

A PLAN TO DELIVER EVEN MORE NEW HOMES

BLUEPRINT 2017:





ABOUT HBF

The Home Builders Federation is the representative body for home builders in England and Wales. HBF's membership of more than 300 companies build most of the market sale homes completed in England and Wales, and encompasses private developers and Registered Providers.

The vast majority of home builder members of the HBF are small and medium-sized companies.

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INTRODUCTION

Three years of strong growth in housing supply as a result of major investment from private house builders, and in particular the largest national builders, has put us on course to deliver **one million homes** over the **2015-2020** period. But we must raise our sights and go even further. To do so, we need to build further capacity in the industry and in the planning departments on which our sector relies, maintain support for first-time buyers and expand the number of providers building homes.

The next government, working with the industry, should seek to build on this success but endeavour to go further.

TO HELP ACHIEVE THIS WE PROPOSE:

01

SUPPORTING THE EXPANSION
IN THE NUMBER OF PROVIDERS
BUILDING HOMES



02

ENSURING THE INDUSTRY HAS
ACCESS TO SKILLED LABOUR
NEEDED TO SUSTAIN CONTINUED
GROWTH



03

PLANNING FOR THE FUTURE OF
THE SUCCESSFUL HELP TO BUY
EQUITY LOAN SCHEME



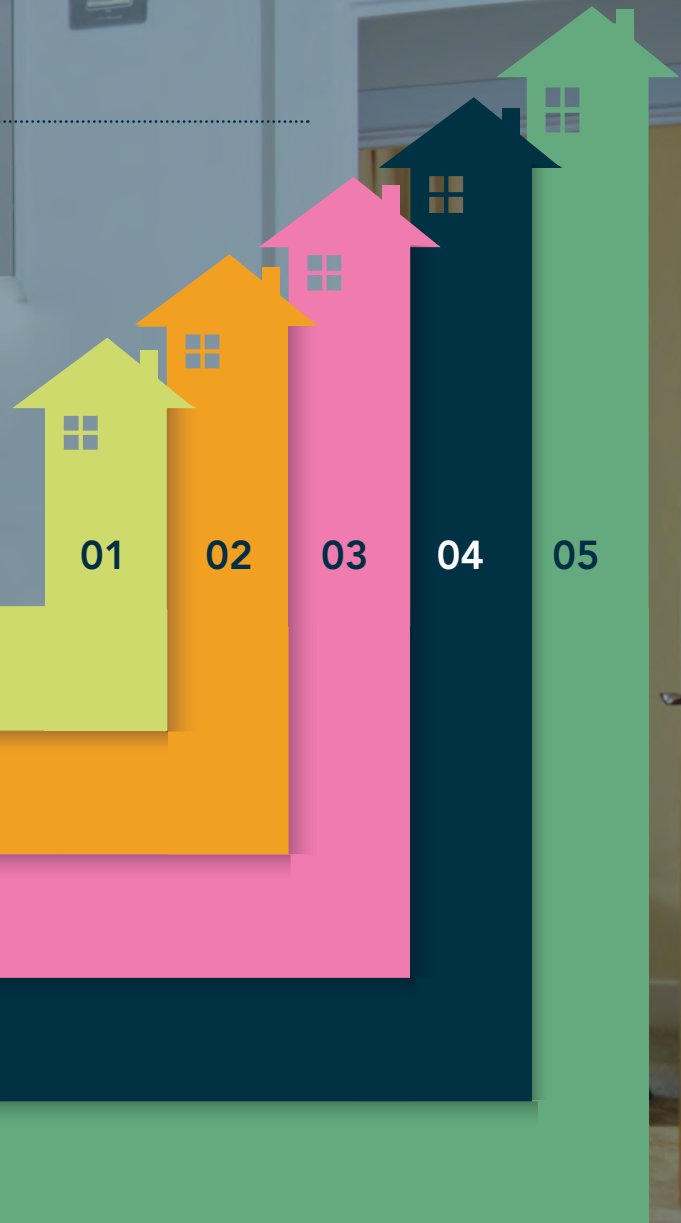
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TACKLING OUTSTANDING
PLANNING PROBLEMS



