

REPORT



SOLVING ENGLAND'S HOUSING SUPPLY CRISIS

THE CONTRIBUTION OF
THE PRIVATE SECTOR

March 2015



Contents

Executive Summary and Recommendations	2
Introduction.....	2
Part 1: Understanding private housing supply	2
Part 2: Recommendations.....	3
Introduction	6
Part 1: Setting the Scene: Understanding Private Housing Supply	8
The problem identified.....	8
The scale of undersupply	9
Matching market supply and demand	9
Causes of market undersupply	10
A brief history of housing supply	11
But surely the industry cannot deliver?	12
Assessing the private sector's contribution by 2020	13
Creating the right conditions for private sector supply	13
Bridging the affordability gap: getting from A to Z.....	14
Quality consistent with quantity	15
The land components of housing supply	15
Part 2: Recommendations	17
Demand.....	17
Supply	17

Executive Summary and Recommendations

Introduction

1. In advance of the General Election and with house building a major area of interest for politicians, this paper attempts to answer the question:

What economic, market, policy and regulatory conditions are necessary to allow the home building industry to achieve sustained, high levels of home building?

2. We start from the position of believing that the private house building industry could deliver a further large increase in output if the necessary market and policy/regulatory environment can be established and sustained, and provided the industry has sufficient time to boost output and rebuild capacity.
3. The introduction of the plan-led system in 1991, and its creation of a near-absolute limit on the availability of housing land, has had a significant long-term impact on housing completions. Under our plan-led system, in which many local authorities have operated without robust, up-to-date plans, house building has become a more complex, risky and costly business. This in turn has influenced the shape of the industry, with a very large fall in SME numbers and significant consolidation among the larger companies.

Part 1: Understanding private housing supply

4. Undersupply of housing in the UK is now a deeply entrenched problem, with a multitude of linked economic and social consequences, including a lack of affordability in the housing market. **The only feasible solution to the country's long-term affordability crisis is for every local planning authority to play its proportionate part in meeting objectively assessed housing need over the long-term.**
5. In previous eras of very high output both the private and public sectors made large contributions to house building. However this provides a somewhat misleading picture in terms of land supply as much of the council housing built in the post-war period was built on land cleared through major slum clearance programmes, while the private sector acquired land in much the same way as it does today, except under a less risky and costly planning system.
6. There is no arbitrary upper limit on the number of homes that could be built by the private sector, *provided the right economic, market, policy and regulatory conditions exist, and provided there is a reasonable degree of economic and market stability for a long enough period.*
7. Best estimates suggest that by the end of the decade social housing providers could be providing 40-50,000 new homes per year, so in order to achieve 200,000+ completions by 2020 the private sector would need to build 150-160,000 homes or more per year.
8. The private house builder business model is well equipped to deliver. The two greatest external factors influencing private housing development in recent decades have been economic and market volatility and the severe restrictions on permissioned land supply experienced since the early 1990s. Rather than seeking a mythical alternative to this model, by ensuring a better supply of permissioned land, alleviating some of the burdens and reducing risk, house builders will again be able to fully respond to local demand.

9. We recognise that over several decades public perception of new development has often been less than overwhelmingly positive but the industry has made progress in improving its image with approaching 90% of new home buyers now saying that they would recommend their builder to a friend. In terms of design, HBF and others have built on the Building for Life scheme introduced in 2001 by developing the Building for Life 12 scheme as a means of encouraging the spread of best practice. In addition to the country's extremely robust Building Regulations regime and its world-beating new home warranties, the offer to prospective purchasers is a good one.
10. In land terms, housing completions over a given period are a function of:
 - i. The quantity of viable, permissioned residential land available for development
 - ii. Housing densities
 - iii. The pace at which schemes are developed
11. Two laws of house building are crucial in respect of the numbers which can be expected from the industry:
 - i. Development of market housing is sales led; and
 - ii. Sales and production, all else being equal, are a function of the number of sales outlets rather than simply the area of land¹
12. Achieving a significant increase in supply over any given period requires:

From the industry:

 - Identification of more sites to bring forward
 - Maximising the build-out rate, particularly for larger sites

From the planning system:

 - Granting adequate numbers of site permissions
 - Granting permissions on a variety of sites of differing sizes and in a wide spread of locations
 - Ensuring policy requirements do not adversely affect viability of sites
13. To increase output house builders need to acquire more land that is viable and consented, increase resources and internal infrastructure and continually replace developed land with the same number or more new sites.

Part 2: Recommendations

14. Our recommendations are all focused on creating the right economic, market, policy and regulatory conditions to allow the home building industry to produce sustained high levels of housing completions.

Demand conditions
15. **Economic and mortgage market conditions** must be favourable for an extended period, including the availability of high loan-to-value mortgages.
16. **Help to Buy Equity Loan (HtB1)** is an exceptionally powerful and well-targeted scheme and must be left in place with minimal alterations until at least 2020. Consideration should be given within the first 18 months of the new Parliament to the likely situation post-2020 as builders are already making decisions taking account of the sales environment post 2020.
17. **Mortgage regulation** must be designed and implemented to minimise adverse consequences for housing production.

Supply conditions

¹ This is to say that we would expect more completions per year from 10 sites of 100 units than a single site of 1000 units, even though the overall land area may be the same.

