Cambridge Centre for Housing & Planning Research

Local public finance and housing policy conference

Case Study UK: rising house prices and under supply

Dr Gemma Burgess

UNIVERSITY OF CAMBRIDGE

Introduction

- UK new build housing supply.
- Constraints on house building.
- Affordable housing delivery and finance.
- Policy options.
- Focus on new house building – but new build is not supply and increasing new build will not reduce house prices and affordability.

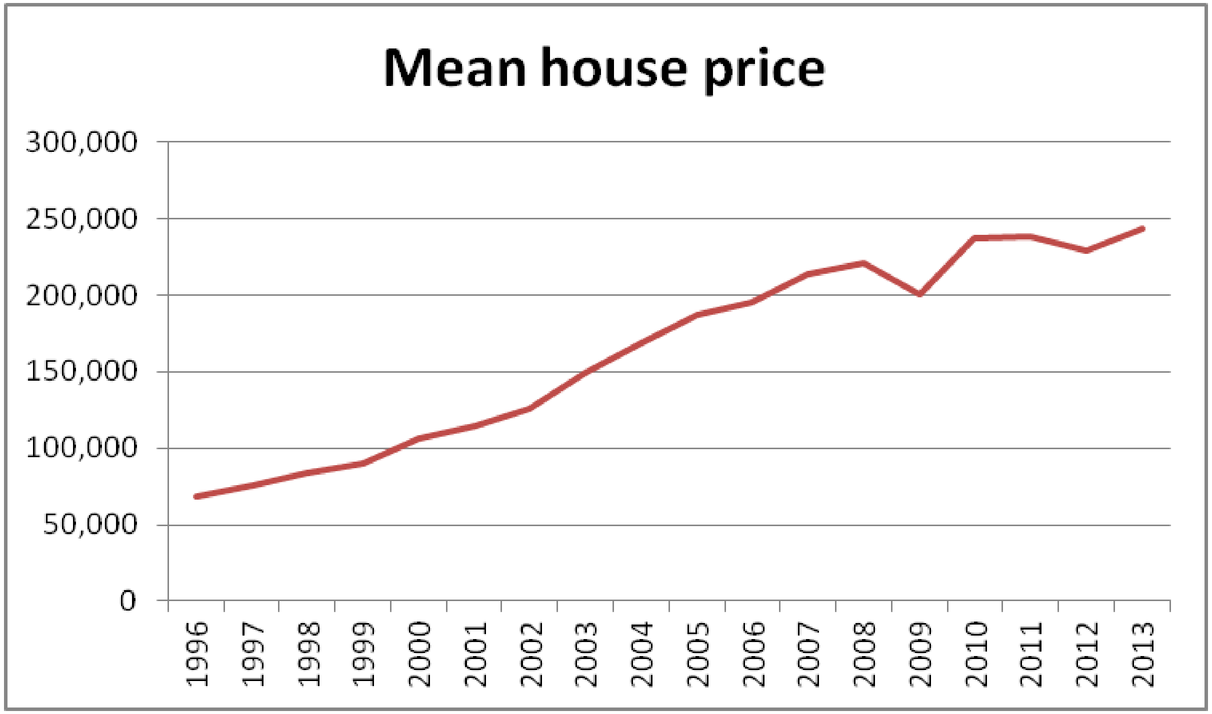
UK housing

- Home ownership 65.2% (2012/13) – lowest in 25 years.
- PRS overtook the number in social housing for the first time.
- A third of working households in social housing received housing benefits to help them meet the cost of their rent, up from 24% in 2010/11.
- 12% of households in PRS.

- Planning – NPPF and local plans.
- No zoning – plan led system.
- Local authorities – individual planning permissions.
- Local discretion and negotiation.

House price growth

- Q1 1996 England mean average £68,408
- Q2 2013 England mean average £246,764
- Cambridge £348,300
- Regional differences
- N/S
- Growth areas
- Local variation



- DCLG Live Table 581: mean house prices based on Land Registry data, England, from 1996

New homes

New homes

Lack of new supply

- Barker Review suggested that in order to meet projected household growth, need an output of around 240,000 new dwellings a year on average (2003).
- England is not building anything like as many new dwellings per thousand population as many other countries.
- In particular, the Netherlands, usually seen as having an equally constrained land supply as the UK, manages to build around five units per thousand, and even Scotland does better than England.
- Similarly Switzerland is often seen as constrained by its mountainous terrain, yet has been producing more than five units per thousand population in recent years – highest England managed was 2.2.
- Yet the industry did not meet this target even in years when house prices were rising rapidly.