05

ADDRESSING PROBLEMS CAUSED
BY MONOPOLY PROVIDERS OF
INFRASTRUCTURE AND UTILITIES

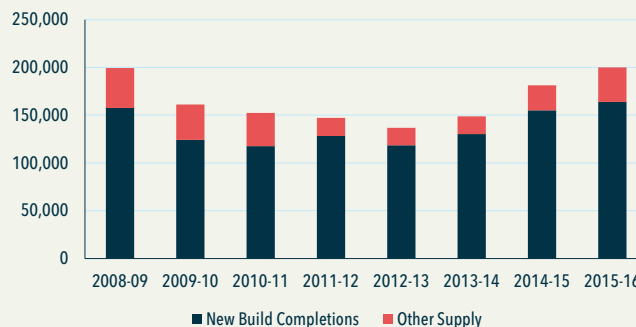


THE CHALLENGE

HOUSING SUPPLY HAS INCREASED AT UNPRECEDENTED RATES IN RECENT YEARS...

In the last **THREE YEARS**, housing supply has **INCREASED** by more than **50%**, taking the overall level of output above **200,000** for the first time since before the *financial crisis*. Allowing for demolitions, annual net supply was **189,650** homes in the year to March 2016, of which **163,940** were **NEW BUILD COMPLETIONS**, with a growing proportion on brownfield land.¹ Furthermore, the trend towards building family homes means that the scale of the increase is even more impressive. Therefore, whilst the number of housing units built in 2006/7 was **GREATER** than in 2015/16, last year saw **MORE HOUSES** built than in any of the last 10 years, resulting in more bedrooms being built by house builders – an estimated **478,000 BEDROOMS** in **2015/16**.

Gross Housing Supply, 2006-2016

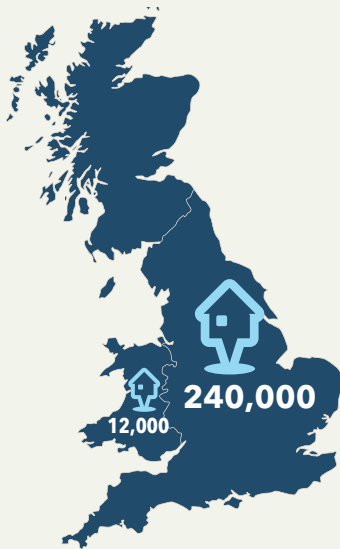


Since the introduction of the National Planning Policy Framework (NPPF) in 2012, and supported by the overwhelming success of the Help to Buy Equity Loan scheme, house builders have ramped up investment in the land and workforce needed to build more new homes.

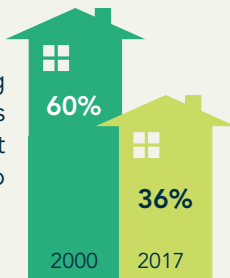
1. DCLG Live Table P300

... BUT WE NEED TO GO EVEN FURTHER AND FASTER

Best estimates of housing need suggest **ENGLAND** requires **240,000** net **ADDITIONAL** homes **PER YEAR** whilst **WALES** needs **12,000** homes per year over a **SUSTAINED PERIOD**



The number of home owning **25-34 YEAR OLDS** has **FALLEN** from around **60%** at the turn of the Millennium to just **36%** today



In the last **15 YEARS** average **house prices** have **INCREASED**



at more than **DOUBLE** the rate of **AVERAGE INCOMES**

1 IN 4

20-34
year
olds
are



LIVING AT HOME
with parents

Even with an ageing population, **LESS THAN 2% OF OUR HOUSING STOCK**



is specifically designed with the needs of **OLDER PEOPLE** in mind

THERE ARE MANY ADVANTAGES: **HOUSE BUILDING GENERATES UNRIVALLED ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS**

Recent house building increases have helped to create **200,000 NEW JOBS**, subsidised tens of thousands of affordable homes and contributed more than **£1BN IN ADDITIONAL FUNDING** for important social infrastructure such as **SCHOOLS, HEALTH SERVICES** and **COMMUNITY FACILITIES**. Calculations suggest that in total the industry now helps to sustain **705,000 JOBS**.