18. In spite of recent improvements, **the end-to-end planning application process** still imposes unnecessary costs, uncertainties and delays. Improvements are still needed in the areas of:
 - i. Local authority planning and legal resources
 - ii. Introducing a system through which the principle of development only has to be established once, including reintroducing red-line permissions
 - iii. Making better use of design guides
 - iv. Introducing dispute resolution mechanisms
19. **The NPPF** must be left in place with no radical changes.
20. **Land-supply requirements of Local Plans** should in all cases include a 5% additional allowance for an inevitable "implementation gap" plus a 20% allowance to provide market choice and ensure that allocations are not treated as a maximum cap on supply. "Objectively assessed need", determined according to a standardised methodology, would help to provide the robust evidence base for this.
21. Local authorities should identify a realistically assessed **five-year supply of deliverable land** which is based on likely delivery rates from sites and is fully updated on an annual basis.
22. **Robust viability testing of Local Plans** is critical to local delivery and should cover the combined deliverability impact of Affordable Housing, CIL, S106 obligations and other local policies.
23. **Local Plans should include a variety of sites** to speed up potential delivery and support smaller house builders.
24. **The Duty to Cooperate must be made more effective** and **Neighbourhood Plans should support the broader Local Plan.**
25. **Very large housing sites should be treated as national infrastructure** and planned for accordingly.
26. We support a **thorough review of the Community Infrastructure Levy (CIL)** to assess its operation and impact on output and how the levy receipts are being spent. More immediately the unintended consequences of the deadline for introducing local authority CIL charging schedules warrant immediate attention.
27. More needs to be done to end the preoccupation with **land value capture** amongst some local authorities.
28. Positive incentives, such as **Housing Zones** and **Local Development Orders** aimed at **increasing development on brownfield sites** are welcome, but a rigid "Brownfield First" policy which effectively acted as a barrier to any greenfield development would be counter-productive.
29. **The Homes and Communities Agency (HCA)** should continue its successful role implementing and administering a range of Government housing policies.
30. **Speeding up the release of public sector land** should be a priority for Government and the HCA.
31. The industry supports the concept of **New Towns and Garden Cities** but expectations for the potential scale of supply and timescales must be realistic.
32. Allowing for a **broader range of Affordable Housing** as part of S106 agreements would help to provide more housing overall and speed up output.
33. We would welcome a joint commitment between the HBF and Government to agree a **future investment strategy for house building skills** to meet industry requirements.

34. Future schemes aimed at supporting SMEs with **development finance** should be realistic in their expectations of house builders.

The industry continues to **explore ways in which build out rates on large sites can be speeded up**, including through greater tenure mix or inclusion of different forms of Affordable Housing.

Introduction

35. While we need to see sizeable increases in the supply of both affordable and market housing, this paper considers the contribution the private home building industry could make towards solving our housing undersupply crisis. It attempts to answer the question:

What economic, market, policy and regulatory conditions are necessary to allow the home building industry to achieve sustained, high levels of home building?

36. The industry, central Government and local authorities have primary responsibility for creating the right conditions, although many other public and private organisations also influence home building. We believe our conclusions and recommendations will be of value to the new government formed in May 2015, whatever its political composition.
37. Our broad approach to increasing private housing supply is to build on what we already have, taking the best of existing policies and practices and recommending improvements.
38. We do not believe, as some do, that we require significant additional public-sector policy intervention to achieve the required increase in private house building². Additional state intervention and coordination will be needed in some areas, such as Housing Zones or Garden Cities. However the experience of the last quarter century has taught us that high levels of state intervention, especially from local authorities, are not the route to success.
39. The nationalisation of development rights in the 1947 Act, and the introduction of the plan-led system in the Planning and Compensation Act 1991, imposed on local planning authorities statutory responsibility for ensuring the supply of housing land is adequate to meet local housing need and demand. Local authorities that attempt to suppress local supply without ensuring the shortfall is made up by neighbouring authorities are abdicating this responsibility and must be held accountable for the adverse consequences of their decisions on affordability, labour mobility, the distribution of wealth, etc.
40. The introduction of the plan-led system in England has had a major impact on the housing output of the country by creating an absolute limit on the availability of land for housing. Under the plan-led system political pressures have resulted in a tacit endorsement to plan for a fixed number of homes locally, rather than allowing the market to provide the economically optimum number. Using annual net additions to the housing stock (which takes account of new build, conversions and demolitions), the post-war peak in annual net additions to the housing stock occurred in 1987 (254,000). Since then, and following the introduction of the current planning system in 1991, net additions to the housing stock have broken through the 200,000 mark in only three years (2006, 2007 and 2008).
41. In practice since the early 1990s we have had a plan-led system without plans. Housing supply has been both low by historic standards and unresponsive to demand. The use of greenfield land has fallen steeply while brownfield land use has not risen to compensate. We have seen significant consolidation within the home building industry since the mid-1990s, and a long-term, very large collapse in SME house builder numbers (see below), all largely consequences of planning restrictions on permissioned land supply and a policy environment that has made

² We distinguish local authority 'policy intervention' from direct local authority home building which is expected to increase over the next few years, though still remaining at modest levels. Policy intervention through the planning system, reflecting local authority statutory powers and responsibilities, has a profound influence on private-sector home building. However local authority home building has little impact on private-sector home building, apart from the use of local authority land (e.g. land that could be sold to the private sector is developed instead by a local authority).

home building increasingly complex, risky and costly. Looking ahead, we must reduce the regulatory and policy burden and allow home builders to build adequate housing numbers and the right products to meet market demand.

42. There are some who argue the private sector cannot deliver. On the contrary, we believe that the private sector could produce a large proportion – though by no means all - of the new homes we need, *given the right economic, market, policy and regulatory conditions and given sufficient time.*

Part 1: Setting the Scene: Understanding Private Housing Supply

The problem identified

43. There is almost universal recognition among housing experts that England suffers from a serious, long-term undersupply of housing. The three main political parties are all committed to significantly lifting housing completions.
44. Housing undersupply has many adverse social and economic consequences. At the most basic there are not enough homes to go around, so that many households cannot form and existing households can be trapped in inappropriate housing. The foremost economic consequence is that real house prices are higher than they would otherwise be in relation to household incomes – i.e. affordability is stretched. This in turn has many negative consequences, most notably on the labour market and on wealth distribution.
45. It is our experience from local plan examinations that many local authorities argue that increasing housing supply will not improve affordability, although this is something that the NPPG invites plan-makers to consider, and that therefore Local Plan housing policies have nothing to do with affordability which is a consequence of other influences, such as irresponsible mortgage lending.
46. The UK housing market is not a unique economic phenomenon in which the laws of supply and demand are suspended. House prices are a consequence of the interaction of supply and demand, each of which is subject to a range of influences (see below: Matching market supply and demand). However this may not appear to be the case to individual local planning authorities for two key reasons.
47. First, because we have suffered a serious undersupply for a quarter century, many stresses and strains have built up in response, such as a steep rise in young people living at home with parents and therefore not forming households, very low vacancy and replacement rates, etc. These pressures mean that an increase in local supply may not appear to have any immediate impact on local affordability (e.g. with the provision of more homes, some young people may be able to consider forming an independent household and buying a home, which increases effective demand in response to the increase in supply).
48. Second, because undersupply is widespread across many areas of the country (e.g. London and the South East), the actions of any one local planning authority cannot possibly solve the affordability crisis, and in fact may have very little impact on local affordability because buyers may move in from neighbouring areas where supply is still heavily constrained. **An essential requirement for solving the country's affordability crisis** is for every local planning authority to play its proportionate part in meeting 'objectively assessed need', over a long period of time.
49. In addition, some local authorities have argued that because house building rates since 2008 have been low, therefore future provision will not need to accommodate significantly higher numbers (i.e. to meet objectively assessed need). In similar vein, others have argued that the industry is not capable of building many more homes in the future, so there is no need to provide for significantly higher housing numbers in the Local Plan.
50. Both arguments are wrong. Since 2007, by far the worst credit crunch since WWII resulted in an exceptionally long and deep recession, an acute shortage of mortgage funding and a sharp contraction in effective housing demand and

