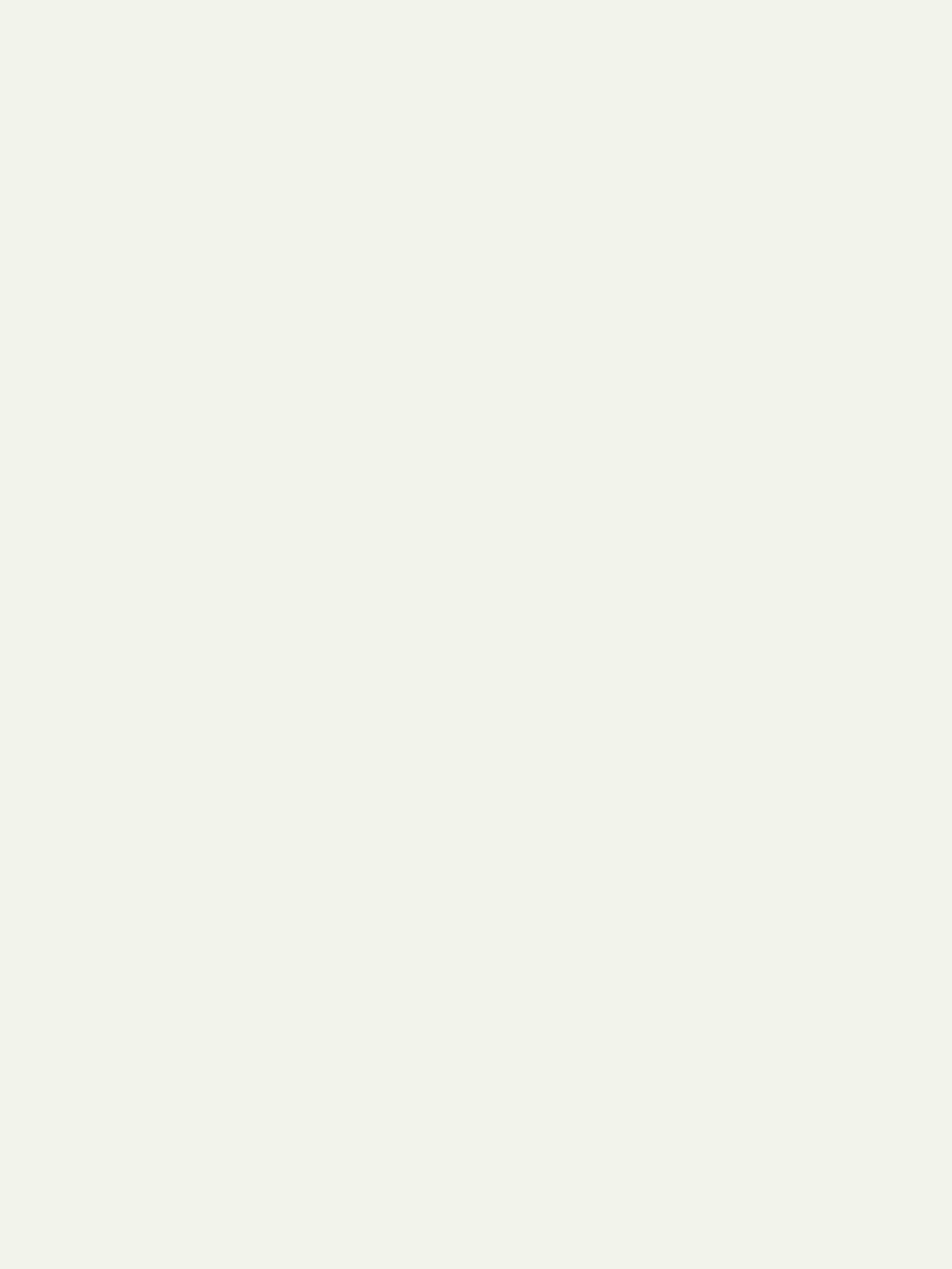


INCREASING INVESTMENT IN HOUSING SUPPLY IN WALES:



HBF RECOMMENDATIONS TO
THE WELSH GOVERNMENT



CONTENTS

EXECUTIVE SUMMARY	4
PROBLEM.....	8
CAUSES OF RECENT UNDERSUPPLY	10
SOLUTIONS: POLICY RECOMMENDATIONS TO BOOST SUPPLY	18
BENEFITS OF MEETING HOUSING DEMAND.....	23

EXECUTIVE SUMMARY

PROBLEM

Wales is failing to deliver the homes its growing population needs. The best estimates of housing need over the next 15-20 years vary from 8,700 homes per year to 11,600, while completions last year were only around 7,000. It is now estimated that since 2011 the shortfall in housing supply is at likely to be around 18,000.

In contrast, housing supply and planning permissions have all trended more quickly upwards over the border in England where efforts have been made to reduce regulation, improve land availability and encourage small builders into the market.

The consequences of this undersupply are now being felt both socially and economically, including more homeless households in temporary accommodation and a record number of 20-34 year olds living at home with parents.

CAUSES OF RECENT UNDERSUPPLY

A combination of a high regulatory burden in Wales, high land remediation costs in some areas, relatively weak market fundamentals, problems with planning and intractable physical constraints have together resulted in reduced private investment in house building in Wales.

Local plan coverage remains patchy and inadequate processes for reviewing plans and/or actual delivery at regular intervals means that many authorities do not have a realistic five year land supply. The Planning (Wales) Act 2015 runs the risk of further complicating matters and potentially introducing additional delays.

Delays in the planning process are increasingly frustrating for house builders. The changes to the planning application process introduced by the Planning (Wales) Act 2015 will increase costs for developers and slow down the process with implications particularly for smaller house building companies.

Local authority planning resources continue to be stretched. As authorities have slashed budgets for planning departments by more than a third since 2010, it is inevitable that the impact would be felt by the 'customers' of these services.

Private investment in Welsh housing delivery has reduced driven primarily by larger companies operating across Britain for whom expected returns on investment in England are often deemed to be far more attractive than those available in Wales. Investment decisions of private companies will always reflect the relative ease of doing business, the expected profitability and the level of risk. Planning permissions - a useful shorthand for investment - are still only around half of the pre-recession peak in Wales while in England, permissions are back to 2007 levels following a rapid increase coinciding with pro-developments reforms implemented since 2012. High regulatory costs (fire sprinklers, Part L, high affordable housing requirements) often deter the diminishing number of national house builders operating in Wales when more homes can be built more quickly in England.

The regulatory burden for house builders in Wales is significant and growing. The cumulative impact of regulation over and above that found elsewhere in Britain makes doing business in Wales more costly. Housing delivery in Wales is being suppressed by:

- Mandatory sprinkler systems estimated to cost up to £3,500 per home
- Unrealistic local affordable housing policies
- The preferred housing association system and Acceptable Cost Guidelines
- High CIL rates
- Energy performance requirements

The recent Sustainability Review of Welsh Building Regulations threatens the imposition of yet more red tape and further divergence from the systems in place elsewhere, bringing increased cost bases for private house builders and thus a reduced appetite for investment.

Topography, physical constraints and previous land uses combine to add to the considerations and difficulties that can come with identifying land and building homes in Wales. Topographical and physical constraints such as mountains, valleys and rivers mean that development must be restricted to limited areas of the country. Additionally, the industrial heritage of Wales means that a considerable proportion of prospective development sites, including many allocated in local plans, are heavily contaminated necessitating expensive remediation.

Housing market fundamentals remain relatively weak in Wales with proportionally fewer transactions and lower house prices.

The wider economy in Wales underperforms compared with other nations and regions of the UK borne out by higher unemployment and the lowest GVA per capita of any nation or region, 6% lower than Northern Ireland's and 13% lower than the West Midlands of England. In 2013, three of the seven sub-regions in Great Britain with the lowest GVA per capita were found in Wales.

SOLUTIONS

A MORE BUSINESS-FRIENDLY ENVIRONMENT FOR HOUSE BUILDERS

1. A more positive attitude to private development

Private sector housing delivery not only accounts for the vast majority of housing output, it is also the source of a significant proportion of affordable housing supply. Surveys consistently show that households have a preference towards home ownership but while a more positive approach to market-led housing would satisfy communities it is also likely to lead to a greater number of affordable homes being delivered.

LAND AND PLANNING

2. Enforce the adoption of Local Plans and introduce a strong and meaningful presumption in favour of sustainable development

A plans-based planning system without effective coverage of local plans cannot achieve the scale of housing delivery so desperately needed in Wales. An inability or unwillingness to produce and adopt a plan creates uncertainty, delay and contributes to fractious relationships between house builders and local communities. Introducing deadlines for the adoption of local plans and signalling intent with a meaningful presumption in favour of sustainable development where plans are not in place by a certain date would boost housing supply in the medium to long-term.

3. Effective trajectory planning at a local level

Local Plans should be robustly assessed on an annual basis to ensure delivery is meeting expectations. Through an annual process of reviewing recent and current delivery, and updating forward plans, areas of concern can be highlighted in good time and suitably addressed. As well as builders and local authorities, the role of other stakeholders such as highways authorities and Welsh Water will be crucial to ensuring that barriers to starting on site are overcome swiftly wherever possible.