New homes are also far more energy efficient than older dwellings meaning that they are better for the environment and save households hundreds of pounds per year. According to the latest EPC data, **81.6% of NEW BUILDS** are rated **A-B FOR ENERGY EFFICIENCY** while just **1.5% OF EXISTING PROPERTIES** fall into these categories.

EXPANDING THE NUMBER OF PROVIDERS BUILDING NEW HOMES

The huge boost in housing supply over the past three years has been driven by substantial increases in investment from a small number of larger house builders. It is estimated that around 20 companies were responsible for the majority of the growth in output achieved in the post-recession period to 2016 and while these companies overwhelmingly have plans for further growth in the coming years, the next government should help to produce an environment in which other providers are also more able to increase their contribution. By diversifying housing supply and reducing the reliance on a handful of companies, we can improve resiliency and create conditions for sustained growth in the longer term.

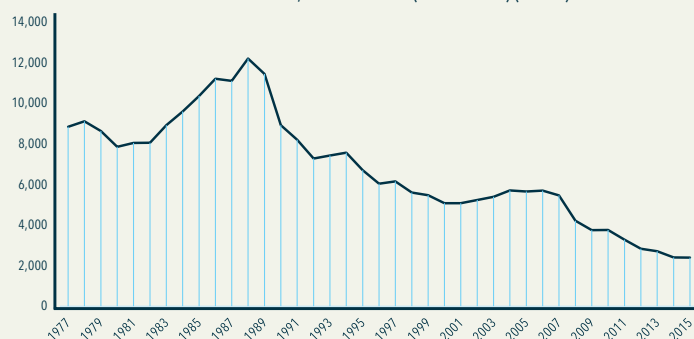
SMALL AND MEDIUM-SIZED HOUSE BUILDERS

The late 1980s saw the peak in post-war housing supply. It is no coincidence that this occurred at a time when small house builder numbers were at their peak. Less rigidity in the planning system supported a spirit of entrepreneurialism that meant SMEs were responsible for almost 4 in 10 new homes compared with around 1 in 10 today.

The implementation of the Town and Country Planning Act 1990 and the major increase in land use regulation that it brought initiated a long-term decline in the number of small house builders operating around the country. While this coincided with a brutal consumer recession which had severe consequences for the housing market, the subsequent three decades have been characterised by an unrelenting decline in SME numbers. Even today, with strong demand for new homes and headline planning permissions at record levels, SMEs continue to struggle. Permissioned homes are on increasingly large sites making it more challenging for smaller firms to source land. When planning permission is secured, SMEs largely face the same frustrations dealt with by national house builders but while the biggest companies can spread risk across dozens or even hundreds of sites, inevitable delays and expensive bureaucracy on a single site can be the difference

between a small company staying in business or not. Meanwhile the terms on which development finance is generally available to small builders and start-ups makes growth difficult to achieve.

SME house builders, 1977 to 2015 (1-100 units) (NHBC)



The current business environment for small house builders is best described by Redrow plc Chairman, Steve Morgan, writing in the foreword to the recent HBF report, *Reversing the Decline of Small Housebuilders*:

'Young entrepreneurs like myself, Tony Pidgley, and Lawrie Barratt before us, were able to start fledgling home building companies from scratch and build them into national builders – something that would be almost inconceivable today.'

(Steve Morgan, Redrow plc)

The potential rewards from diversifying the house builder base and reinvigorating SMEs are significant. By 2007 there had been two decades of decline in their number but returning to just to 2007-levels of active SMEs could boost housing numbers by 25,000 per year. An increase in the number of companies operating in the industry would also bring major benefits for the economic vitality of towns and cities around the country. SMEs traditionally played a vital role in employing and training new recruits to the sector.