housing transactions. These factors in turn resulted in a significant fall in private-sector home building and loss of industry capacity. The industry has more recently, however, increased private starts, especially since 2012 (an increase of almost 40% in two years), and will continue to increase output as long as economic and demand conditions remain favourable. It will also steadily increase capacity in response to higher levels of demand, though this will take time.

51. However it is absolutely clear that the amount of land and the number of sites coming through the local planning system are critical to the industry's ability to boost housing completions to required levels. Local Plans should enable and encourage increased supply to meet objectively assessed need. They should not attempt to build permanent recession into long-term housing provision.

The scale of undersupply

52. It was estimated in June 2008 that approximately 500,000 households had either not formed (termed 'constrained demand') or were in temporary accommodation³. More recent HBF estimates suggest unmet need and demand are now as much as 1.1m homes⁴. The most robust estimate of future housing requirements⁵ in England is 240-245,000 dwellings per year from 2011-31⁶. Tackling past unmet requirements would push this up to 290,000+ homes per year.
53. However it must be stressed that the official household projections, which are the key driver of Local Plan assessments of housing requirements, are projections of past trends, not forecasts. I.e. they reflect past influences on household formation, both positive and negative. Housing shortages over the last two decades, and poor housing affordability, have restricted the ability of many young people to form independent households. In addition, household formation must have been adversely hit by poor economic, housing and mortgage market conditions since 2008. Therefore the interim 2011-based household projections, and the more recent 2012-based projections, must be treated as under-estimates of true future requirements. In effect the projections build into future housing provision the depressing impacts on household formation of past undersupply and very weak economic and market conditions between 2008 and 2012.
54. Net additions⁷ to the housing stock in England were 136,610 in 2013-14, with new housing completions of 130,340, equivalent to 95% of net additions⁸. Net additions are currently far below future housing requirements.

Matching market supply and demand

55. Housing supply has four main components:
 - Market housing for owner occupiers;
 - Market housing for investors/landlords;
 - Custom-build (including self-build); and
 - Subsidised Affordable Housing which encompasses intermediate tenures and social and affordable rented housing

The private home building industry accounts for almost all market supply, it makes a significant contribution to Affordable Housing supply (primarily via S106

³ National Housing and Planning Advisory Unit (NHPAU) Meeting the housing requirements of an aspiring and growing nation: taking the medium and long term view. June 2008. Technical Appendix B.

⁴ Barker Review: A Decade On. March 2014. HBF website

⁵ 'Requirements' is a comprehensive term covering market demand plus subsidised need.

⁶ Alan Holmans *New estimates of housing demand and need in England, 2011 to 2031*. TCPA.

September 2013. These estimates were constructed using the official interim, 2011-based household projections. The more recent 2012-based household projections will require these estimates to be revised. However projected growth in households in the latest projections is not significantly different from that contained in the 2011-based projections, so any revisions to housing requirements are likely to be quite modest.

⁷ Net additions are new build completions plus net conversions and other net gains less demolitions.

⁸ DCLG Live Tables. Table 120. Components of new housing supply, England

agreements) and the industry is exploring opportunities in the custom-build market.

56. The price of market housing is set by the interaction of supply and demand. Demand is a function of many influences (long-term demographic trends, real income growth, interest rates, mortgage availability and terms (i.e. credit conditions), conditions in the labour market, etc), as is supply (development profitability, planning and land supply, skills, industry capacity and structure, etc). There is no single factor determining house prices, as is sometimes claimed, and nor are prices determined solely by demand or supply influences. As new build market makes up around 1 in 10 all of housing sales it is self-evident that the wider, second-hand market is a far greater determinant of house prices than new build, making house builders price-takers in the overall housing market. The impact that increased supply can have on prices is therefore much greater in the longer-term. It is inconceivable that private housing supply in a single year could be sufficiently large to have a material impact on house prices.
57. UK house prices are very high in relation to household incomes primarily because over the last two decades or more supply has fallen well short of housing requirements, although the credit boom up to 2007 and subsequent credit crunch also had significant shorter-term impacts on prices. In other words, undersupply is a deep-rooted, long-term structural problem, across many areas of the country, and not just a temporary cyclical phenomenon. As observed above, the only solution to the affordability crisis is for every local planning authority to play its part in meeting 'objectively assessed need', over a long period of time.

Causes of market undersupply

58. An adequate supply of permissioned land is a fundamental requirement for public and private home building. Since the plan-led system was introduced in 1991, local authorities have had control over the supply of permissioned housing land, and have therefore exercised a very significant influence on the number of new homes built. Since 1991, private housing completions have been both low (especially in the 1990s), and unresponsive to demand, problems Kate Barker was commissioned by the government to review in 2003⁹.
59. In addition, over the last two decades other major policy and regulatory demands, both national and local, were ramped up, adding to the costs and complexity of development.
60. The use of land value to subsidise Affordable Housing, along with a range of other planning obligations, steadily escalated over the last two decades, so that local authorities became increasingly focused on maximising the extraction of the uplift in land value from the grant of planning permission. As a result, development viability has become a central concern of local planning authorities at both the Local Plan and individual site levels.
61. In addition, local authorities have imposed increasingly prescriptive requirements for design, building performance standards and materials. Most of these have added to costs without increasing revenues, so that ultimately they have had to be funded out of land values.
62. At the national level, the requirements of Building Regulations have been increased, most notably the zero-carbon target for 2016 which has added significant additional cost with little or no compensating increase in sales revenues. Once again, this cost has to be funded out of land values.
63. All of these policy demands have made it more and more difficult for home builders to respond to local market demand – i.e. to put together viable schemes offering the right mix of housing for the local market, the right products, in the right numbers, in appropriate locations - so it should come as no surprise that

⁹ Kate Barker Review of Housing Supply – Delivering Stability: Securing Our Future Housing Needs, March 2004

private housing completions have been depressed. These trends have been particularly damaging to smaller house builders and created major barriers to new entrants.