4. Actively promote Welsh Government land and other public sector holdings

Welsh Government should take a more active approach to promoting and disposing of development sites on behalf of other public agencies and local authorities in Wales. By providing forward visibility of emerging public land opportunities and developing more business-friendly disposal principles it is likely that more developers will have an appetite to bid on public sector sites.

5. Appropriate resourcing of local authority planning departments

Planning departments have experienced a major reduction in funding over the last five years at the same time as the industry has endeavoured to increase supply. Simply raising fees will not solve the problems house

builders currently experience with regards to securing permissions and discharging conditions. Solutions may involve an injection of competition in the non-democratic planning functions within local authorities or a broadened use of Permitted Development Rights, presumptions in favour of certain developments or by raising the threshold for 'major developments'.

SUPPORTING SMALL DEVELOPERS

6. *Small sites exemptions from affordable housing and CIL*

The proliferation of red tape involved with building homes in Wales has been particularly harmful for small home builders. This could be alleviated through the introduction of an exemption for small sites from CIL and affordable housing requirements, covering sites of 10 or fewer units on all sites or even in urban areas only.

7: *Increase the Threshold for 'Major Development'*

Similar to recommendation 6, and supporting recommendation 5, recasting the definition for a 'major planning application'[currently 10 units] would not only free local authorities from the procedures for these applications, it would also streamline the process of securing permission on small to medium sized sites. Accelerating the process would allow small developers to build out sites and move on to future developments quicker as result of reducing cost, time delays and risk associated with the democratic nature of the planning system. Such a measure would help boost supply.

MAKING BETTER USE OF BROWNFIELD

8. *Introduce a presumption in favour brownfield development within existing settlements*

A developer-led presumption in favour of brownfield development would encourage home builders, particularly SMEs, to use their experience and expertise to identify available, suitable and viable brownfield sites within settlement boundaries for residential development in addition to that which is planned for in local plans. Local authorities would need to have a compelling reason to oppose development which is recycling brownfield land for housing.

9. *Incentives for developing previously used land*

For the purposes of calculating CIL or affordable housing contributions, allowing developers to offset existing commercial, industrial or residential floorspace against a potential new development's footprint would create a powerful incentive for developers to pursue sites which bring back into use under-utilised or dilapidated sites and generate more home building in areas with existing infrastructure.

10. *Flexibilities for converting underused office spaces into homes*

Streamlining the process for converting underused office spaces into new homes via Permitted Development Rights could help to broaden the range of development prospects, particularly in towns and cities. Changes to the way we work, and the way urban areas are planned means that much town centre office space is operating below optimal use. By making conversion to residential easier, we could build more homes and improve the long-term economic and social prospects of town centres and high streets.

CUTTING RED TAPE

11. *Suspend the introduction of additional regulations that would make house building more costly*

Recent legislation, consultation and planned reviews have the potential to add to an already weighty regulatory burden. Postponing the introduction of further costly regulation, ministers would send a clear signal to the house building industry that Wales welcomes its investment and show the public that Welsh Government recognises the importance of resolving the housing crisis through the increased supply of a range of housing types, including market-based homes.

12. *Review the rules around affordable housing and taxes on development that harm viabilities*

The onerous system of Preferred Housing Associations, and the fixed pricing of affordable units should be reviewed to allow for an element of regulated competition in affordable housing that would ultimately make

more sites viable. By broadening the definition of affordable housing, a similar outcome may be possible, for instance by introducing a more flexible shared ownership model.

BENEFITS OF MEETING HOUSING DEMAND

House building is almost unrivalled in its economic and social value to local communities. The specific, tangible benefits of closing the gap between demand and supply includes:

- Affordable housing: More than one-third of affordable homes originate from agreements between local authorities and private developers. Boosting private housing supply is a simple way of increasing the number of affordable homes available for households in Wales
- Employment: If the required levels of house building in Wales could be met and sustained, tens of thousands of new jobs could be created
- Social and infrastructure investment: Meeting Wales’s housing need would generate millions of pounds in additional education funding, potentially enough to support the creation of school places for more than 2,000 pupils
- Local tax receipts: In addition to the additional Land Transaction and Landfill Disposals taxes, Welsh local authorities could collectively receive an extra £7.5m per annum in Council Tax receipts
- Fostering a healthy house building sector in Wales: Meeting housing demand in Wales would necessarily involve greater investment from national house builders, potentially attracting more large builders into Wales as well as stimulating SMEs and start-ups. Housing associations would also need to support these efforts with more proactive development, potentially financed by the greater asset base established through higher affordable housing delivery as a by-product of more private investment.

BUILDING 12,000 HOMES IS ESTIMATED TO*:

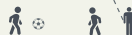


Support the employment of 51,600 people

Provide 480 apprenticeships, graduates or trainees



Increase open space, community sport, leisure spending by **£11m**
which could for example provide **636** five-a-side football pitches



Generate **£19m** towards education spending
which could provide up to 4,560 classroom spaces.

* All data calculated from the NLP Report -Economic Footprint of House Building in the UK:
http://www.hbf.co.uk/fileadmin/documents/Policy/ELECTION_2015/Economic_Fotprint_BPF_Report_March_2015_WEB.pdf

PROBLEM

Wales is in the grip of a housing crisis with potentially far-reaching consequences for its future economic growth and social stability. While there has been a long-term undersupply across the United Kingdom, more recently there has been a worrying trend of house building rates in Wales falling behind other nations. This paper seeks to identify the key issues stifling housing supply in Wales and proposes solutions that would not only see more new homes of all tenures built, but also bring huge benefits to the Welsh economy.

Estimates of housing need in Wales over the period 2011 to 2031 vary from around 8,700 additional homes per annum¹ to 11,600 additional homes per annum². Some areas, particularly towns and cities such as Wrexham, Swansea and Newport are expected to expand rapidly over the next decade and a half with projected household increases of more than 15%. Meanwhile, Cardiff is expected to grow by around one-third by 2031³.

Housing supply has failed to keep pace with demand so with each passing year the problem becomes greater, approaching intractability.

Over several years the investment environment for house builders in Wales has worsened. Specific challenges beyond the immediate influence of policymakers, such as topography or the relative strength of the local housing markets, are factors, but do not explain the relative decline in investment potential in Wales since the economic crash of 2008.

HOUSING SUPPLY

In 2015 housing starts and completions were both around 7,000. This compares with a pre-recession average of around 9,000 homes per year, a decline of almost 25%. Housing completions in England, by contrast, have recovered to almost 2007-levels.

Housing completions are patently a direct function of land supply which is in decline in many parts of Wales. The number of planning permissions secured in Wales has shown weak growth since the end of the recession. With investment in land a useful proxy for business confidence and forward planning, this is particularly disappointing and illustrative of a less solid recovery in house building than has been seen in other parts of the United Kingdom. A pre-recession average of more than 12,000 permissions per year has given way to an average rate of only around 8,000 to 9,000 permissions per year. Indeed, as discussed in more detail below, permissions are running at barely half of the 2007 levels.

Since the 2011 baseline point for assessing housing need, the cumulative shortfall in housing supply has grown each year, reaching at least 11,000 homes (based on lower estimates of annual housing need) and as much as 25,000 (based on upper estimates). Taking a mid-point, we can estimate that there are at least 18,000 homes fewer than there should be today. Based on the current rate of housing starts, this represents two and a half years' worth of house building.

1 Future Need and Demand for Housing in Wales, Alan E. Holmans Cambridge Centre for Housing and Planning Research September 2015

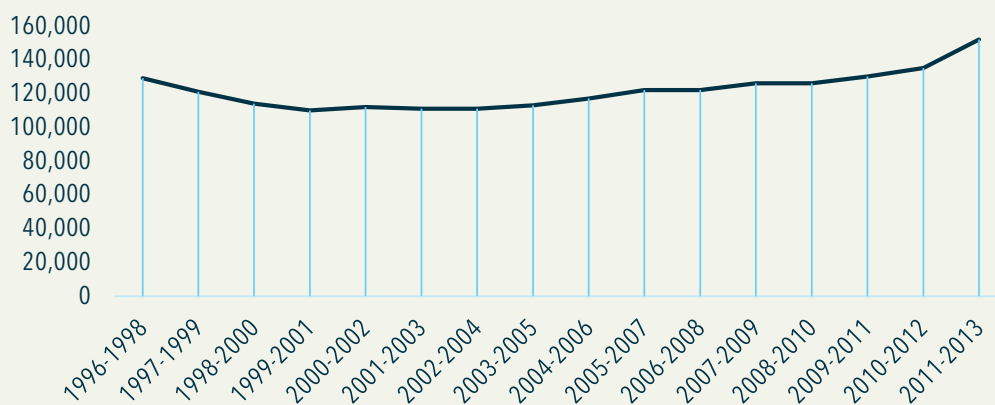
2 Nathaniel Lichfield & Partners' 'index-based approach', Assessing the Need for Housing in Wales, May 2015 <http://nlplanning.com/uploads/ffiles/2015/05/673727.PDF>

3 Assessing the Need for Housing in Wales, Nathaniel Lichfield & Partners, May 2015

CONSEQUENCES OF UNDERSUPPLY

- The number of 20-34 year olds in Wales living at home with parents has increased by almost 40% in the space of a decade ⁴
- There are more than 5,000 homeless households in Wales, 40% of whom are currently living in temporary accommodation

20-34 year olds in Wales living at home with parents
(three year average)



⁴ 152,000 20-34 year olds living with parents in Wales during 2011-2013 compared with 111,000 in 2001-2003. 'Young Adults Living with Parents', Statistical Release, Office for National Statistics (January 2014)

CAUSES OF RECENT UNDERSUPPLY

A mixture of physical and geographical constraints, problems with the planning system, relatively high regulatory costs, high land remediation costs in some areas, and relatively low sales values across a number of market areas, have together resulted in a lack of private investment potential in much of Wales. These factors are summarised below.