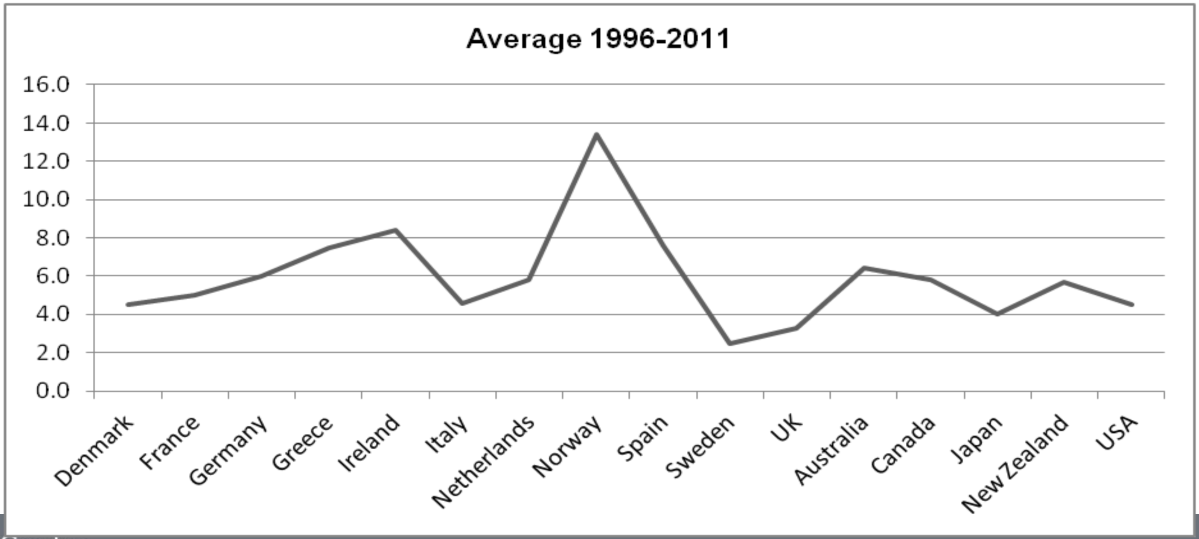
Elasticity of supply

- International comparison of price elasticity of supply of new housing (CCHPR, forthcoming).
- Estimates of the long run supply elasticity of new housing show that tends to be relatively flexible in North America and some Nordic countries.
- It is more rigid in continental European countries and in the United Kingdom. The countries most similar to the UK in terms of the responsiveness of new housebuilding to price changes are the Netherlands and Denmark, which are small countries in terms of land area.

Country	Price elasticity of supply of new housing
UK	0.5
Germany	2.1
France	1.1
Netherlands	0.3
Denmark	0.7
USA	1.4