64. Inadequate levels of home building do not reflect market failure, as is often claimed, but the inevitable consequences of the directions policy and regulatory measures have taken. The housing and land markets work as one would expect, given local authority restrictions on land supply and the many other policy requirements imposed on home building.

A brief history of housing supply

65. From the mid-1950s until the late 1970s or early 1980s, England had a mixed economy of housing supply: the public and private sectors both made large contributions. Between 1954 (the end of materials rationing) and 1980, the private sector accounted for 54% of total housing completions.
66. However the contributions of the public and private sectors to new housing completions in the early post-war decades give a misleading picture from a land-supply point of view. Much council house building involved slum clearance, so that the new homes did not require additional land. However the private sector had to acquire new greenfield land or brownfield sites, as it does today. In addition, in the early decades a proportion of public sector housing was built in New Towns.
67. Public spending constraints in the late 1970s and policy decisions in the 1980s meant that local authority house building had almost ceased by the early 1990s. Housing association completions over the last three decades have remained far below council housing completions from the '50s to '70s. Therefore since the 1980s our system of housing supply has been heavily market-based, reliant primarily on the private sector.
68. Unfortunately at the very time when every effort should have been made to allow the private sector to increase market supply to compensate for the cessation of public-sector supply, the industry's ability to respond to demand was brought under local authority control by the introduction of the plan-led system.
69. As noted above, in the '50s, '60s and early/mid '70s both local councils and the private sector contributed very large numbers of new homes.

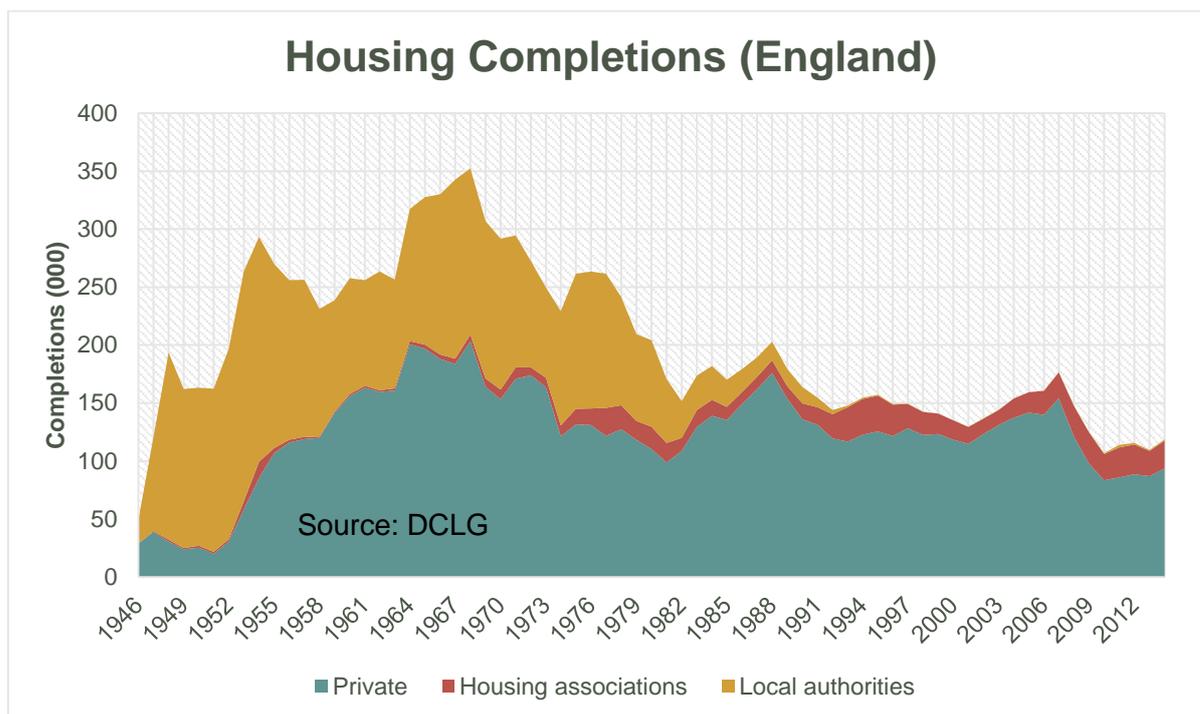
Private House Building Completions: Great Britain

	Number of years of:		Peak (year)
	> 200,000 completions pa	> 150,000 completions pa	
1950-79	5	17	221,990 (1968)
1980-89	-	6	199,910 (1988)
1990-99	-	2	160,700 (1990)
2000-07	-	5	185,000 (2007)

Private House Building Completions: England

	Number of years of:		Peak (year)
	> 200,000 completions pa	> 150,000 completions pa	
1950-79	2	14	203,320 (1968)
1980-89	-	3	176,020 (1988)
1990-99	-	0	
2000-07	-	1	154,210 (2007)

Source: DCLG



70. In England, in the 37 years from 1954 to 1990, the private sector produced in excess of 150,000 homes in 17 years (peaking at 203,000 in 1968), including three years in the 1980s (peaking at 176,000 in 1988). By contrast, in the 23 years from 1991 to 2013, the industry produced in excess of 150,000 homes in only one year (2007).
71. The plan-led system's restrictions on housing land supply over the last two decades, the rising policy and regulatory burden and increasing micro-management of private housing supply by local authorities have had profound consequences:
- Low levels of completions: 2001 saw the lowest peacetime completions since the early 1920s, while a one third rise by 2007 was achieved solely by sharply higher densities;
 - Significant consolidation within the home building industry: of the top 20 home builders in 1995, 11 had disappeared by 2007;
 - A collapse in small and medium-sized house builders (SMEs)¹⁰: a near-continuous fall from a peak of 12,215 in 1988 to 2,710 by 2013, a 78% decline (vs a 55% rise in SME numbers during the 1980s boom)¹¹;
 - A major long-term reduction in the quantity of greenfield land used for housing development: between 1994 and the market's peak in 2007, annual greenfield land use fell 55%¹²; but brownfield land use failed to increase to compensate for the collapse in greenfield land use, despite a strong brownfield-first policy¹³ between 2000 and 2009.