LOCAL PLAN COVERAGE

Recent improvements in the coverage of local plans across Wales is extremely welcome but several important areas are still without an approved Local Development Plan. This includes authorities covering many high demand areas with more developable sites. Notable examples include Wrexham, Flintshire and Vale of Glamorgan.

When first introduced in 2005, it was envisaged that Local Development Plans would take around four years to adopt but the reality has seen plans taking on average twice that time. The process was a major contributing factor to a 20 year period between the previous local plan in Cardiff and the new one adopted earlier this year.

The Planning (Wales) Act 2015, whilst attempting to deal with this problem, runs the risk of further complicating matters and potentially adding additional opportunity for delays to occur through the introduction of further layers of plans.

When local plans are adopted the process for reviewing the plan - and the robustness of the local land supply - is generally an area of weakness in the current planning system leaving many local planning authorities without an adequate supply of land almost immediately after the adoption of a plan. Where builders with sustainable sites appeal planning decisions on the basis of a lack of a five year housing land supply, success rates in Wales are significantly below those seen in England where the 'presumption in favour of sustainable development' has been a powerful incentive for developers to comply with the requisite conditions and for local planning authorities to plan positively for growth. Giving additional weight to such appeals could help to nudge authorities into adopting plans and keep them current.

Local Authority	Date of Adoption	Period before plan adopted
Anglesey		No LDP
Blaenau Gwent	2012	7 years
Brecon Beacons NP	2013	8 years
Bridgend	2013	8 years
Caerphilly	2010	5 years
Cardiff	2016	11 years
Carmarthenshire	2014	9 years
Ceredigion	2013	8 years
Conwy	2013	8 years
Denbighshire	2013	8 years
Flintshire		No LDP
Gwynedd		No LDP
Merthyr	2011	6 years

* Plan in middle of inquiry.

Local Authority	Date of Adoption	Period before plan adopted
Monmouthshire	2014	9 years
Neath Port Talbot	2016	11 years
Pembrokeshire Coast NP	2010	5 years
Newport	2015	10 years
Pembrokeshire	2013	8 years
Pembrokeshire Coast NP	2010	5 years
Powys		No LDP
RCT	2011	6 years
Snowdonia NP	2011	6 years
Swansea	No LDP	
Torfaen	2013	8 years
Vale of Glamorgan	2017*	12 years
Wrexham		No LDP

DELAYS IN THE PLANNING PROCESS

The Planning (Wales) Act 2015 has recently introduced a number of Development Management changes including the requirement to undertake 'pre-application consultation' on all planning applications (full or outline) for developments of 10 or more units, in advance of submitting the application.

The 'pre-application consultation' process requires:

- Display a site notice for a period of no less than 28 days before submitting an application.
- Write to "any owner or occupier of any land adjoining the land to which the proposed application relates"
- Make the draft planning application Information available publically
- Consult community and specialist consultees before applying for planning permission
- Submitting a pre-application consultation report (PAC)

The new process will result in additional cost to developers and seems unlikely that it will speed the process up, merely add extra time at the beginning. At best the overall timescale associated with a planning decision will be the same, and likely even slower than has been the case up to now. Smaller house building companies are likely to suffer disproportionately due to the additional resource implications associated with the process and the impact of the extra cost and time.

LOCAL AUTHORITY PLANNING RESOURCES

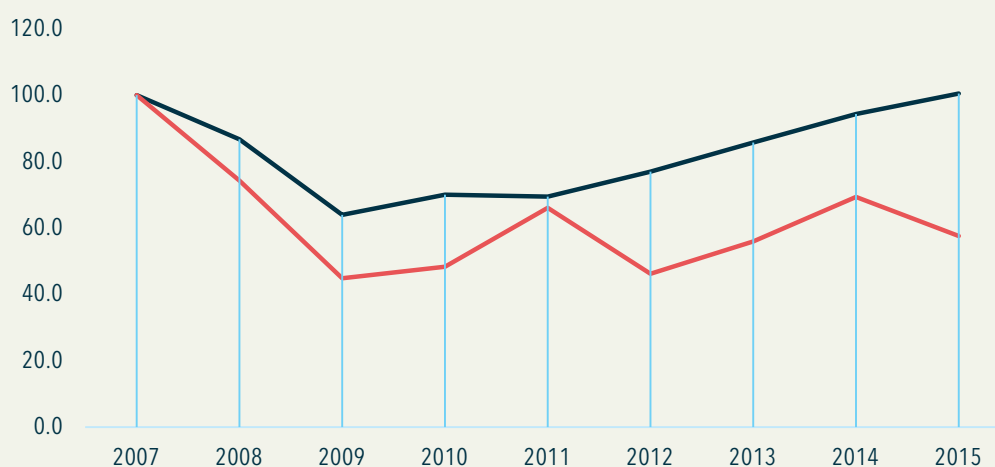
Recent years have seen significant reductions in spending power for local authorities. Unsurprisingly, in an effort to maintain sensitive statutory services, this has resulted in disproportionate cuts to local authority planning and legal services that are critical to the swift passage of planning applications and negotiation of Section 106 agreements. Welsh Local Government Association (WLGA) estimates that in real terms, planning department budgets reduced by 34% between 2010 and 2015, with further cuts to services planned for the current and future years⁵. It is understood that very few LPAs in Wales retain the money raised by planning fees within the Planning Department.

REDUCED PRIVATE INVESTMENT IN HOUSING DELIVERY

For national house building companies operating across different parts of Britain, investment decisions on which nations and regions to invest in will consider a wide range of factors: economic fundamentals, market strength, land availability, planning conditions, regulatory and other abnormal costs (e.g. land remediation)

5 WLGA commentary on Welsh Government draft budget proposals 2015-16 (September 2014)

Indexed planning permissions in England and Wales,
2007-2015 (2007=100)



and relative risk and profitability As already noted, Wales has relatively high regulatory costs (fire sprinklers, Part L energy, Affordable Housing), land in some areas can have very high remediation costs, while sales values are relatively low in some areas, all of which point to higher risk and lower profitability compared with other regions and countries within the UK. At a simple level, when considering prospective sites put forward by different divisions or regions within the same company, a national house builder will sanction bids according to the likely returns with no requirement to necessarily maintain a presence in every region or sub-region.

A particularly important characteristic of house building in Wales is that a small number of major national companies have a disproportionately large market share, no doubt as a longer-term consequence of the development conditions described above.

Of the top 25 house builders building in Wales (by NHBC completions in 2014), the top five accounted for 58% of NHBC completions, the top 10 75% and the top 25 88%. By contrast, for the UK as a whole, the top 11 accounted for 54% of completions in 2014 and the top 25 66%⁶.

The top five in Wales are large companies with widespread interests across Great Britain. Of the top 10, seven are large nationals, while three are Welsh, or Welsh-based (Redrow) companies. Six nationals in Wales have a Welsh office, but another four operate Welsh sites from an English office.

Data supplied to HBF by Glenigan show a similar picture. In 2014, 72% of the total dwelling permissions in Wales were granted to 10 applicants (five of which were national house builders), with 80% granted to 25 applicants⁷.

As already noted, the investment decisions of national house builders are based on the relative ease of doing business, and the profitability and risk of development, in different countries and regions. If house building in Wales is judged especially problematic, as it often is, investment will be reduced in favour of other regions and countries.

The consequence of relative weakness in several of these areas has resulted in investment ebbing away from Welsh house building. This is demonstrated most notably in the planning permissions granted in Wales over recent years. Successful planning applications are a powerful reflection of investment attractiveness.

In light of the national and regional coverage of the majority of large house building companies, and because

⁶ NHBC supplied a special data run for HBF in October 2015.

⁷ Glenigan supplied a special data run for HBF in October 2015.

of the successful pro-development policies introduced in England over recent years⁸, we have seen a huge increase in planning permissions granted in England over the last three to five years. Unfortunately, the same cannot be said for Wales. Figures for 2015 showed a 17% decline in planning permissions in Wales compared with the previous year, whilst England recorded a 7% increase. Indeed, in 2015, more planning permissions were granted in England than in the pre-recession year of 2007. Meanwhile, in Wales permissions are still barely above half those recorded in the 12 months to March 2007. This is partly accounted for by a widening disparity in fortunes between England and Wales as a result of the English adoption of the National Planning Policy Framework (NPPF) in 2012 and the introduction of the Help to Buy scheme the following year. Whilst the chart below shows a short-lived rally in the number of permissions secured in Wales to coincide with the commencement of the Help to Buy Wales initiative at the beginning of 2014, the impact was not as significant – or sustained – as that seen in England at the equivalent introduction of Help to Buy (April 2013).