The HBF report, informed through discussion and in-depth interviews with dozens of small house builders within HBF's membership, contains a huge number of recommendations to address the challenges that small builders are faced with.

THESE INCLUDE:

THE INTRODUCTION OF A PRESUMPTION IN FAVOUR OF DEVELOPMENT ON SUITABLE BROWNFIELD SITES WITHIN SETTLEMENT BOUNDARIES. This would allow SMEs to identify and bring forward sites with some confidence that they will receive planning permission. Within the current confines of the plan-led system of planning this could help to reinvigorate the entrepreneurialism that flourished in the past.

PLANNING FOR A WIDER RANGE OF SITES WITHIN LOCAL PLANS: A greater variety of sites, including more small sites and more sites suitable for specialist housing could not only support SMEs but help to accelerate the delivery of housing by relying on a greater number of sites and providers than is currently the case.

TESTING THE ONGOING DELIVERY OF HOUSING IN A LOCAL AREA: Currently the implementation of local plans goes without any robust testing to ensure that homes are actually being delivered. By monitoring performance at regular intervals local authorities would be more responsive and have the opportunity to allocate additional 'top-up' sites to meet local housing need.

ALTERING THE DEFINITION OF A SMALL SITE: VARIOUS MEASURES AND POLICIES EXEMPT SMALL SITES – USUALLY DEFINED AS BEING AROUND THE 10 UNIT MARK – FROM CERTAIN RED TAPE. This creates an arbitrarily defined incentive to focus development on certain sizes of schemes. Whilst a simple increase would remove, to some extent, a disincentive to growth and broaden the potential site base for SMEs, we would favour a sliding scale above 10 units which would provide for a more progressive contribution from small sites, perhaps up to 25 or 30 homes.

CHANGING THE CLASSIFICATION OF GARDEN LAND: The change in classification in 2010 of garden land to greenfield was based on oversimplified analysis and was politically motivated. The change in approach removed a source of land for small builders many of whom had been adept at developing sustainable and low density schemes on previously under-utilised land.

ELIMINATE RED TAPE THAT DETERS START-UPS AND PREVENTS GROWTH: House builders of all sizes regularly point to frustrations with infrastructure and utilities providers that slow down housing delivery and significantly add to building costs. For small firms these delays and additional costs can go beyond frustration and render sites unviable. Consideration should be given to working with industry and highways authorities, water companies and other utility providers to introduce service level agreements and commit to monitoring performance in these areas which are critical to the supply of new homes.

SPECIALIST HOUSING FOR OLDER PEOPLE

Over the next 20 years it is forecast that the proportion of the population aged over 60 will increase from 23% today to 29%. Furthermore, by 2039, 1 in 12 people in the UK is expected to be aged over 80. But less than 2% of our current housing stock is designed with the needs of older households in mind. Increasing the supply of retirement housing could significantly boost the number of larger homes available for families while also helping to improve the health and lifestyle prospects of older people and alleviating costs on local health and social services as more individuals are able to live independently for longer.

Helping older households who might be interested in moving to do so would help increase overall housing mobility. Knight Frank and Savills have both stated that this part of the market could grow from around 5,500 units a year to 20-30,000 a year.

The current planning system creates many obstacles to the delivery of specialist retirement housing and this should be addressed. There are few references in the planning system to demographic change, and neither does the system account for this form of housing's unique nature and viability model, nor proactively encourage it across all tenures.

The following changes would help achieve a marked improvement in the speed and certainty of the delivery of housing for older people, and would be consistent with the Government's identification of specialist elderly accommodation as the only "critical" housing need in the NPPG.

- ■ Strengthen national planning policy via the NPPF and its references to the need to plan for housing for older people
- Strengthen the statutory duty on local planning decision makers to accord special attention to the need to plan for housing for older people in their local plans and housing needs assessments
- Explore financial incentives for older people when moving into more appropriately designed and sized housing



The unprecedented increases in housing supply since 2013 have created a challenge for the industry in building its capacity to maintain and accelerate supply. In particular, accessing skilled labour has caused difficulties in the last 12 to 18 months, with almost half of house builders stating that the availability of labour is a 'major constraint' on their businesses.