But surely the industry cannot deliver?

72. In a market economy there should not be a private house building limit set in stone beyond anyone's control. The industry is quite capable of expanding capacity and achieving sustained high levels of home building, as it did from the mid-1950s to the late-1980s, *provided it has the right economic, market and*

¹⁰ Using NHBC statistics, we define an SME house builder as starting 100 or fewer homes per year.

¹¹ NHBC industry statistics, published annually in the April issue of *Housing Market Report*.

¹² DCLG Land Use Change Statistics

¹³ Planning Policy Guidance Note 3 (PPG3) required local planning authorities to operate a brownfield first policy and a sequential test. It also established a minimum density of 30 units per hectare which tended to favour brownfield land.

regulatory conditions, and provided it has a reasonable degree of economic and market stability for long enough.

73. There are more than 2,800 active home builders registered with NHBC. Given the right conditions, many existing companies will expand, builders will come back into home building and new companies will be formed. The key to private sector supply is not more state intervention and control, but generally less; and where intervention is judged necessary, for it to be done in a more efficient and timely manner. Ultimately, we must allow market mechanisms to operate more effectively and the industry to respond to local market demand.

Assessing the private sector's contribution by 2020

74. Public spending and borrowing constraints suggest a large-scale publicly-funded house building programme is unlikely before the end of the decade unless there is a drastic reallocation of public investment away from areas like transport, defence, health and education into new housing. The Office for Budget Responsibility (OBR) has estimated that we are only 40% of the way through planned public spending cuts¹⁴.
75. One major benefit of private sector supply is that, far from increasing public spending and borrowing, it is a net contributor to the public purse through taxation (stamp duty and the taxes paid by housing developers and land sellers) and S106 and Community Infrastructure Levy (CIL) contributions. In addition, private home building is aligned with meeting the majority aspiration for home ownership. This is not to say we do not need a large increase in subsidised Affordable Housing supply. However achieving this would require major changes in fiscal policy and is therefore outside the gift of the private sector.
76. Our best estimate, based on current public spending and borrowing projections, is that housing associations and local authorities might be expected to produce around 40-50,000 new homes annually by the end of the decade¹⁵, an estimate that is closely in line with calculations made by the Lyons Housing Review¹⁶.
77. Therefore to achieve 200,000+ completions per year by 2020, a reasonable assumption is that the private sector would need to complete 150-160,000+ homes per year, or about three quarters of total completions.

Creating the right conditions for private sector supply

78. So what conditions would be required to push private sector output to 150-160,000+ completions per year by the end of the decade?
79. Very broadly, the answer is to allow companies to more effectively respond to local market demand by reducing state intervention, restrictions and bureaucracy. However because the causes of undersupply have accumulated over nearly 25 years, it is going to take many years of sustained effort by central government, local authorities, home builders and the many other public and private sector bodies which influence home building to bring supply back into balance with demand and need. There are no quick fixes.
80. This is not to argue that we should abolish the planning system, something no one in the industry would advocate. Rather we need a planning system that *enables* the industry to respond to demand, that achieves desirable planning objectives *within the context of a housing supply system that is heavily reliant on*

¹⁴ "Around 40 per cent of these cuts would have been delivered during this Parliament, with around 60 per cent to come during the next. The implied squeeze on local authority spending is similarly severe." OBR *Economic and Fiscal Outlook*, December 2014 (paragraph 1.7)

¹⁵ John Stewart 200,000 homes in 2020 a realistic possibility. *Housebuilder*, March 2014

¹⁶ Sir Michael Lyons: The Lyons Housing Review. Mobilising across the nation to build the homes our children need. 2014 Table 3, Page 160

the private sector operating in the land and housing markets. This approach is entirely consistent with the broad objectives set out in the NPPF¹⁷.

81. Housing commentators often blame the house builders' business model, or their land buying behaviour, for the inadequacy of supply. This is misguided.
82. The basic business model – identify a potential site, design a scheme to meet local market demand, optimise the mix in a financial appraisal, gain planning permission, purchase the site (almost always in competition with other developers), organise construction, and market and sell the homes – has remained unchanged for decades. Because the industry is made up of private companies, their fundamental rationale is, and always has been, to employ shareholder capital to fund housing development in order to earn an acceptable return for shareholders. The need to earn an adequate profit margin and attempt to protect that margin through the development of a site, and the need to generate a competitive land value, are not undesirable recent consequences of external factors, such as planning and land supply. They are permanent, integral and absolutely necessary features of private housing development.
83. The two greatest external influences on private housing development in recent decades have been economic and market volatility since the early 1970s, and severe restrictions on land supply since the early 1990s along with the growing plethora of other policy demands. These have not changed the basic business model. They have however had two major consequences. They have significantly increased risk, which must be reflected in target profit margins. And they have made the acquisition of new sites to replace sites already developed highly problematic. Not only has permissioned land supply been restricted, but the planning process has become very slow and costly, with highly uncertain outcomes, so that companies have had to increase the stock of land in progress (i.e. sites from the earliest planning stages through to those with a fully implementable planning permission and under construction) in order to maintain a steady flow of activity and profits. The consequences for SME home builders have been especially damaging.
84. The solution is not a fruitless search for some mythical alternative business model, and indeed even if there were such a model the state could not impose it on the private sector. Rather **we should try to reduce the volatility of demand, increase the supply of permissioned land, seek to reduce the national and local regulatory burden, reduce planning delays and ensure committee decisions are more predictable, and ultimately allow home builders to build homes in response to local demand, all of which will reduce the land-in-progress required by the industry and reduce the risks and costs associated with residential development.**

Bridging the affordability gap: getting from A to Z

85. Given sufficiently high levels of market supply, for long enough, to restore a much better balance between housing supply and demand, other things being equal we would see the relationship between prices and incomes restored to more affordable levels¹⁸. However we face a chicken and egg problem: to achieve high levels of private supply, house builders need customers; but because housing is so unaffordable – in terms of the relationship between prices and incomes – effective demand is severely constrained. Therefore the key to accelerating the

¹⁷ Two quotes from the NPPF illustrate this:
 “Development means growth.”