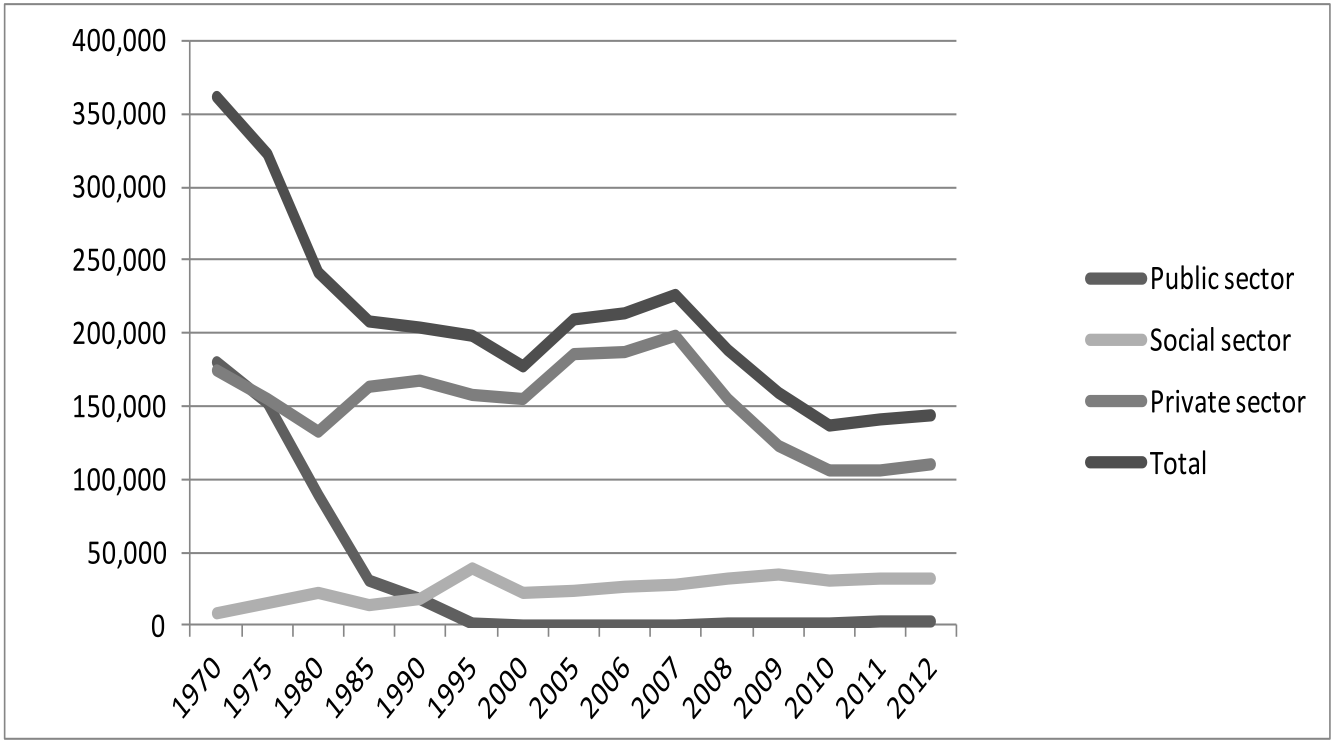
Investment in housing

- A useful international comparison is given by the amount of investment in housing as a percentage of each country's Gross Domestic Product (GDP).
- On average over the period 1996 to 2011 the UK was second lowest only to Sweden in terms of the proportion of GDP invested in housing. From 1996 to 2011 the UK on average devoted 3.3% of national output to housing investment. Norway stands out as having an exceptionally high proportion of housing investment, while most other countries invest around four to six percent.
- Source: Wilcox and Pawson 2014, table 8, page 109 in CCHPR, forthcoming.