For companies operating in both England and Wales, the further announcement of additional pro-development planning measures for England in 2015, and a continuing strengthening of regional housing markets, instilled greater confidence in house builders to invest in land, their most important raw material.

REGULATORY BURDEN

The regulatory environment for house builders in Wales has changed dramatically in recent years. Taken together, the cumulative impact of increased regulation has been to make fewer sites viable and drive potential investment by national house builders from Wales to other parts of the United Kingdom.

MANDATORY SPRINKLER SYSTEMS

The most obvious example of the burgeoning regulatory cost for developers has come in the form of mandatory sprinkler systems in new build homes. The precise costings per dwelling are yet to be fully assessed but it is expected to add to the cost of building a home in Wales. The Interim Report by Welsh Government found that this could be as much as £3,500 per home before any additional labour costs are factored in.

PREFERRED HOUSING ASSOCIATIONS AND ACCEPTABLE COST GUIDELINES

The system of preferred housing associations, backed by Acceptable Cost Guidelines, directly inhibits the market for privately built affordable housing in Wales. The system limits the associations with whom developers can transact and the return that can be achieved on affordable units. The lack of competition restricts the price paid to private developers by housing associations, which ultimately increases development costs and harms viability, thereby reducing the number of affordable homes that can be provided, as well as limiting the overall production of new housing.

UNREALISTIC LOCAL AFFORDABLE HOUSING POLICIES

Developers appreciate the need to support affordable housing supply by providing homes for affordable rent on new private-led developments where possible. However, local policies often require contributions on even the smallest of residential sites, and percentage requirements are unrealistic in too many areas. The ability of a development to provide affordable housing is dependent on the inherent viability of the scheme. The current system in Wales means that on most sites the provision of affordable housing results in a negative figure in the overall viability calculation.

More broadly, the prevalence of very high Section 106 demands by local authorities has had a knock-on effect on land values to the extent that landowners are increasingly reluctant to sell sites for development because returns are often not deemed attractive enough.

⁸ Including: National Planning Policy Framework (NPPF) (2012), Office to Residential Permitted Development Rights (2013), Help to Buy Equity Loan (2013), decision to suspend implementation of Zero Carbon compliance (2015), timetable for LPAs to adopt local plans (2015)

HIGH CIL RATES

Community Infrastructure Levy rates set by Welsh local authorities are often high compared with local authority areas in England, particularly those near to the border. For instance, the Draft CIL Charging Schedule in Monmouth is far higher than the level set for Bristol, where the market is stronger and development opportunities already greater⁹.

While this is patently a local decision outside of the immediate scope of Welsh Government, it must be recognised that this has a significant effect on whether sites are developable, and to what extent companies will seek to invest in land and labour in Wales.

As with unrealistic affordable housing policies or Section 106 requirements, these demands are often predicated on flawed viability assessments undertaken at the time development plans are being established. Whilst authorities will expect large house builders to bring forward, typically, 50% or more of the sites in their area, the views expressed by such developers with regard to the viability and attractiveness of these sites is given insufficient weight. The impact of this is already being seen in some areas.

ENERGY PERFORMANCE REQUIREMENTS

A review of Part L was planned for 2016 by the previous Government. Whether or not this happens will be a decision for the new Government. This is due to look at the need to meet the European Directive for nearly zero carbon homes by 2018 and 2020. Part F ventilation is also likely to be affected as the link between energy efficiency and ventilation has recently been highlighted. The concern is, once again, that Wales may end up with a more onerous standard, or a change in standard imposed at a different time, to the rest of the UK which would likely result in a further adverse impact on house builder investment in Wales.

BUILDING REGULATIONS SUSTAINABILITY REVIEW

The recent Sustainability Review of Welsh Building Regulations threatens to impose yet more costs on development through more onerous standards in relation to water efficiency and security. For larger builders this is likely to have the effect of driving away investment, whilst for smaller builders such an increase in cost and complexity will undoubtedly compromise livelihoods and reduce overall housing supply.

TOPOGRAPHY, PHYSICAL CONSTRAINTS AND PREVIOUS LAND USES

TOPOGRAPHY

The mountainous landscape and often steep sided valleys in much of Wales present additional complexity for those involved in allocating land, planning developments and building new homes. Whilst offering a uniquely beautiful and attractive environment, this inevitably restricts home building potential. In addition, Wales' three National Parks and five Areas of Outstanding Natural Beauty cover 25% of the country¹⁰. Together these constraints mean that housing supply must be concentrated in limited areas of Wales for reasons of both viability and physical constraint.

OTHER PHYSICAL CONSTRAINTS

Further to the topography issues raised above, the land more suitable for development is often located close to rivers and the coast. Historically settlements in Wales grew up around these areas due to the transport links water provided and the nature of the heavy manufacturing history in Wales. Nomis population density data identifies that two thirds of Wales' population live within these Urban Areas¹¹. These urban areas will also be where a large percentage of the brownfield opportunities lie. However many of them may be constrained by flood issues, further adding to the shortage of land suitable for development in Wales.

Although only a small nation, travel within Wales is often heavily constrained by the topography. Therefore there has been a natural move towards reliance on the M4 corridor in the South and the A55 corridor in the

⁹ CIL rates for residential development in Bristol range from £50 to £70/m² whereas Monmouthshire's Draft Schedule features a range of £60 to £110/m² on most residential sites

¹⁰ National Landscapes: realising their potential. The Review of Designated Landscapes in Wales. Final Report. July 2015

¹¹ https://www.nomisweb.co.uk/census/2011/QS102EW/view/2092957700?rows=rural_urban&cols=cell

north, both of which also provide links in and out of Wales. This affects both the location of employment and the demand for housing in certain locations. Both of these roads have capacity issues and currently many LDP policies seek to move development away from these transport corridors.

A joined up approach to transport infrastructure, employment and housing provision in the future is critical if people in Wales are going to be able to work and live in the most sustainable locations.

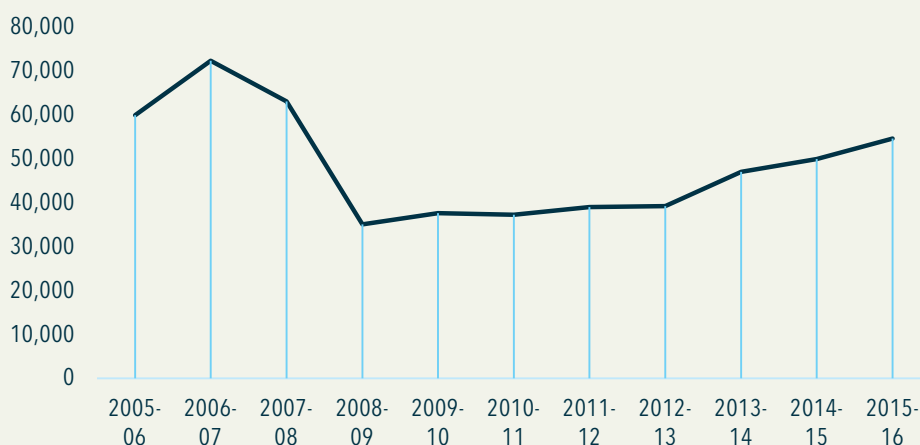
PREVIOUS LAND USES

Within urban areas the nature of previous land uses in many areas makes land remediation extremely costly. The industrial heritage of Wales means that a considerable proportion of prospective development sites, including those allocated in some local plans, are heavily contaminated. Accurate figures are difficult to come by but a recent report by Natural Resources Wales found that the vast majority of local authorities’ reviews of potentially contaminated sites is long since out of date, with most surveys being conducted over a decade ago ¹². More than half of all sites identified by councils were in the local authority areas of Cardiff and Caerphilly County, both otherwise attractive options for development, evidenced by the projected population growth in these areas as outlined above. Over 60% of the sites identified were contaminated by one or a combination of lead, arsenic and Benzo(a)pyrene. Remediating such land will typically involve extensive excavation and off-site disposal, easily costing tens of thousands of pounds, and potentially hundreds of thousands. This is a significant risk to be considered and a potential cost that must be factored into a house builder’s site assessment when considering investment options. A number of plans in Wales have allocated former colliery sites as mixed-use regeneration sites. These are often located on the edges of urban areas and suffer with the same issues discussed above, with the additional issues associated with the former use such as mine shafts. Although many of these were remediated in the 1970 and 1980s, this was not carried out to modern day standards and is never at a level acceptable for residential use.

HOUSING MARKET

Over the past two to three years the housing market in Wales has started to recover more strongly than was seen in the four years immediately following the recession of 2008, illustrated by a 40% increase in transactions since 2012 (albeit from a low base, and around a quarter lower than the pre-recession highpoint). This was likely buoyed by the increased confidence given by the Help to Buy Wales scheme to new home sales which may have rippled out into the wider market.