“sustainable development is about positive growth – making economic, environmental and social progress for this and future generations. The planning system is about helping to make this happen. Development that is sustainable should go ahead, without delay – a presumption in favour of sustainable development that is the basis for every plan, and every decision.”

¹⁸ It is highly unlikely supply over a relatively short period – such as a single year – could be sufficiently large to cause an outright fall in house prices. More realistically, if market supply was sustained at high levels for a long period, affordability (the relationship between prices and incomes) would be steadily restored by house prices rising more slowly than would happen under conditions of extreme undersupply, and more slowly than earnings.

process of getting from today's stretched affordability conditions to a situation in which there is a much better balance between supply and demand and affordability is significantly improved (all else being equal), is to have a scheme like Help to Buy Equity Loan (HtB1) which is targeted at both (a) increasing the number of home buyers who can bridge the deposit and affordability gaps *and also* (b) increasing new home supply in line with the increase in supply. Without a scheme like HtB1 the process of restoring the supply/demand balance would take much longer.

Quality consistent with quantity

86. While this report is focused on the quantity of new housing, quality is equally important. When the Barker Review (2004) recommended a major increase in home building, it addressed the potential quality consequences of such an increase by recommending that the industry introduce a consumer code and significantly increase customer satisfaction levels. An industry Code was introduced in 2010, covering the vast majority of home builders. The industry customer satisfaction survey, introduced in 2005, now shows approaching 90% of new home buyers would recommend their builder to a friend.
87. On design, HBF, with other stakeholders, introduced an urban design quality scheme in 2001, Building for Life, which in its current form of Building for Life 12 many home builders are adopting as company policy. We are now also promoting an independent accreditation service providing public recognition for good design under Building for Life 12 as a means of encouraging the spread of best practice. It is recognised, however, that public perceptions of new development are not always positive and it will take time and continued commitment to positive initiatives such as Building for Life 12 to shift these perceptions.
88. England also has one of the most robust systems of Building Regulations in the world and the UK has world-beating warranty protection for new home buyers.
89. Overall, therefore, the industry has responded very positively to Barker's recommendation, but recognises the need for continued commitment to the values it is pursuing.

The land components of housing supply

90. In land terms, the number of housing completions over any given period is a function of (i) the quantity of viable, permissioned residential land available for development – both overall land area and the number of sites - (ii) housing densities, and (iii) the pace at which schemes are developed. Because the average housing density rose very sharply from 2000 to 2007 and has remained at a high level since then, there is little opportunity to boost numbers via even higher average densities. So rather than building up, we must focus on building out (i.e. more sites) and building faster.
91. Two laws of private home building are crucial to land supply: (a) development of market housing is sales led, and (b) sales and production, all else being equal, are a function of the number of sales outlets, not simply the area of land. E.g. we would expect more completions per year from 10 sites of 100 units than from one site of 1,000 units.
92. The number of sites companies will bring forward for planning is heavily dependent on the planning environment as well as the attitude and capacity of statutory consultees. If house builders believe a local authority has a positive attitude towards housing development, and is therefore likely to grant permission for suitable sites, then companies will bring forward more sites. Conversely if planning permission is known to be extremely difficult to obtain and the local authority is hostile towards new development, there will be little point in devoting resources to identifying sites.

93. From a land supply perspective, producing more housing over any given period requires:
- From the industry:**
- Identifying more sites to bring forward for development;
 - Maximising the build-out rate of sites, especially larger sites.
- From the planning system:**
- Granting adequate numbers of site permissions;
 - On a variety of sites, locations, sizes, etc;
 - Ensuring local policy requirements produce permissioned sites which are viable, and therefore get developed.
94. The housing crisis has taken decades to develop and will not be solved overnight. In order to increase home building on the scale required house builders need to acquire more land that is viable and consented, increase resources and internal infrastructure and continually replace land that is being developed with the same number or more new sites.

- iii. Local planning authorities should make greater use of **design guides** to facilitate more and quicker planning permissions. Local Development Orders are a positive step in this direction.
 - iv. Planning appeals are expensive, cause long delays and can be disproportionate to the problem. We support the intention to introduce a **dispute resolution mechanism** for Section 106 obligations and believe this could go further in supporting the swift resolution of lesser planning issues, including planning conditions.
101. The **NPPF** must be left in place, with no radical changes; the Planning Inspectorate (PINS) must continue to require sound Local Plans, based on “objectively assessed need”; there should be a statutory requirement for local authorities to have a deliverable, viability-tested Local Plan, by a fixed date and with regular reviews.
 102. The **land-supply requirements of Local Plans** should be based on objectively assessed need, *plus* a 5% allowance for the inevitable “implementation gap”, *plus* a 20% buffer in all plans (i.e. not just those with “a record of persistent under delivery” as currently required in the NPPF) so that allocations are not treated as a maximum cap on supply. This approach would be in line with the Barker Review’s recommendation. Introducing a standardised methodology of assessing objectively assessed housing need would also provide greater transparency and genuinely meet its aims of helping communities to plan for growth. Furthermore, estimates of housing requirements should be treated as a minimum rather than maximum number if local authorities are going to fully plan for the needs of communities.
 103. Local authorities must identify a robustly and realistically assessed **five-year supply of deliverable land**. Assessments of the likely rate of delivery from larger sites would also aid the process of planning for growth. Once published, it is important that Local Plans are not then treated as a final, complete document. Full annual updates should be required of local authorities to give a regular assessment of whether or not the Local Plan is delivering the number of homes required and ensure that it is always contemporary.
 104. The deliverability of Local Plans should continue to be subject to robust **viability testing**, covering the combined viability and deliverability impact of Affordable Housing and other S106 demands, CIL and all other local policy demands.
 105. However the **Duty to Cooperate** (DtC) must be made more effective, including requiring that if a constrained neighbouring authority does not object to a Local Plan then its reasons for not objecting should be closely scrutinised; **neighbourhood plans** must support Local Plan policies, as the NPPF requires, and not seek to block housing supply.
 106. Local Plans must allocate a **variety of sites**, by size, locations, markets, etc to enable the industry to maximise sales and production and to assist new entrants. To achieve this the relevant NPPF paragraphs need to be strengthened. Paragraph 47 refers to providing deliverable sites “to ensure choice and competition in the market for land”, while Paragraph 50 refers to providing “a mix of housing” to meet different current and future needs. These separate requirements need to be linked, so that local planning authorities are required to provide a wide mix of sites (location, size, markets, etc.), to enable house builders to provide the widest possible mix of housing, and so increase overall housing supply.
 107. For very large housing sites a different process of planning should be adopted. These **large sites should qualify as significant pieces of national infrastructure**. Planning for them at a national level would reduce unrealistic burdens that are often placed on local authorities.
 108. Offering **financial incentives to local authorities to grant more residential planning permissions** must be the right approach. The incentive effect of the