Set against this background, the changes in free movement of people and the potential restrictions on employing new EU workers could exacerbate the pre-existing shortage in the domestic workforce. The exciting opportunities presented by the Home Building Skills Partnership are partly aimed at addressing the medium and longer-term shortages. Meanwhile, the average age of on-site workers is creeping up, but is lowered by the presence of a proportion of EU nationals, many of whom are relatively transient in their residency.

- **The next government should ensure that the people and the skills the industry needs are available to home builders if we are to avoid any deviation in the upwards trajectory of housing supply.**
- **Longer term, government and relevant public bodies should put their full support behind the industry's own programme to develop future skills capacity through the work of the Home Building Skills Partnership - to attract, train and develop the workforce needed to sustain an increase in quality housing supply.**

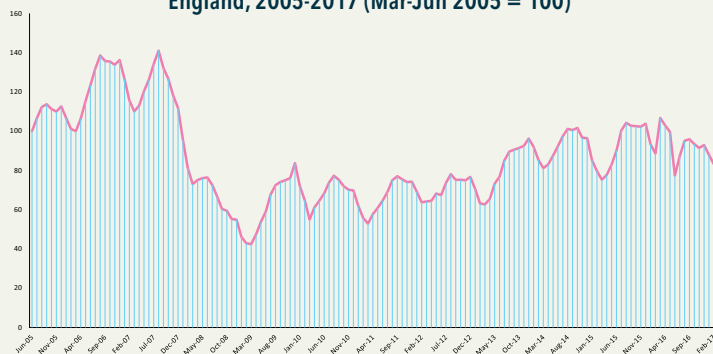


HELP TO BUY POST-2021

The Help to Buy Equity Loan scheme has proven to be a phenomenal success, helping around 120,000 households to buy a new build home since April 2013. First-time buyers have understandably been attracted to the scheme with more than 8 in 10 purchasers using Help to Buy to make their first steps on the housing ladder, and two-thirds of all households to have used the scheme having had combined household incomes of under £50,000.

Demand for new homes has been rather insulated from some wider

Indexed quarterly residential property transactions in England, 2005-2017 (Mar-Jun 2005 = 100)



market trends since the scheme's introduction four years ago. This has allowed for the unprecedented increases in housing supply seen since then. It has been particularly important given the significant depression in the number of second hand housing transactions, which are around 20% down on pre-recession levels. This structural shift in the market shows no sign of reversal. With transaction costs for higher value properties greater than ever before contributing to a general stagnation throughout.

Before Help to Buy comes to an end, government must seek to address the structural shift in the wider housing market which will undoubtedly have a major impact on new housing production when Help to Buy eventually ceases.

With such conditions appearing to be some way off, a priority for the next government will be **TO SECURE THE FUTURE OF THE SCHEME BEYOND ITS CURRENTLY SCHEDULED END DATE OF MARCH 2021**. What may seem like the distant future to many is looming large for house builders as they assess land investment opportunities which may take several years to negotiate the often arduous planning process before they can begin building and selling homes.

An extension of the Help to Buy scheme could be combined with modifications to eligibility or its focus to ensure that it is targeted where and how it can have most impact on housing supply and supporting the home ownership aspirations of hundreds of thousands of people.





TACKLE OUTSTANDING PROBLEMS WITH PLANNING

FORCE LOCAL AUTHORITIES TO TAKE THEIR OBLIGATIONS SERIOUSLY

While house building has surged in many parts of the country, the intransigence of a proportion of local authorities has stymied housing growth in some areas. For some this will be addressed through forthcoming measures aimed at ensuring that local plans are in place and that authorities are adequately planning for housing growth. The exceptions come largely where authorities can fall back on green belt constraints as an excuse for failing to meet obligations.

