

**ACHIEVING THE SUPPLY OF 225,000-275,000
ADDITIONAL HOMES A YEAR:**

**HOW AN ASPIRATION COULD BECOME A
REALITY AND WHY IT PROBABLY WON'T.**

**Submitted by *asocialdemocraticfuture* to the DCLG consultation on the
February 2017 Housing White Paper (HWP, 2017).**

Fixing our Broken Housing Market: Cm 9352, DCLG, February 2017.

Introduction

There is general acceptance that new housing supply in England needs to reach at least 250,000 dwellings per annum. Indeed, it is officially projected that c220,000 new households will form annually until 2022¹. This suggests that annual housing supply should exceed 250,000 dwellings, if demand from new households is to be met and significant inroads made into the accumulated supply backlog, which was aggravated by the building slump that followed in the wake of the 2008 credit crunch.

Such supply requirements need to be made a key strategic policy objective to be embedded within the primary macro-economic policy framework, and backed by concrete policies that are consistent with the actual achievement of the target timeline. But successive governments and oppositions in practice, however, have tended to treat their stated supply targets as aspirational. But, a target is not a policy; nor, is it a plan. Unfortunately, the February 2017 Housing White Paper (HWP, 2017) is no exception to that.

The prime minister declared in its foreword that 'I want to fix this broken market so that housing is more affordable and people have the security they need to plan for the future'. Its introduction then went on to recognise that 'that it may be in the interest of speculators and developers to snap up land for housing and then sit back for a while as prices continue to rise'.

That apparent shift in, at least presentational emphasis, towards correcting market failure within the housing system and its acknowledgment of the need to achieve an annual new supply level of between 225,000 and 275,000 dwellings range is welcome, as was its, in the main, eschewing of an explicit politically partisan approach.

In line with that, the government showed some evidence of listening to criticism of her predecessor's flagship starter homes initiative, to the extension of the right-to-buy to housing associations, as well to the associated requirement for local authorities to sell off its most valuable stock to pay for that extension.

The need to 're-think housing policy' and to focus on the action delivery of the new homes in a more consensual, concerted, and time-limited manner, likewise, is refreshing – at least before one realizes that that laudable and required approach is not actually backed by either actual policy content or the political commitment that will be needed to overcome the inherent obstacles and complexities that 'fixing the UK broken market' requires.

Legislation is promised to allow locally accountable New Town Development Corporations to be set up. Local authority co-operation to bring forward large scale

¹ *Household Interim Projections, 2011 to 2021, England, DCLG Housing Statistical release April 2013, project that the number of households in England will grow to 24.3 million in 2021, an increase of 2.2 million (10 per cent) over 2011, equating to around 221,000 households per year. That projection was based on population projections and past trends, and was updated by CLG in February 2015 in its 2012-based Household Projections: England 2012-2037. That reported that number of households in England is projected to grow from 22.3 million in 2012 to 27.5 million by 2037, an increase of 5.2 million (24 per cent) over 2012. This equates to on average 210,000 additional households per year, reflecting the projection that while during the period 2012-22 average annual growth will be 220,000 households, that annual growth is projected to reduce to 189,000 during the final five year 2032-37 period covered by this latest round of projections. Average household size is projected to continue to fall from 2.36 in 2012 to 2.21 by 2037.*

and high quality new housing schemes is to be 'encouraged', along with the development of small and medium housebuilders, as is the further release of brownfield and public land in order to allow 'at least 160,000 additional homes to be built'.

These policy initiatives follow the same groove that New Labour's 2003 Sustainable Communities Plan (2003 SCP) did. This had earmarked funding to support the site assembly and remediation of brownfield land, the provision of essential local infrastructure, and then additional affordable housing, across four existing growth areas: Thames Gateway (including Ebbsfleet), Milton Keynes/South Midlands, Cambridge/Stansted - all of spatially covered large sub-regional areas - along with the Ashford area².