New Homes Bonus appears rather weak. The Government should improve the scheme or design a more effective alternative. One simple change that could be made to the current New Homes Bonus scheme would be to withhold monies in cases where permission has been granted on appeal, as announced in the 2013 Autumn Statement. This funding could be re-distributed to provide a stronger bonus to councils that have planned positively for growth. An incentive providing access to more finance for infrastructure investment could be very effective in making it politically easier for local authorities to promote development especially if communities saw the benefits during development or even before, perhaps through a form of repayable finance from government. Tax Increment Financing (TIFs) could be a positive incentive. Housing Zones offer a valuable opportunity to test such ideas.

109. With no **strategic planning** tier between local and national (outside London), coordinating planning for strategic infrastructure and housing, and larger-than-local issues such as Green Belt, will need special measures, a situation recognised in London; the DtC and Local Enterprise Partnerships (LEPs) need considerable improvements to bridge this strategic gap. To ensure Local Plan policies are aligned with the objectives of relevant LEPs, LEPs should be closely involved in the local plan-making process, including commenting on Local Plan policies and attending Local Plan EIPs. LEPs should be fully engaged in local housing issues as they affect the housing market areas within their boundaries. The developing City Deals programme will also be relevant to tackling these strategic issues.
110. **Green Belts** have an enormous influence on housing numbers and location, both good and bad. They have, as originally intended, prevented urban sprawl and the coalescence of settlements. However because the built-up area of towns and cities with long-established Green Belts has in many places expanded up to the Green Belt boundary, further development has had to 'jump' the Green Belt into what might be regarded as less environmentally sustainable, distant locations. An effective approach to Green Belt policy constraint is difficult to achieve at a local level. Upon introduction its application was intended on a strategic regional level. We support the broad Green Belt principles set out in the NPPF (paragraphs 79-92). However the proposition that Green Belts should only be altered "in exceptional circumstances" should not be interpreted to mean Green Belt boundaries should be fixed for all time, regardless of circumstances, such as when these long-established boundaries seriously constrain housing provision and result in unsustainable development. Maintaining a Green Belt boundary at all costs, even at the expense of achieving sustainable development, undermines the fundamental objective of our planning system as set out in the NPPF²⁰.
111. To avoid over-politicisation of what can often be a sensitive subject, politicians and stakeholders involved in debates should be clear that Green Belt policy is a planning policy tool rather than any ecological or environmental policy and that Green Belt status does not confer any particular environmental value to the land concerned.
112. The provision of infrastructure is critically important, both to allow development to take place and mitigate its impact, and to address one of the most common objections to new housing, namely that it will increase pressure on already-stretched local infrastructure. We are very concerned that lack of infrastructure, especially water, has recently become a major justification for not meeting objectively assessed local housing need. This is putting the cart before the horse. Infrastructure provision should be provided as a necessary consequence of residential development, and not seen as a block on meeting housing needs. This is a further reason why LEPs must be closely involved in the local plan-making process. It is also another reason why an incentive that allows access to finance facilities for infrastructure investment could prove a powerful way of transforming attitudes.

²⁰ 'The first sentence in the Ministerial Foreword to the NPPF is: "The purpose of planning is to help achieve sustainable development."

113. Access to such finance is also necessary to supplement the **Community Infrastructure Levy (CIL)**. We strongly support the current DCLG review of CIL which must include CIL's operation, its impact on output and how levy money is being spent; the exemptions (Affordable Housing, custom build) and diversion of up to 25% of funds to local communities must be reversed to ensure there are adequate funds for the infrastructure requirements arising from development identified in the Local Plan, and that the burden is shared fairly across all development; depending on the outcome of the review, some combination of CIL and S106 agreements for sites of different sizes may be considered appropriate. However, it must also be recognised that even with such changes CIL is unlikely in many areas to be sufficient to finance all infrastructure needs related to development. The basis on which access to a separate infrastructure finance facility is set up can therefore be an effective incentive, as argued above.
114. More immediately, the implications of the deadline for introducing a local authority CIL charging schedule warrant careful attention. The limit on local authorities being able to seek a maximum of five planning obligations since 2010 for types of infrastructure or specific infrastructure projects under S106 create the potential for authorities to attempt to refuse permission on the grounds that the impact of a development is unable to be mitigated as developers' hands are tied.
115. Local planning has become too preoccupied with maximising **land value capture** through local planning policies; post-war experience and expert opinion show excessive "taxation" of land reduces housing output; the viability and deregulatory changes already introduced (Local Plan viability testing, referring unviable Affordable Housing demands to PINS when the local authority will not negotiate, drastically scaling back local standards, scaled-back S106 demands with CIL) must be maintained or pushed even further.
116. We would encourage the design of positive incentives to increase the development of suitable **brownfield sites**. Such incentives could include the wider provision of repayable government finance to meet the upfront costs of remediation and infrastructure provision, as well as improvements to current regulatory and tax provisions that relate to brownfield remediation in order to make this more commercially attractive. However evidence from the period 2000 to 2009 showed that a "brownfield first" policy would not be an effective way to increase brownfield land use. During this period, brownfield land use did not significantly change, but greenfield land use fell sharply, so that overall housing completions were adversely affected.
117. Therefore HBF supports **Local Development Orders (LDOs)** to simplify and speed up the planning process for brownfield sites and get work on site started more quickly. We also support the concept behind **Housing Zones** for brownfield sites, including the provision of repayable infrastructure finance to unlock their development, and we favour extending this programme in due course.
118. The **Homes and Communities Agency (HCA)** should continue its successful role implementing a range of Government housing policies. It is clearly valuable having a dedicated housing delivery agency within Government.
119. Further efforts are needed, working with the development industry, to speed up the release and increase the supply of **surplus public sector land** and to reduce complexity and cost for bidders. In its 2008 report the Office of Fair Trading (OFT) concluded that between a quarter and a third of potential housing land was owned by the public sector²¹, so public sector bodies clearly have a very significant role to play in increasing housing supply. The new role for the HCA as a single channel for the vast majority of central government public land disposals is a positive development. The process for acquiring public land through the HCA can still be improved and the HBF is advising the HCA on how this could be achieved. Early signs indicate that the Agency is well placed to deliver efficient