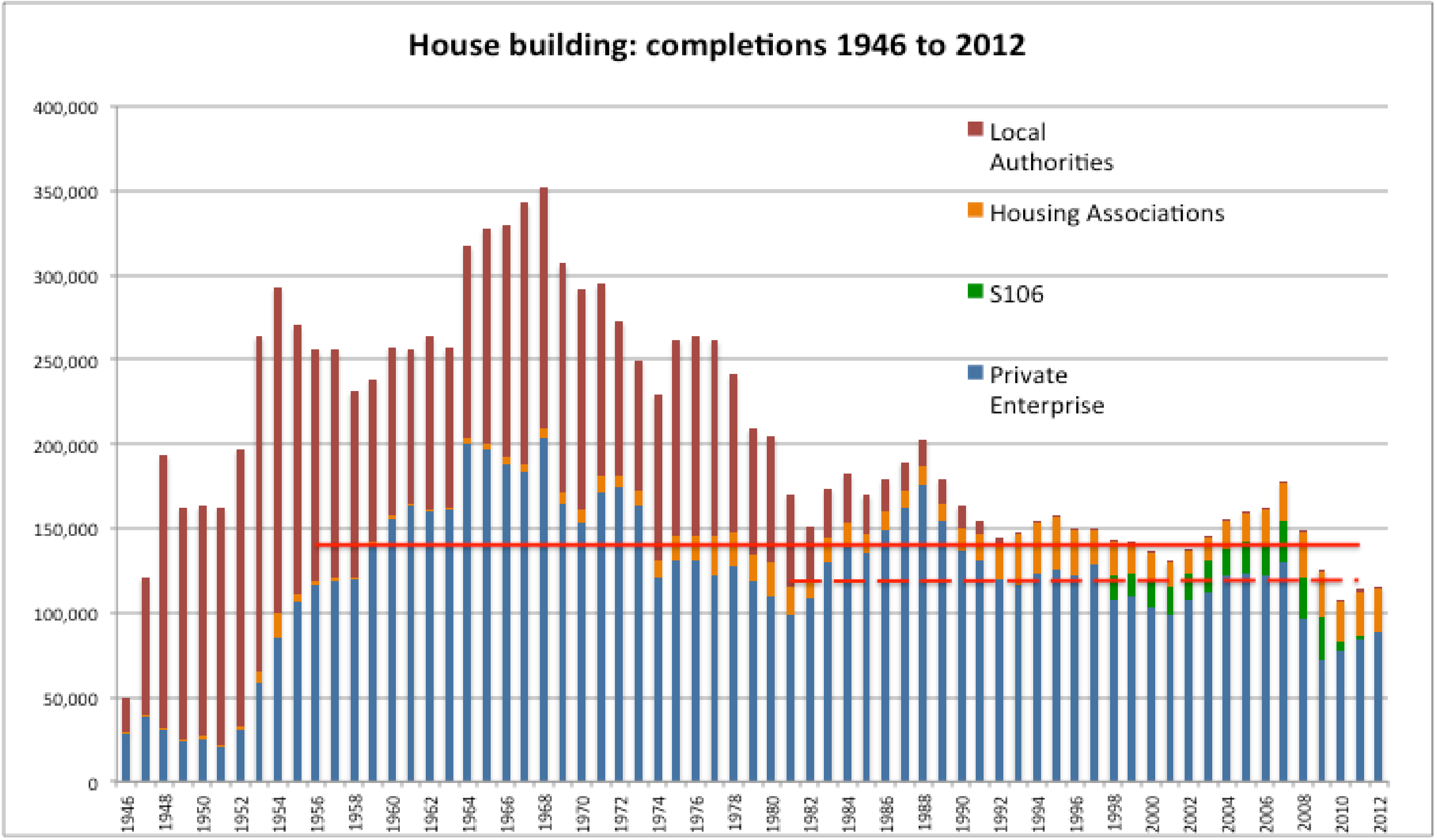
Housing completions

- Housing completions in the UK by sector
- Source: DCLG Live Table 1000 – Additional affordable homes provided by type of scheme, England (CCHPR, forthcoming)



House building

(CCHPR, forthcoming)