The 2003 SCP was followed by the 2007 Housing Green Paper (2007 HGP)³. Its main plank was the setting of a new housing target for 2016 onwards of 240,000 additional homes to be provided annually in England, within a total of three million new homes needed by 2020, two million of which to be provided by 2016. The short-term outputs and impacts of the 2007 HGP in practice proved to be limited and disappointing, save, perhaps, with respect to brownfield densification, while noting that the government was replaced in 2010 by the coalition government, which went on to abolish regional planning strategies.

Successive Labour, coalition and conservative governments over the past twenty years have tended to fall back on large scale planning initiatives, such as new towns or garden cities, to make a lion's share to contribution to the achievement of their housing supply targets, but, inevitably, some years in the future beyond the next election⁴.

² The 2003 Sustainable Communities Plan emphasised the differences between regional and sub-regional housing markets, with excess dwelling supply being a problem in the west midlands and the north-east, reflecting a movement of households out of conurbations to more suburbs and rural areas considered more environmentally and educationally attractive. Large scale housebuilding on greenfield sites, located often on the edges of conurbations in, for example, Yorkshire and north-east, facilitated such internal migration. But with housing excess demand concentrated in London and the south-east, it argued there that new build supply was skewed towards larger family-sized houses, when smaller units suitable for single person households was under-supplied by the market. That underscored the case for greater urban densification; the average density for new build on greenfield land in the South East was 22 dwellings per hectare; if all future development planned for the south east were built at 30 dwellings per hectare, an area the size of Peterborough over the next 15 years would be saved. <http://webarchive.nationalarchives.gov.uk/20120919132719/www.communities.gov.uk/documents/communities/pdf/146289.pdf> .).

³ Homes for the future: more affordable, more sustainable, Command 7191, CLG, HMSO, July 2007: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/243191/7191.pdf

⁴ The Labour Party 2014 Lyons review, for example, made a greater role for, and supply contribution of, SME builders central to its housing supply delivery grid for a Labour government elected in 2010; while garden towns and villages can be traced to back to the 2007HGP and the earlier 2003 Communities Plan, with limited progress. Incremental 2017 HWP proposals to encourage SME's include amending the NPPF for at least 10% of sites allocated for residential development in local plans to be sites of half a hectare or less, and for local planning authorities to work with developers to encourage the sub-division of large sites, echoes the 2004 Barker final report recommendation 38: 'local authorities should also consider the level of competition in the new build market when granting permissions. They should discuss the build out rates for large sites, and, where appropriate, encourage developers to split up these sites'. Meanwhile, housebuilding SME's have continued to decline sharply and steadily due to consolidation or bankruptcy.

The 2017 HWP itself, while supporting pre-existing proposals to create ten new garden towns and cities, and 14 new garden villages, concedes that only around 25,000 homes are expected to start on site from that source by 2020⁵. Where is the required additional supply going to come from in the meantime?

The actual new policy offer contained in the 2017 HWP, in the main, is limited to incremental – although mainly laudable - proposed changes to the planning system - focused on facilitating the completion of robust local plans that capture local additional housing requirements accurately, and on the overall expedition of the planning approval process.

But such an offer is quite insufficient to ‘fix Britain’s broken housing market’; nor, is it consistent with the sustainable achievement of annual new dwelling supply within the set 225,000-275,000 dwelling range, even when taken over rolling three year periods.

The implementation of government objectives remain heavily dependent on local action, when, local reaction or inaction across many ‘shire’ areas has tended to stall or stymie new housing developments. Certainly, the required step change in housing supply to an annual 225,000-275,000 range to be both achieved and sustained requires concerted central direction, action, and oversight.

Yet, the 2017 HWP continues to shy away from measures that could facilitate the release of some green belt land of limited environmental amenity for housing use. Successive government retreats on the green belt suggests that when push comes to shove it is almost certain that the political head of steam, compared to that needed to support the attainment of the government’s professed aims, will almost immediately implode into a damp squid.