Annual property transactions in Wales, 05/06 to 15/16 (HMRC)

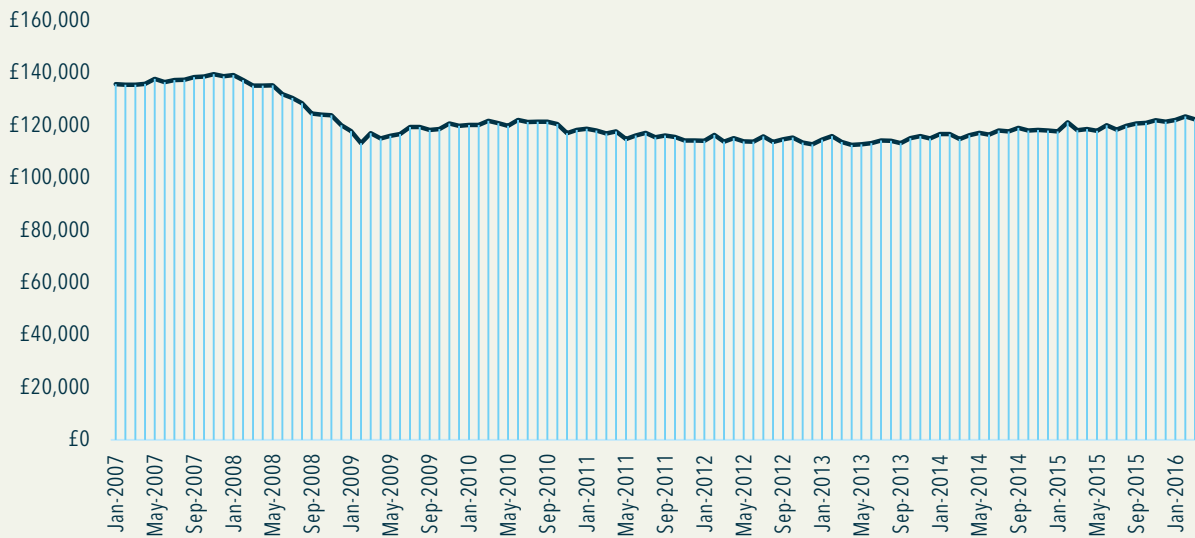


However, the improvement in the market is still yet to be mirrored by an increase in property values which

¹² The State of Contaminated Land in Wales, Natural Resources Wales, April 2016

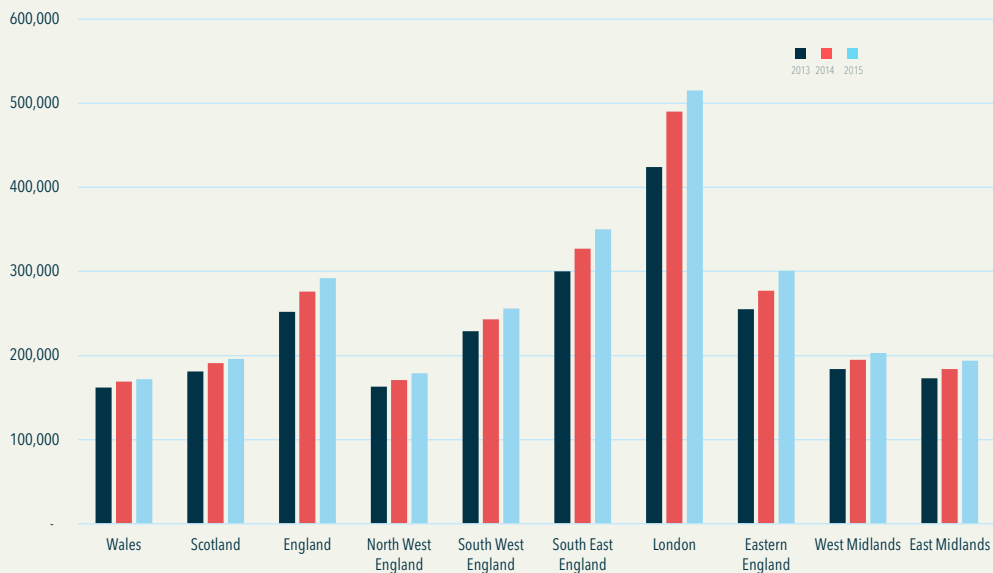
have flat-lined since the nadir of the recession in 2008 and remain substantially short of average prices in 2007.

Monthly average house price in Wales, 2007-2016, seasonally adjusted (Land Registry)



By the ONS measure of prices, Wales again ranks towards the bottom of house prices, and failing to show the growth seen in recent years in England where the Eastern, South East and South West have seen particularly fast house price increases.

Mix adjusted house prices by region, 2013 to 2015 (ONS)



ECONOMIC PERFORMANCE

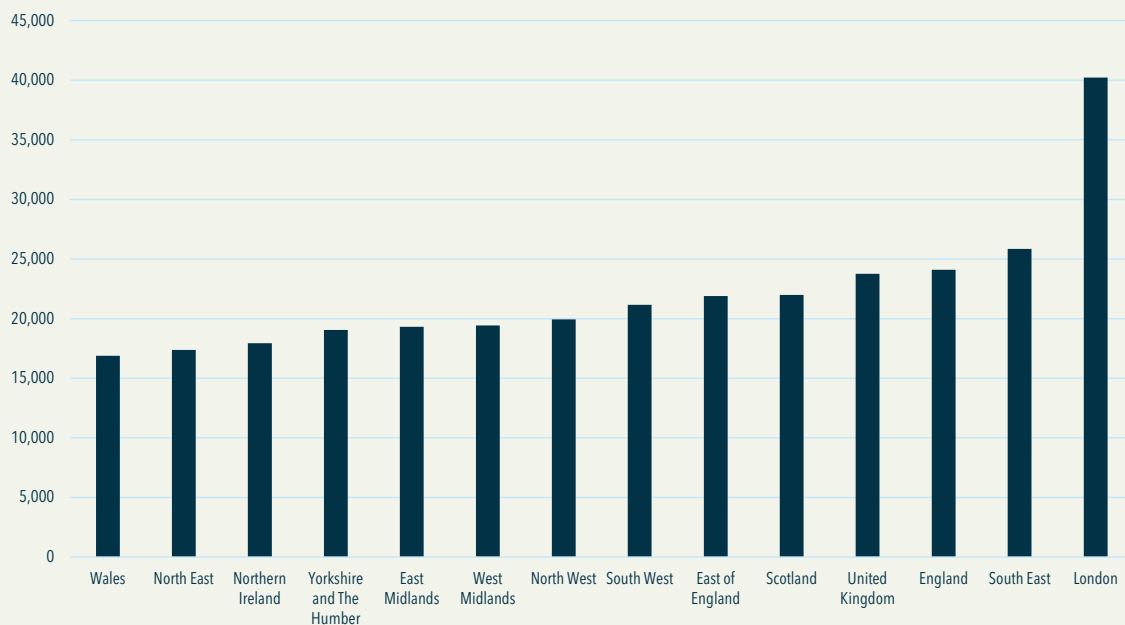
UNEMPLOYMENT

Although unemployment has been declining gradually since 2011, the proportion of the economically active population without a job is higher in Wales than the UK average¹³. The impact of public sector austerity has arguably been felt greatest in Wales where a larger percentage of the population is employed in the public sector. The most recent figures show that 9.6% of people are public sector employees, down from more than 11% in 2011. This compares with a UK-wide rate of 8.4%¹⁴.

GROSS VALUE ADDED

Meanwhile, Gross Value Added per capita in Wales remains below that of any other UK nation or English region, 6% lower than in Northern Ireland and 13% less than in the West Midlands of England¹⁵. In 2013, three of the seven sub-regions in Great Britain with the lowest GVA per head were found in Wales¹⁶.

GVA per capita, UK nations/English regions (2013)



We recognise that the most important opportunity cost of failing to deliver the homes the nation needs is felt by those who directly suffer as a result. However, the advantages of boosting housing supply are not experienced only by the purchasers or renters of new build homes. More widely, increased house building benefits the entire community, while providing a significant boost to the local and national economy.

13 Key Economic Statistics, Welsh Government, October 2015

14 Ibid

15 'Regional Gross Value Added', Office for National Statistics, December 2014

16 Isle of Anglesey, Gwent Valley and South West Wales sub-regions ranked numbers 1, 4 and 7 respectively. 'Regional GVA NUTS3, 1997-2013 Table', Office for National Statistics, December 2014

SOLUTIONS: POLICY RECOMMENDATIONS TO BOOST SUPPLY

A MORE BUSINESS-FRIENDLY ENVIRONMENT FOR HOUSE BUILDERS

To effectively address the growing housing crisis, action must be taken immediately to address the worrying flight of investment from Wales. We are not seeking an imitation of the English system. The Welsh Government should be entirely focused on tightening aspects of the current planning system, incentivising brownfield development and reducing regulation. Taken together, a range of small and uncontroversial reforms to the current regime would help to rebalance the investment considerations which are too often resulting in developers investing capital elsewhere in the UK.