²¹ "the three databases we have used suggest that the public sector accounts for between a quarter and a third of all land currently deemed suitable for residential development" OFT *Homebuilding in the UK; a market study*. September 2008

- disposal of land without imposing unnecessary burdens on purchasers or lengthening the process unduly. The greater availability of land that has been seen following the introduction of the NPPF and the requirement for five-year land supplies in Local Plans means that publicly owned sites for new housing are in competition with private land. If the former is too complex or costly to purchase and develop because of red tape, overly prescriptive conditions or uncertainty house builders will look elsewhere for their most important raw material: land.
120. The industry supports the concept of **New Towns** or **Garden Cities**, but there must be realistic expectations of what they can deliver, over what timescale, and the numbers needed to have a material impact on housing supply. Realistically they are very unlikely to make a significant contributions towards housing numbers for some years. They will have to be public-sector driven: land assembly, planning, up-front infrastructure funding, master planning, land disposal, etc.
 121. **Affordable Housing** has an extremely valuable role within total housing supply, though it should be recognised that S106 Affordable Housing policies make little or no contribution to aggregate housing supply as they are provided on permissioned plots on private housing sites that would otherwise have been developed for market sale. Public finance, subsidy and borrowing, will have to fund the bulk of future Affordable Housing supply. However private housing supply could be speeded up if local authorities allowed a wider range of Affordable Housing types within S106 agreements (e.g. shared equity, discounted market sale rather than the frequently narrow emphasis on social rented and affordable rented housing), and if the definition of Affordable Housing allowed the land-value subsidy in S106 agreements to fund purely private sector supply.
 122. The industry must address the **skills** required to increase output. Our strategy includes a positive image campaign, better engagement with the education sector, developing tailored training and qualifications and working with HBF members to develop new industry-wide ways to recruit and train more entrants to the trades and professions.
 123. While the onus is on the industry to work positively on such initiatives, it is vital that industry efforts are properly supported by Government and other bodies where appropriate. In particular, our strategy requires both the Construction Industry Training Board (CITB) and Government (BIS) to take a fresh look at identifying the best structure and form of funding support to enable companies to maximise their own investment in new talent to meet industry requirements. We recommend therefore a joint commitment between HBF and Government to discuss and agree a future investment strategy for house building skills that would seek to identify and bring together clear funding streams to deliver identified industry requirements. All stakeholders also need to seek ways to counteract future cyclicalities in skills investment so we learn from the problems of the past.
 124. All of our recommendations to increase output, expand capacity in the home building industry and increase confidence in long-term supply are equally relevant to the **supply chain**: encouraging investment in new plant, expanding existing operations, innovation and R&D.
 125. **Development finance** both availability and terms, is still a barrier to SME expansion and start-ups, although the situation eased significantly in 2014. However while debt finance is more readily available, equity finance remains a barrier. All current SME funding schemes, both general and those targeted at house builders, should be reviewed to assess their impact on SME house builders and potential for being made more effective. Some current schemes explicitly exclude residential development (e.g. the Enterprise Investment Scheme). Others require the company to have a track record and sites to have planning permission before funding is available. This means new entrants, which we are all keen to encourage, are excluded from accessing such schemes. Even for existing companies, the requirement to have already acquired an interest in the land and secured planning permission makes many initiatives an unrealistic prospect for SMEs.

126. New build for **institutional investors in the private rented sector** (PRS) is difficult to make financially viable, given high house prices and land values, although schemes can be made to work with the right special measures. House builders continue to assess this market, and some are successfully developing schemes, while we understand there is growing institutional interest in investment in the sector. The Government's current initiatives are achieving institutional investment for the first time in 30 years of Government efforts, so any threat of rent or other financial controls needs to be very carefully considered in advance or investors may lose their nerve, as warned of in Sir Adrian Montague's report to the Government in 2012.²² To increase the scale of the opportunities afforded by expanding institutional investment the industry continues to engage with the major financial institutions and this is likely to become even more commonplace as the general recovery in the house building sector continues.
127. We fully support efforts to encourage more **custom build housing**. Increased development should add to the sum total of new housing and, in particular, it offers a potential business opportunity for SME house builders to expand into this market. The new Government should review current schemes targeted at boosting custom build to make sure they are as effective as possible. SMEs have very limited resources, so schemes must be as user-friendly as possible to be successful.
128. The industry is considering ways in which the **build-out rate of larger sites** might be increased. The build-out rate for the market housing provided by a developer on a site (or developers, if multiple sales outlets) will be determined by the local market's capacity to absorb the homes being offered for sale. However there may be opportunities to open up additional phases/sections of a site by offering alternative products catered for different markets, either directly by the lead developer, or by offering later phases to other builders with a different product range, including SMEs. For example, the large cohort of post-war baby boomers, who have very high rates of home ownership, will produce an enormous rise in older home owners over the next couple of decades. This should offer a potentially large empty-nester downsizing market opportunity for new housing. There are two other options that could speed up delivery on larger sites. As noted above, if local authorities adopted a more flexible approach to the way that Affordable Housing is provided via S106 agreements on private housing sites, for example allowing discounted market sale rather than emphasising subsidy-heavy social rented housing, this could make it more viable to meet those obligations earlier in the development process

and so speed up build-out rates. In addition, institutionally-funded private rented housing may be possible on phases of larger sites that would not otherwise be built until much later.

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²² Review of the Barriers to Institutional Investment in Private Rented Homes. August 2012. Paragraph 28



About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's members account for around 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.

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home building
industry”*