The most likely bet is that the 2017 HWP - like its predecessors - will just become yet another historical artefact to any researcher interested in evidencing the successive failure of successive governments to re-align the housing system so that it supports, rather than retards, the combined pursuit of macro-economic stability and sustainable growth, economic efficiency and social justice.

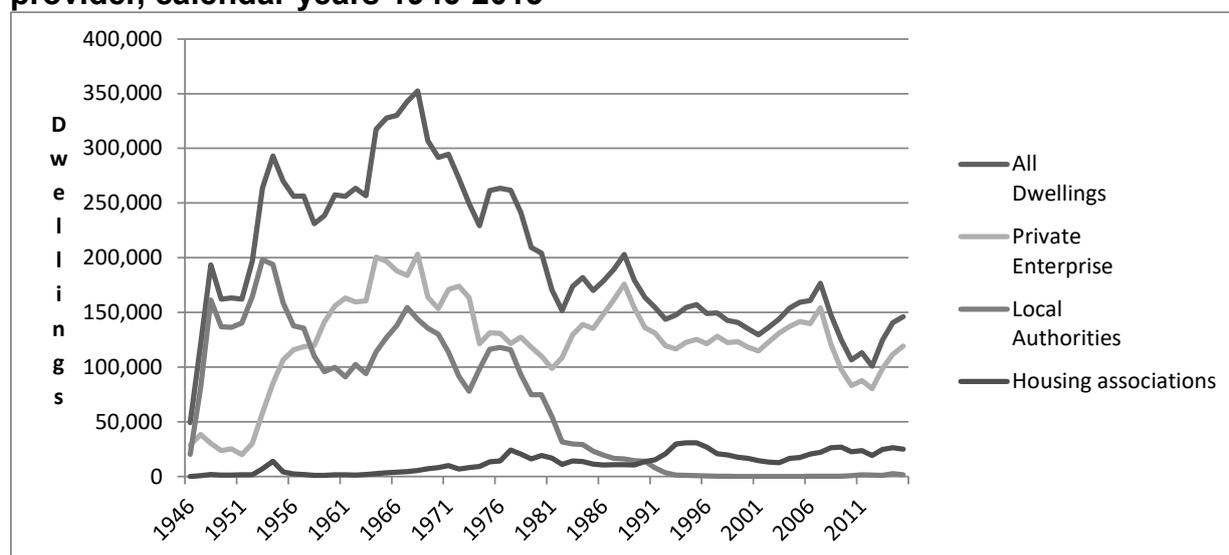
In particular, the 2017 HWP fails to put forward a strategy containing backed by interlocked measures that are actually capable of addressing, rather than paying lip service, to the following:

(i) Combined impact of a declining secular trend in private (market) completions, not offset by increased housing association completions

The peak decade of new housing completions – the sixties – required substantial and sustained contributions from both the public and private sector, as figure 1 below records.

⁵ Ibid, p.82

Figure 1. Dwelling completions, in England, in total, and by tenure type of provider, calendar years 1946-2015



In each calendar year from 1964 to 1969 new build completions annually exceeded 300,000 in England. As figure 1 also graphically shows, successive cyclical peaks and troughs (except in the early nineties) of private market completions subsequently, trended lower; local authority and then social housing landlord sector completions also trended much more sharply lower, but across a period that both began and ended earlier than it did for private completions: the mid-fifties to the nineties.

Since 1976 total annual new housebuilding completions have never exceeded 250,000 dwellings. The trend of private completions continued downwards from their late sixties peak, while the progressive curtailment of local authority new build activity from 1980 onwards, was actually accompanied, rather than offset, by declining housing association new build activity. Since the eighties, average annual private completions, taken over successive five year periods, as recorded in the new housebuilding series reported in table 1, have not exceeded 130,000 dwellings⁶.