RECOMMENDATION 1: A MORE POSITIVE ATTITUDE TO PRIVATE DEVELOPMENT

Private sector housing delivery is responsible for 84% of all new homes built but is perceived to warrant little attention in terms of policy making or creating the regulatory environment¹⁷. Little regard is given to the fact that a sizeable proportion of affordable housing supply is a by-product of private development¹⁸. However, numbers delivered without social housing grant has declined in the most recent year for which statistics are available, due to retreating investment from several of the house builders operating across Britain. Private house building should be properly recognised as a major source of new affordable housing.

Surveys consistently show that individuals and families have a preference towards home ownership, so a significant proportion of housing need can and should be met through the supply of private housing. A clear statement from Welsh Government that private house builders are an important part of delivering its housing ambitions would be very welcome and encourage national companies to reassess their appetite for investing in housing delivery in Wales.

LAND AND PLANNING

RECOMMENDATION 2: ENFORCE THE ADOPTION OF LOCAL PLANS AND INTRODUCE A STRONG AND MEANINGFUL PRESUMPTION IN FAVOUR OF SUSTAINABLE DEVELOPMENT

Without appropriate mechanisms to ensure the local authorities produce and adopt Local Development Plans there is little doubt that the current system, which sees Wales operating a plans-based planning system but without adequate and current local plans, means that housing supply in Wales will continue to be stifled.

A strong presumption in favour of sustainable development would create a powerful incentive for local authorities to plan positively for growth.

The introduction of expiration dates for plans is welcome, but reform of the process of plan-making in 2013 had limited success in speeding up the progression through the multitude of stages to full adoption of a plan. The real concern amongst house builders is found in areas where an inability or unwillingness from the local authority to produce a plan creates uncertainty, delay and fractious relationships. Responsible local authorities should be obliged to establish a plan for their area that meets local housing need. An abdication of this responsibility not only threatens housing delivery, it can also contribute to a more difficult relationship between house builders and local communities.

To supplement the introduction of end dates for local plans, we recommend that local authorities operating without plans today are given a deadline by which a plan must be adopted, and a maximum time period after the expiration of an extant plan. Put simply, without such a safeguard, the current plans-based system is significantly undermined.

¹⁷ Based on completions between October and December 2015, Welsh Government House Building Statistics, March 2016

¹⁸ Typically one-third to a half of new affordable homes are delivered without capital grant

The Joint Housing Land Supply process in Wales is supported by house builders and allows the success of plans in delivering the houses they identify are needed to be monitored. However last year only 6 LPAs achieved a land supply of over 5 years. We welcome the recently commission research on 'viability through the plan process' by Welsh Government and we are confident that this will highlight the need for the viability of sites to be given greater scrutiny prior to their adoption. This in turn will lead to more viable sites being allocated and an increase in the number of houses delivered. However in the short term we would ask WG to reconsider the guidance in TAN1 paragraph 6.2 relating to a situation where an LPA does not have a five-year land supply. It states 'the need to increase supply should be given considerable weight when dealing with planning applications, provided that the development would otherwise comply with development plan and national planning policies'. In practise, and as highlighted by a number of recent appeal decisions in Wales, this has not helped deliver houses in the areas where there is not a five year land supply.

RECOMMENDATION 3: EFFECTIVE TRAJECTORY PLANNING AT A LOCAL LEVEL TO INCENTIVISE THE ALLOCATION OF MORE SITES, OF ALL SIZES IN THE WIDEST POSSIBLE VARIETY OF LOCATIONS FOR A RANGE OF DEVELOPERS AND PRODUCT TYPES

Local plans should be robustly assessed on an annual basis to ensure that delivery is meeting expected levels. Without a regular check on supply against the numbers planned for in development plans, local authorities and the development community are unable to respond to a shortfall until long after its impact has been felt. Currently, the assessment of a five year land supply in a local authority area goes untested for an entire plan period with the consequence almost inevitably being further undersupply of new homes.

Through an annual process of reviewing recent and current delivery, and updating of forward plans, house builders, local authorities and other stakeholders would be able to identify areas of concern, determine if and when sites are unable to deliver at the required rate and allocate additional sites or free up other forms of delivery (use class changes, etc.) to ensure that house building targets are being met.

The role of stakeholders such as Welsh Water, highways authorities and other infrastructure providers would be crucial in this trajectory assessment process as they are key to ensuring that barriers to getting on site and building homes are overcome swiftly wherever possible.

RECOMMENDATION 4: ACTIVELY PROMOTE WELSH GOVERNMENT LAND AND OTHER PUBLIC SECTOR HOLDINGS IN A NEW, BUSINESS-FRIENDLY WAY

Public-sector land contains huge potential for housing delivery on sites which are underused or could yield significant returns for public bodies which could be used for investment elsewhere. Regulatory issues, complex sign-off procedures and a lack of necessary skills too often prevent or delay public land disposals.

Welsh Government should take a more active approach to promoting and disposing of development sites on behalf of other public agencies and local authorities. Inefficiency and muddled thinking in the process of selling publicly owned land often leads to a diminished appetite amongst house builders to bid for such sites. By adopting a greater role in the sale of NHS and other land, Welsh Government could help to provide forward visibility of emerging and future opportunities and help the public-sector agencies with an activity which is not a core business function.

In developing more business-friendly disposal principles, a specific disposal objective should be identified upfront to aid in the bidding process for builders. Welsh Government should acknowledge that there is a trade-off between achieving the best possible financial return and layering additional restrictions and requirements onto the eventual developments, and that this will ultimately be reflected in the price paid by a developer. Clarity on the key objectives at the initial marketing stage is crucial to ensuring that house builders are not subsequently required to reassess offers when different seller priorities emerge. It is not uncommon in Wales to hear that Planning and Estate departments within the same Council are arguing over the requirements for a development brief or contract associated with the sale of land owned the Council.

HBF and its members would be keen to engage with Welsh Government to develop effective processes to

ensure public land is able to generate receipts, while building much-needed new housing in Wales. A useful starting point would be HBF's April 2015 paper, *Perspectives on Public Land*, produced to inform the Homes and Communities Agency's review of disposal processes in England.

RECOMMENDATION 5: APPROPRIATE RESOURCING OF LOCAL AUTHORITY PLANNING DEPARTMENTS

Just like any other area of public expenditure, Local Government must make sacrifices to preserve the long-term financial prospects of the country but the recent cuts (estimated to be more than one-third in real terms over the last five years) and planned scaling back of planning services slows down the development process by hampering local plan production and preventing developers from securing implementable planning permissions. The time it takes to discharge the ever growing number of conditions, and in particular pre-commencement conditions is becoming a serious issue in Wales.

Simply increasing planning application fees (either explicitly or through 'cost recovery') without any guarantee of a better or more efficient service would not resolve these structural issues, particularly as money raised by planning fees is currently not ring-fenced in Wales. Options for tackling this problem may include the introduction of competition in the non-democratic planning service functions of local government or reducing workloads for planners via greater use of permitted development rights, presumptions in favour of certain applications, perhaps on certain brownfield sites for instance (see recommendation 8), or by raising the threshold for 'major development'.

SUPPORTING SMALL DEVELOPERS

RECOMMENDATION 6: SMALL SITES EXEMPTION FROM AFFORDABLE HOUSING AND CIL

The expanding regulatory burden on house builders in recent years has had a particularly harmful impact on the prospects for small developers in Wales who have increasingly struggled to navigate the complex and costly development environment. SMEs could receive a shot in the arm through the introduction of an exemption for smaller sites from Community Infrastructure Levy and affordable housing contributions.

To ensure that rural areas are still able to benefit from new affordable housing and infrastructure support from private house builders, exemptions could be targeted either on urban locations or on brownfield sites.

RECOMMENDATION 7: INCREASE THE THRESHOLD FOR 'MAJOR DEVELOPMENT'

Similar to recommendation 6, and supporting recommendation 5, recasting the definition for a 'major planning application' would not only free local authorities from some of the more onerous practicalities associated with the procedures for these applications, it would also streamline the process of securing permission on small to medium sized sites. Accelerating the process would allow small developers to more quickly build out sites and move on to future developments. The nature of SME house builder finance means that many will operate only one site at any one time. Any measure that helps builders to complete sites and acquire others faster than is possible at present would help boost supply. The front loading of the planning process associated with this threshold is costly, timely and high risk due to the democratic nature of the planning system. All these have a much greater impact on SME house builders.

MAKING BETTER USE OF BROWNFIELD

RECOMMENDATION 8: PRESUMPTION IN FAVOUR OF BROWNFIELD DEVELOPMENT WITHIN SETTLEMENT BOUNDARIES

The introduction of a presumption in favour of brownfield development within the boundary of settlements

would act as a powerful instrument for increasing housing delivery in Wales. This process would be developer led, encouraging companies – particularly SMEs – to use their experience and commercial expertise to identify available, suitable and viable brownfield sites for residential development regardless of their status within local plans. By increasing the range and number of sites available for development, the industry would be able to broaden the range of homes it can provide, speed up delivery and encourage enterprising start-ups and SMEs to expand their operations in Wales, while providing additional affordable housing units as well.