If the number of new homes is to increase significantly from the 200,000 delivered in 2015/16, and, in particular, if the housing crisis in London and the South East is to be realistically tackled then the ongoing validity of this excuse must be re-considered. Without doing so we risk losing another decade or more through inaction.

New research shows that more than 90% of local authorities with green belt land are currently failing the Housing Delivery Test proposed in the recent Housing White Paper. In other words, there is a clear correlation between under-delivering local authorities and the almost 200 councils with some area of green belt within their boundaries.

Perversely, over the last decade, as the consequences of housing undersupply have begun to bite, the land designated as green belt has actually expanded by 0.22% meaning that in total the green belt currently occupies 13% of England's land mass; an area roughly equivalent to the size of Devon. This compares with just 9% of land which is developed. In spite of hype from anti-development lobby groups, the proportion of new homes built on green belt land has diminished in recent years, and where homes are built a large percentage are sited on previously used land, such as car parks, industrial space or existing residential.²

Addressing this entrenched problem need not result in a significant reduction in green belt extent or quality, but a more pragmatic approach would allow for a greater number of homes to be built in areas close to existing infrastructure and employment centres.

2. Proportion of new addresses created in the green belt fell from 3% to 2% between 2013 and 2016 (DCLG Live Table P310).

INAPPROPRIATE USE OF PLANNING CONDITIONS

A recent survey of HBF's members found that many local authorities are imposing conditions which unnecessarily prevent house builders from commencing construction on new residential sites. The proliferation in the number of pre-commencement conditions as well as the spuriousness of conditions has become a major source of frustration for house builders, particularly as the headline rate of outline planning permissions continues to increase. A growing proportion of recent planning permissions are, therefore, not implementable. This approach from some planning authorities may be related to a lack of resources or simply obstinacy, seeking to delay development indirectly.

Conditions that would more appropriately be imposed pre-occupation are, as a matter of course in many areas, being issued as pre-commencement conditions. A pre-occupation timeframe provides just as powerful an incentive for the developer to ensure the condition is met before homes can be completed and sold but allows the scheme to proceed more quickly, an outcome which should be in the interests of all parties.

Examples provided by HBF member companies of such conditions include:

- **A public art statement including 'a brief explaining how artists are to be involved describing the potential recruitment process' and 'the process for community liaison and engagement' in relation to the art installations**
- **Intricate details at 1:200 scale showing locations of all play equipment and picnic tables**
- **Installation of superfast broadband infrastructure potentially months before the homes are to be occupied**
- **Tree planting**
- **Exact details of all lighting on the development, including lux levels, siting and design**

Swift and efficient housing delivery of new housing should be in everyone's interests and developers should comply conditions in a suitable manner where they are necessary and proportionate. The Neighbourhood Planning Act 2017 can go much of the way towards a more realistic process being adopted by authorities but the relevant provisions require implementation. This should be an early priority for the next Government.

LOCAL AUTHORITY CAPACITY

Local authorities have suffered cuts in spending power, with planning and development spending suffering proportionally the greatest cuts within their reduced budgets. In addition, local authorities have a local monopoly to grant residential planning permissions, with little incentive to operate an efficient, responsive development management service. The introduction of competition into Building Control in the mid-1980s transformed a previously inefficient and cumbersome local authority service.

According to Lichfields, between 2009 and 2016 planning departments experienced a 55% real terms reduction in funding, as the impact of cuts fell predominantly on discretionary departments as a means of protecting other services such as social care. The lack of suitable sites and the paucity of resources within planning departments to process applications and discharge conditions is a recurring frustration for the small house building companies in particular. To address this cause of delay in the system we propose:

A NEW PHASED PLANNING APPLICATION FEE SCHEDULE:

The lack of resources within Local Authority planning departments is a concern to house builders of all sizes but its effects are particularly harmful for SMEs. A phased fee structure for planning applications which, in total, would see revenues for LPAs increase could be introduced which would incentivise good performance and timely decision-making and discharge of conditions.