⁶ The DCLG table live 120 within the housing supply series, and which reports high levels of total completions than does the newbuilding series, reporting total completions for the most recent 2006-16 period, reports an annual average total completion level of 149,000 dwellings for that entire period, and 183,000 across the 2006-2009 cyclical peak years; a decomposition of that total indicates that private completions annually contributed an average of 105,000 dwellings during the 2006-16 period, and 149,000 dwellings between 2006-2009 – actually lower than the level of private completions during the late eighties in the new housebuilding series. Similar to the 1986-90 Lawson boom period, the level of private speculative completions as achieved during 2002-07 proved not to be sustainable.

Table 1: Average annual dwelling completions, by tenure and stated period, England, for stated successive five calendar year periods, 1946-2015

Year	Private Enterprise	% of all dwellings	Housing Associations	Local Authorities	Total public % of all new completions	Total all dwellings
1946-50	29,374	21.3	1,122	107,336	78.7	137,830
1951-55	60,224	25.4	5,796	171,182	74.6	237,204
1956-60	130,440	52.6	1,630	115,894	47.4	247,966
1961-65	176,184	62.0	2,302	105,814	38.0	284,300
1966-70	178,488	55.0	5,888	140,440	45.1	324,810
1971-75	152,248	58.2	9,664	99,634	41.8	261,546
1976-80	121,716	51.6	18,956	95,372	48.4	236,044
1981-85	122,322	72.1	13,512	33,782	27.9	169,614
1986-90	155,342	84.9	11,362	16,220	15.1	182,926
1991-95	123,100	81.2	25,522	2,988	18.8	151,610
1996-00	122,762	85.6	20,472	236	14.4	143,468
2001-05	129,660	89.6	14,954	166	10.4	144,778
2006-10	119,224	83.1	23,834	422	16.9	143,440
2011-15	93,072	77.6	25,362	1,460	22.4	119,892

Source: Derived from DCLG Housing Statistics, Live Table 244, November 2016

The combined product of these two secular trends, has been a continuing declining total completion trend, interrupted only by unsustainable cyclical booms in private completions during the 1986-90 and 2002-2007 periods. The implosion of those two booms, by undermining the physical and human capacity of the housebuilding industry, further pushed the medium-term private completion trend downwards.

The impact on net housing supply of that downward trend was not offset on a sustained basis by compensating increases in post-1991 affordable housing programme completions. Although housing association completions during the mid-nineties (conservative) government during the 2002-7 period, and most recently, as a product of the coalition government's programmes in 2015-16, did manage to touch an annual level of 25,000 dwellings, but that level was quite insufficient to counteract the downward secular private completion trend.

ii) Inflated, yet volatile, land costs.

It is not the construction cost of housing (taken as a rough rule of thumb to be c100k) – that tends to vary with prevailing input material and wage costs - that makes housing unaffordable for the majority of new households, but the inflated yet volatile cost of land.

While the average per hectare price of agricultural land seldom exceeds 20K, its value attached with planning permission for in residential use, ranges from c£1.4M in the Medway Towns, to over £4m in Oxford and other high growth towns and outer London, and up to £10m in particular areas of central London:

That translates, assuming a density of 30 dwellings per hectare (the government's minimum target density), into a land sunk cost of 133k per dwelling within the total development costs of the dwellings that are subsequently built on that land in Oxford and other high similar high demand areas.

Scaling down that sunk cost on a sustainable basis would provide the most direct and effective route to securing the affordable housing needed at an acceptable public expenditure cost. Average house price across many areas of London and other demand areas have now passed the eye-watering level of half a million pounds, reflecting current and recent past land prices. Securing affordable housing through planning obligations on such sites will inevitably prove to be an expensive and confuted process: common sense screams the land value should be deflated directly instead. The public policy issue is not whether it should, but how.

Between 1983 and 2007 land prices increased three times as much as did house prices, while also fluctuating more widely in response to market downturns. As a proportion of final dwelling cost, land values have risen to roughly a third in the same period, and much more in areas of high housing demand⁷.