The presumption in favour of brownfield development would mean that local authorities would have to have a compelling reason to reject a planning application for residential development within a settlement boundary. A similar principle applied in England and Wales until the early 1990s when housing supply in Wales was regularly around twice the levels currently being recorded. By applying a new, revitalised presumption, the prevailing procedures would still be required on more remote brownfield sites whose suitability for housing development should continue to be judged against a wider range of planning, financial and market criteria.

RECOMMENDATION 9: INCENTIVES FOR DEVELOPING PREVIOUSLY-USED LAND

Building on brownfield land can be a complex endeavour with significant upfront costs. We recommend allowing developers to offset existing commercial, industrial or residential floorspace against the potential new development's footprint. Recognising the value of transforming underused, vacant or dilapidated brownfield sites into desperately needed new homes, this would see house builders receive a credit against affordable housing obligations and/or CIL payments based on the size of the building being converted or replaced, with the house builder potentially being liable only for the additional floor space provided. This could include a maximum offset to ensure large developments always provide appropriate contributions.

RECOMMENDATION 10: FLEXIBILITIES FOR CONVERTING UNDERUSED OFFICE SPACE INTO HOMES

Opportunities exist to make better use of underused office space. By streamlining the process for conversion from office to residential use via Permitted Development Rights, Welsh Government could help to broaden the range of development prospects, particularly in denser conurbations. Changes to the way we work and the priorities of business have meant that in the last decade or so much town centre office space is now under-occupied. Introducing Permitted Development Rights would also help to alleviate some of the strain on local authority planning departments as much of work on planning applications would be unnecessary, allowing focus on more significant developments.

CUTTING RED TAPE

RECOMMENDATION 11: SUSPEND THE INTRODUCTION OF ANY FURTHER REGULATIONS THAT WOULD MAKE HOUSE BUILDING IN WALES MORE COSTLY

The Planning (Wales) Act 2015 contains a number of provisions which, when fully implemented, will increase the cost and time associated with building homes. Furthermore, Welsh Government's recent consultation on Building Regulations has the potential to add further cost to the development environment in Wales which will only serve to deter private investment in land and labour. A further review of Part L and energy efficiency would add to this increasing cost.

We would encourage Welsh Government to impose a moratorium on any new regulations that would increase either the time or costs involved with building homes in Wales. By postponing the introduction of regulations due for implementation within the next year, ministers would send a clear signal to the house building industry that Wales welcomes its investment, and show the public that Welsh Government recognises the importance of resolving the housing crisis through the increased supply of a range of housing, including for home ownership.

RECOMMENDATION 12: REVIEW THE RULES AROUND AFFORDABLE HOUSING AND OTHER DEVELOPMENT TAXES THAT HARM VIABILITIES

As outlined earlier in this paper, the current rules governing how house builders discharge their affordable housing obligations are especially onerous. The system of preferred housing associations with whom developers can transact, and the fixed pricing of affordable units, should be reviewed to allow for an element of regulated competition in affordable housing that would make more sites viable and ultimately lead to more housing of all tenures being delivered.

A relaxation of the definition of affordable housing in Wales could also be of assistance in terms of the viability of sites. Planning Policy Wales currently states, 'Affordable housing includes social rented housing owned by local authorities and registered social landlords and intermediate housing where prices or rents are above those of social rent but below market housing prices or rents.'

The introduction of a more flexible shared-ownership model would assist with improving the viability of schemes where there is a requirement for affordable housing.

Meanwhile, the layering of multiple requirements on developments, including S106 affordable housing, CIL etc is not only a burden on house builders, it also confuses the link between local communities and developer contributions, and thus does little to improve public attitudes towards development.

BENEFITS OF MEETING HOUSING DEMAND

House building is almost unrivalled in its economic and social value to local communities. Each new house or flat built not only creates a long-term home for a family and helps foster a sustainable and healthy local housing market, the short and medium term advantages of house building are felt throughout the community through increased employment, investment in infrastructure, the construction of affordable housing and additional local expenditure. Because the benefits are often highly localised and suffer from very little import leakage, supporting the construction of new homes, either through direct investment or by creating a favourable environment for private investment, is an extremely expedient approach.

AFFORDABLE HOUSING

In the most recent year for which figures are available, 36% of new affordable homes built were constructed as a result of Section 106 payments by builders of private sector housing, demonstrating how building greater numbers of market homes will provide much-needed affordable housing for households in most need. Resisting/delaying additional regulation could also improve viability which could further increase the level of affordable homes delivered by the private sector.

EMPLOYMENT

If the levels of house building required in Wales could be achieved up to 25,112 new jobs could be created and sustained – providing significant employment opportunities in Wales. Even at the lower estimate of required housing supply, 11,782 new jobs could be generated. In addition, a step change in housing supply could help to create hundreds of new apprenticeships or traineeships.

SOCIAL AND INFRASTRUCTURE INVESTMENT

Based on typical infrastructure contributions made by house builders if housing need could be met, Welsh local authorities could expect to benefit from between £4.4 million and £9.4 million in additional education funding generated from Section 106 agreements/CIL with developers. At the upper end of the estimate, this could fund school places for up to 2,219 pupils.

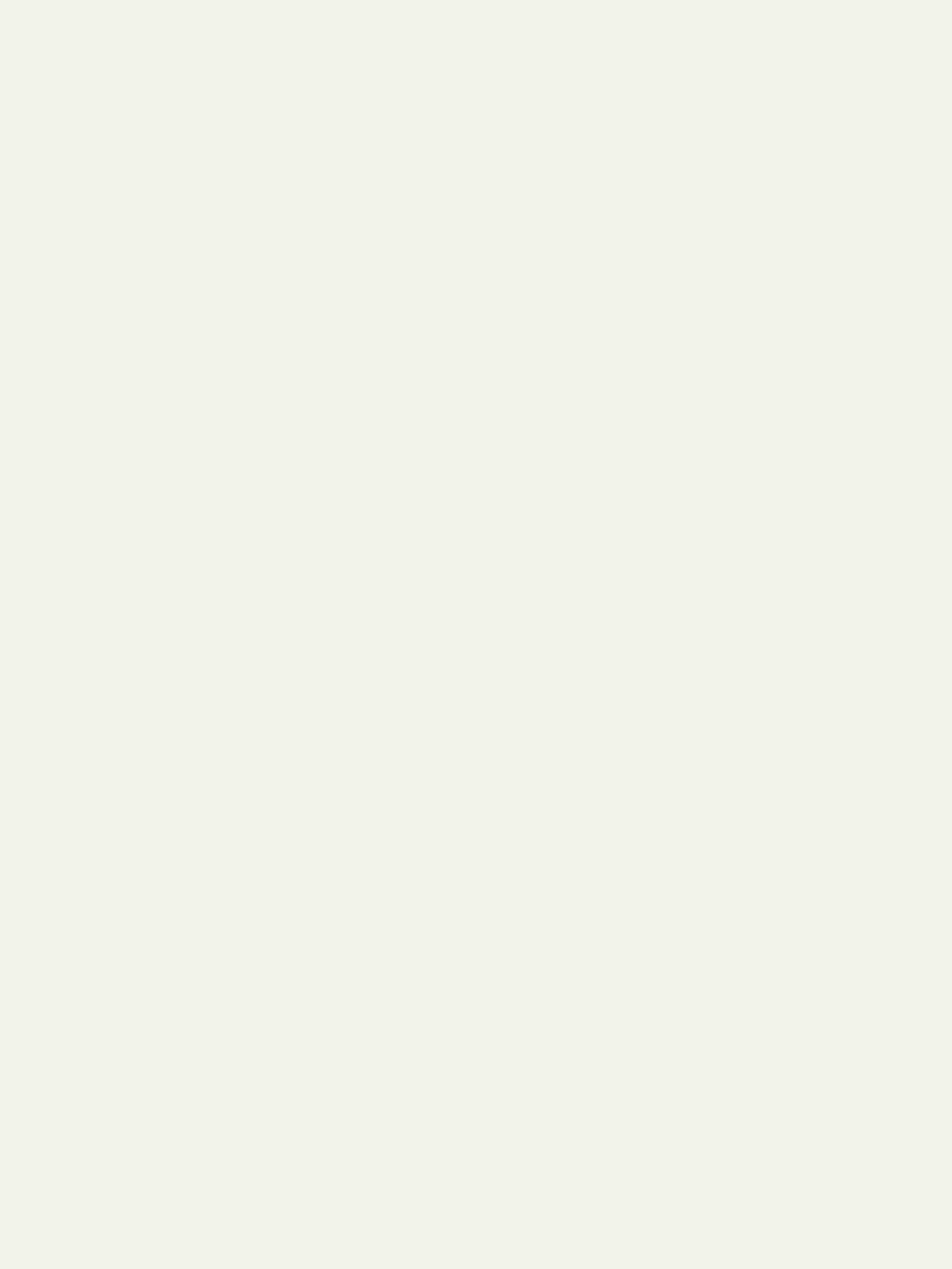
In addition, £2.6 million to £5.5 million could be expected in additional funding for local authorities for use in financing community sports facilities, open spaces and leisure centres.