A NEW DEAL ON INFRASTRUCTURE AND UTILITIES INVESTMENT

New housing developments, particularly those built at scale, often have significant infrastructure requirements. Builders make huge contributions to local infrastructure in the form of new or upgraded education, community and health facilities, additional local affordable housing and improved roads. In addition, developers make contributions to reinforce local water and sewerage infrastructure and help support the rollout of up-to-date broadband networks. But over-reliance on site-specific resources from developers rather than joined-up thinking at a national and local level compromises the deliverability and sustainability of continued increases in housing supply. Communities understandably expect to see and feel the benefit of new development in their area but too often the contributions that builders make go unnoticed and unrecognised at a local level. Addressing this, and reinforcing our creaking national infrastructure should be a major priority as we approach the 2020s. This should sit at the heart of the national industrial strategy.

DEVELOPER CONTRIBUTION MODEL

Our infrastructure is creaking under decades of underinvestment which only serves to fuel anti-development rhetoric by supporting arguments that new homes will diminish local services. The Independent Review of the Community Infrastructure Levy produced many recommendations to address the lack of speed, certainty and transparency in the current model for developers to contribute to local infrastructure, and its findings should be implemented swiftly.

PLACE NEW HOUSING OPPORTUNITIES AT THE HEART OF INFRASTRUCTURE INVESTMENT DECISIONS

The £22.5bn home building industry is unrivalled in its economic and social benefits with very little import leakage and a vast array of direct and indirect advantages for employment, social investment and improvements to the environment. It is estimated that, in addition to providing a home for a household, each new home built supports the employment of more than four people and generates a range of tax receipts for both local and central government. Through direct contributions to community infrastructure, the industry provides an estimated £700m per year in funding for local facilities and is responsible for providing 4 in 10 of all new affordable homes built in England.³

The planning and provision of key infrastructure can create substantial and compelling opportunities to deliver new homes, via large strategic developments, smaller infill schemes and all possible housing sites in between. In many cases this potential can only feasibly be realised if the planning of investment is made with a view to effectively unlocking the housing potential of the scheme.

We have seen in recent years a greater focus given to housing potential by Local Enterprise Partnerships in bidding for central government funding for local and regional infrastructure projects. Where possible, given the scale of the challenge the country faces to close the gap between housing demand and supply, we believe this approach should be adopted when assessing nationally significant infrastructure requirements.

Monopolistic road and water provision has created patchy levels of service and behaviours typical of uncompetitive markets. Without access the provision of water and sewerage services sites cannot be built out at speed. Similarly, without adequate access via new roads, many new homes are unsaleable. However, in both of these areas, house builders are at the behest of third party monopoly providers offering at best patchy services

and at worst total intransigence. Developers make significant contributions to new provision, ultimately acting as external investment in the assets of water companies and local authorities. In the case of water companies, developers have contributed more than £2bn in infrastructure payments since the early 1990s but are frequently being called on to make additional resources available to subsidise others. This threatens viability and, where development can proceed, often extends the process causing frustration, significant extra costs for small builders and fewer new homes.

Monopolistic utilities and infrastructure providers are critical to the speed of, and thus quantum, of housing supply but are rarely factored into the thinking of policymakers when reviewing and addressing barriers to growth. Tackling poor performance and, where necessary, injecting competition is necessary if we are to maintain house building increases and, crucially, boost the number of small house builders delivering new homes.

- **Prioritise reform of the current developer contribution model to improve community visibility of the benefits derived from new housing supply**
- **Make new housing prospects a key factor in assessing future infrastructure investment opportunities**
- **Create a single water and sewerage infrastructure charge and resist attempts by Ofwat and the companies it regulates to give water companies even more powers to levy exorbitant fees which amount to an over-reliance on builders to fund long-term investment in the water companies' assets**
- **Establish a single set of national standards for new roads and incentivise authorities to meet pre-agreed timescales**
- **Introduce service level agreements for monopoly infrastructure and utilities providers which severely hamper the delivery of housing. The performance of providers should be closely monitored in future**

3. 39.4% of new affordable housing built in 2015/16 was via Section 106 (DCLG Live Table 1000)



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

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