The rising cost of land is a function of both of the scarcity of residential land attached with planning permission in areas of high housing demand relative to supply, and with the market failures that are associated with the development of land for residential use by the housebuilding industry, to be considered below.

The secular downward trend in private sector completions cannot be divorced from this intrinsic feature of the housing and planning system. Not only that, but steeply rising land prices and thus development costs increase the relative cost of publicly-provided-or enabled affordable housing and its claims on available public expenditure resources, subject to competing pressures from the health, social care, and education sectors.

Incremental changes, such as public-led land-pooling, as proposed in the 2017 HWP might help at the margin – if effectively designed and executed – but tangible and sustainable progress requires a much more over-arching strategic approach in order to improve the supply responsiveness to housing demand to deflate those land costs directly.

Market failure undermining the supply of homes provided in the right quantity and places by the private housebuilding industry

The demand for residential land, and hence its supply value, is largely derived from market conditions in the wider speculative housing market. These conditions are, in turn, largely determined by the tradable value of second-hand homes. This reflects the fact most sales at any particular time are traded existing homes, rather than new homes, which cannot sell at an uncompetitive premium above the prices commanded by comparable second hand ones.

An inflating housing market will therefore lead to inflated expectations by private developers of future dwellings sale values. These expectations will result in such developers, wishing to exploit the rising market, bidding up the price of land with planning permission for residential use, which, then often induces a further bubble in the value of such land.

Essentially, the business plans of most housebuilders are largely geared to land

⁷ Figure 2.1, *We must fix it: Delivering reform of the building sector to meet the UK's housing and economic challenges*, Matt Griffith, IPPR and underpins this and the following sub-section, December 2011. His work remains highly relevant to this discussion.

speculation and trading, *realising profit from the windfall gains attributable to planning permission change in use, and not from maximising construction output at a sustainable margin.*

They will often seek to develop their housing development land back gradually during a period of anticipated continuing house price inflation, in order to maximise profits by capturing further uplift or overage of the land value that they anticipate can be realised in the future. Potential developments can be postpone or withheld during periods when demand is outstripping supply, therefore.

That not only adds further to house price inflationary pressures in the short term, but it also exposes the housebuilders to the risk of a future sudden market price or crash, in the event of their expectations not being fulfilled due to housing market conditions changing, say, because of an external shock or a tightening of macro economic policy, as we remember, too well, did happen in the aftermath of the credit crunch in 2008.

The developer will often then choose not to develop the land, preferring to wait instead house prices to recover and so avoid posting a development loss, or, they can go bust if resulting liquidity problems lead to them breaching their banking covenants. Either way, the needed homes don't get built⁸.

The end result across many areas of high demand and need is that residential development will not proceed unless the expected resale value of the houses built on the site are sold at levels quite beyond the capacity of even professional high earner dual earner households to purchase, let alone local households with moderate to average incomes⁹.

What should change?

In short, the secular downward shift in private sector completions needs to be reversed, while the affordable new completions need to reach and exceed an annual level of 70,000 dwellings, if the HWP 2017 supply target is to be realised on a steady state, sustainable basis.

For that to be achieved, strategic reform to both the public and private delivery systems is required consistent with the deflation of the values of land suitable for housing development is assembled in sufficient supply in the locations where additional housing is most needed.

This will contribute to a sustainable and stable housing system, characterised by greater stability in house price and affordability levels, by the blurring of tenure divisions, and by the expansion of housing choice and opportunity for low and middle income households, with segments of the market and affordable sectors merging into a primary but variegated affordable housing sector. Feasible policy mechanisms that

⁸ That is, unless they are rescued by replacement demand being provided by publicly-financed or -enabled affordable housing programmes, or other instruments, such as guarantees, support, as did happen in the 2009-11 period.