LOCAL TAX RECEIPTS

As well as the benefits which come from house building activity, the creation of new homes also provides income for local and national government. In particular, Welsh local authorities could expect to collectively receive an additional £3.5 million to £7.5 million per annum in extra Council Tax revenue. Further Land Transaction Tax and Landfill Disposals Tax will replace UK Stamp Duty Land Tax and UK Landfill Tax from April 2018.

FOSTERING A HEALTHY HOUSE BUILDING SECTOR IN WALES

Meeting housing demand in Wales would necessarily involve increased development amongst all housing tenures and by different types of builders. For larger house builders, we would expect to see more investment by those still operating in Wales, while potentially encouraging more national builders operating across multiple regions in England to move across the border. For SMEs and start-ups, more suitable development opportunities would help aid growth and promote competition for land. Housing associations would also need to support these efforts with more proactive development, as well as a greater asset base to manage via the increase in affordable homes produced by private house builders.

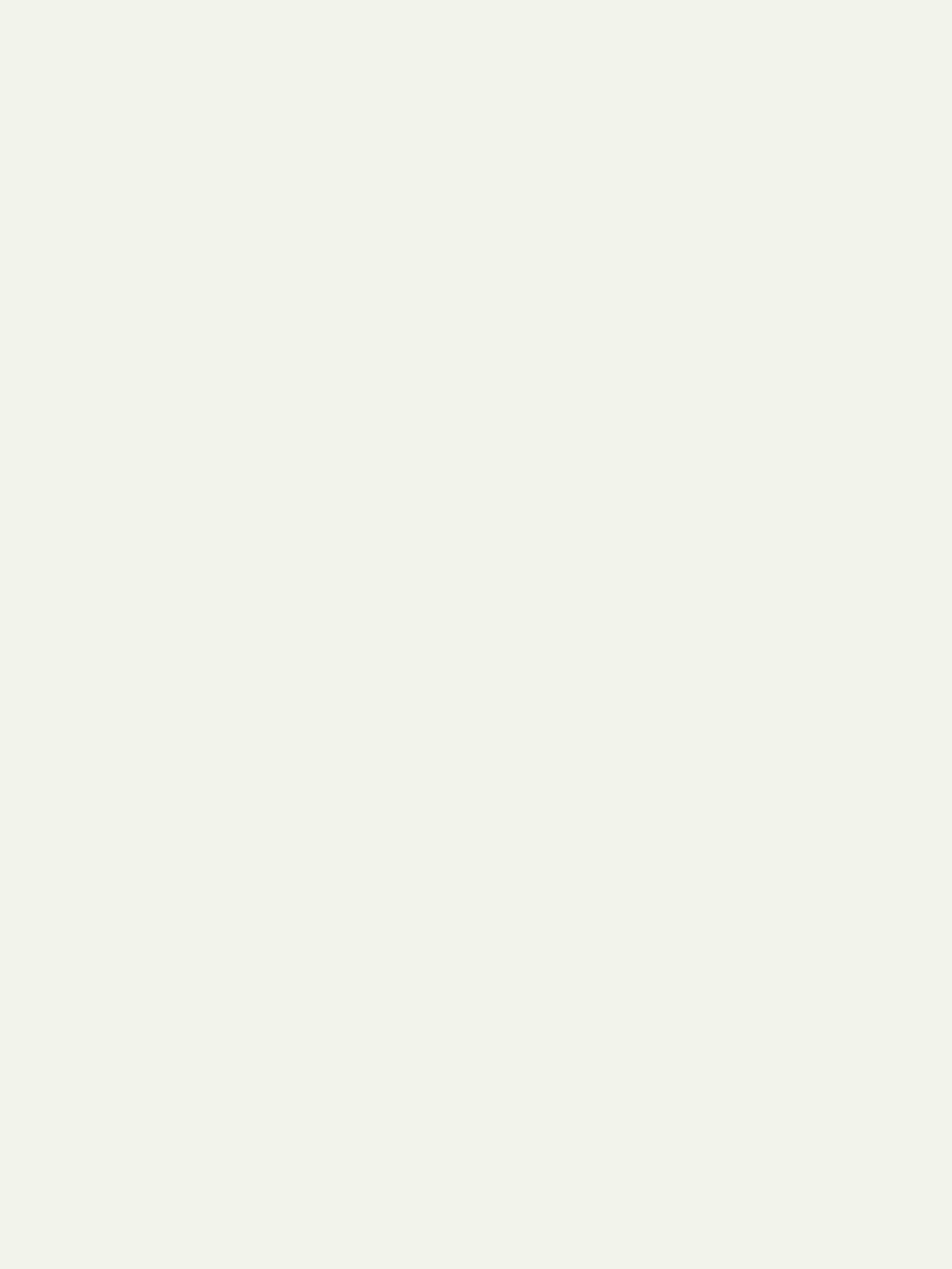


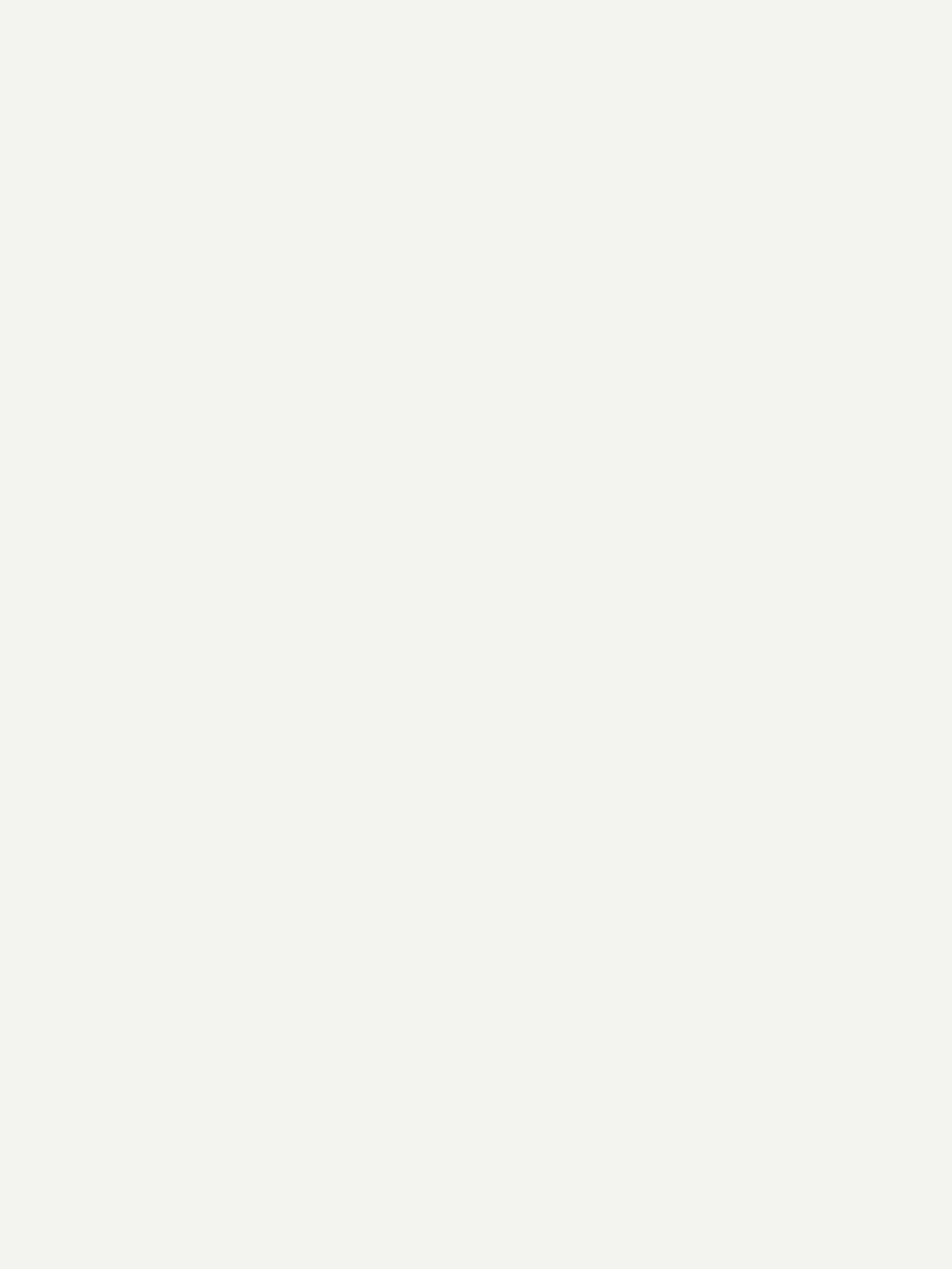
ABOUT HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. HBF's members' accounts for 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

CONTACT

Home Builders Federation Ltd
HBF House
27 Broadwall
London SE1 9PL
Tel: 020 7960 1600
Email: info@hbf.co.uk
Website: www.hbf.co.uk







*THE VOICE OF THE HOME
BUILDING INDUSTRY*