⁹ Alex Morton's November 2013 critique of the Mayor of London's (Boris Johnson) approach to site viability picks up this point and pinpoints it as key cause of him undershooting his then already too low housing targets: <http://www.policyexchange.org.uk/media-centre/blogs/category/item/boris-needs-to-get-a-grip-on-housing>

possess the facility to survive across political and economic cycles need to be designed and implemented, according to a vision set by wider housing ends.

These interlocking reforms are defined by *asocialdemocraticfuture*, in totality, as *wider housing ends*. Its main constituent elements are:

- 1 In order to secure sustained and stability in house price and improved affordability levels, where a home becomes once more a place to live in and less of a speculative financial investment decision, with a renewed focus on housing production rather than exchange;
 - 1a. a steady-state and sustainable annual new build housing supply level of between 225,000 and 275,000 dwellings in England (and pro rata Wales) taken over successive rolling three year periods, with a mid-point average of 250,000;
2. The flattening of the construction cycle and the upward shift of the sector's output and employment levels to a higher stable level, with an associated ending of labour casualization within the industry in order to improve training, health and safety, diversity, and tax take outcomes, and to provide access to sustainable, secure, well paid jobs and careers to an enlarged segment of the indigenous population, thus reducing the need for migrant labour;
3. The deflation of the cost of land, both absolutely and as a proportionate input of the cost and prices of new dwellings, by the discouragement of the private developer hoarding of, and speculation in, land. The production of affordable housing should instead be incentivised by;
 - 3a. the development of mechanisms embedded in the housing and planning systems to recycle windfall gains attributable to a change in planning permission in favour of residential accommodation into equity shares assigned for the perpetual benefit of low and moderate income future purchasers attached to a set proportion of dwellings provided on large sites (affordable dwellings);
4. The reform of the public expenditure and accounting system, involving the:
 - 4a. separation of wealth creating infrastructural investment from other claims on current taxation revenues;
 - 4b. related development of customised planning and management expenditure control systems that reflect the different medium and long term macro-economic impacts of productive investment outlays and of current expenditures, as well as their interaction over time;
 - 4c. re-direction of public spending on housing towards investment in new supply and assets; and away from current expenditures and reliefs, including expenditure on housing benefit transfer payments and the

related subsidy of private landlords;

- 4c. related promotion of build to let rather than buy-to-let, encouraged by the phasing out of tax reliefs that support the purchase of existing housing assets, rather than additional new net housing supply, and longer term;
 - 4d. promotion of a more efficient and equitable system of housing and property taxation.
5. The associated blurring of tenure divisions and the related easing of tenure-based social apartheid, as part of a wider and transformative expansion of housing choice and opportunity for low and middle income households, with the associated linking of their tenure choices to their lifetime risk and income profile by;
- 5a. the development of an enlarged affordable housing sector offering a differentiated range of housing options at different rental and equity share levels, calibrated to align with different household circumstance profiles;
6. The re-orientation of labour markets, more generally, towards the generation of the expanded opportunities for well-paid secure employment and for social advancement for the low and moderate income majority, rather than by a 'race to the bottom' in working conditions and pay. In that light, the possible advantages to both employers and employees, as well as the self-employed, of flexibility in hours worked and contract forms needs to be balanced with those derived from security and certainty of employment. People should be able to choose between different forms of employment, according to their circumstances, connected to;
- 7 the meshing of housing and income maintenance reforms in order to enhance work incentives to secure well paid work opportunities, rather than low paid insecure jobs, so reducing individual dependency on benefits and the public expenditure costs of that dependency.

The pursuit and development of most of these mechanisms will be attached with timescales that will straddle the tenure of succeeding governments. Their effective execution will also be either undermined or even made impossible, if the relevant actors assess that will be likely reversed in the future. For these reasons, a measure of cross-party consensus supporting the wider housing ends reform agenda needs to be forged. Or, at the very least, a degree and depth of a technical and politically overlapping consensus needs to be sustained, sufficient to provide enough political head of steam to bring them first into the realms of feasible political action, and then to progress and embed them.