Housing completions

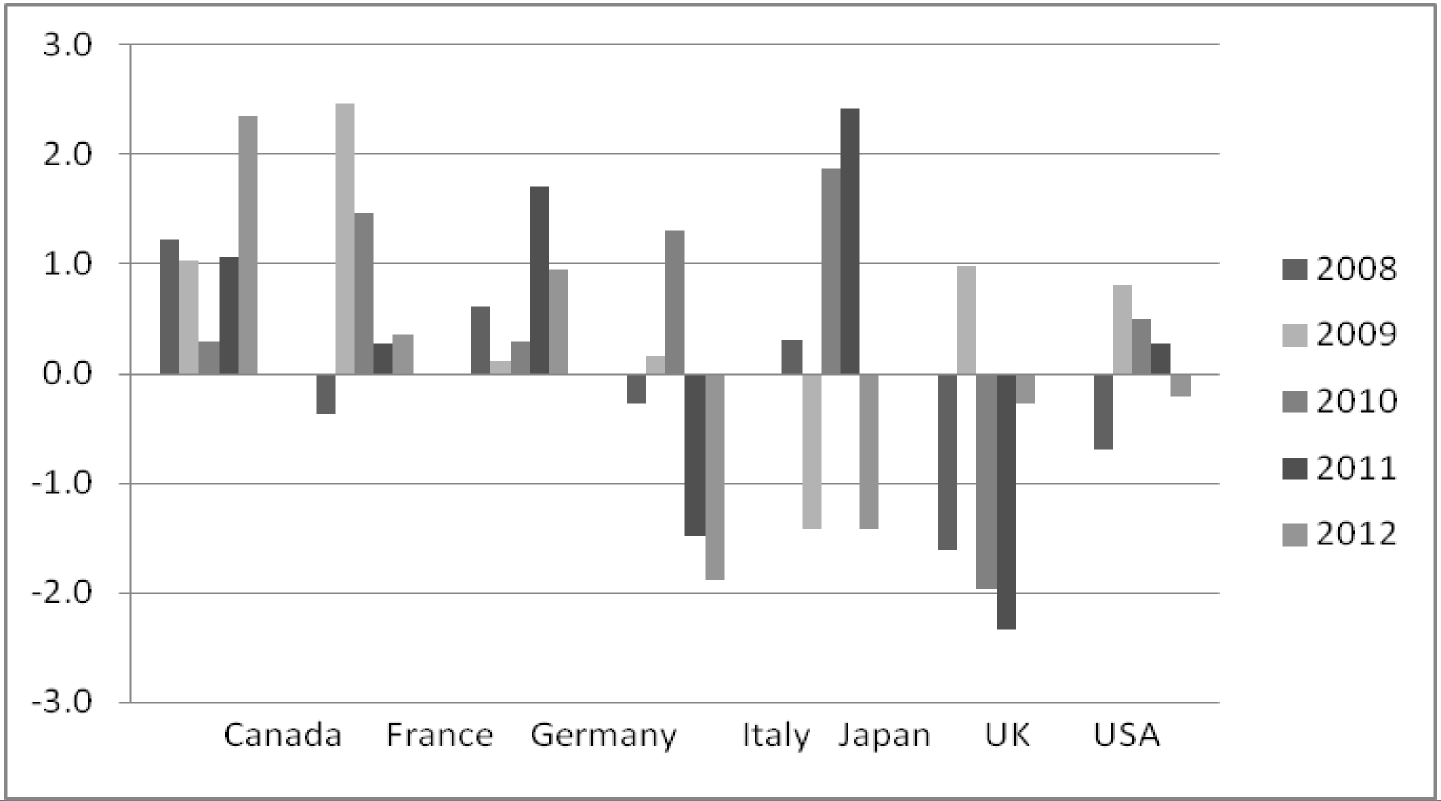
- Shows that in the 1970s public sector construction (local authorities, New Towns and government departments) comprised roughly half of all completions.
- Council housing has all but disappeared since then, and while housing association output has risen steadily, investment has not matched the 1970s.
- At the same time private sector completions have fallen significantly since the 1970s and even in the boom years of the early 2000s they only reached half of the 1970 total.
- This may be partly to do with capacity – in a recession, both skilled and experienced labour and materials are lost, and for materials such as bricks the overall capacity to produce them may disappear.
- In the past council housing maintained sufficient demand for construction inputs to maintain capacity through recession – such investment is often termed ‘counter-cyclical’ as it provides a cushion for both employment, enabling skills to be retained, and for materials production (CCHPR, forthcoming).

Affordability

- New housebuilding level is only part of the affordability problem.
- People are living longer, so where the stock once housed three generations it now houses four – yet the stock has not expanded to cater for this.
- Household growth because we are living longer and in smaller households.
- Earnings have not kept pace with inflation and employed households have suffered a reduction in income in real terms.
- Severe following the global financial crisis and other countries have also been affected, although not so severely or for such a prolonged period as the UK, and with the major exception of Germany.

Wage growth

- Real wage growth in the G7 nations 2008 to 2012
- Source: ONS from OECD data (CCHPR, forthcoming)



What constrains supply of new build?

- There are three sets of related factors that are crucial to proposals to increase the rate of housing production in the UK:

1. Land supply and planning.
2. The nature of the house building industry and volatile housing markets.
3. Financial constraints and incentives for all sources of new supply (including private, public and non-profit suppliers).

Constraints - Land

- An ethos of constraint with respect to planning permission.
- Incentives to land owners to keep land off the market in both periods of expansion and decline (and policy change).
- Numerous issues in opaque land market mean high land prices.
- Residual value.
- A particularly strong emphasis on 'brownfield first' creates problems of land assembly, particularly on regeneration sites where there may be many owners.
- Lack of mechanisms for funding and providing infrastructure.
- Market volatility which increases risks and uncertainty of development.
- Limited incentives for local authorities to support new housebuilding and anti-development attitudes among existing residents – pressures on services and infrastructure.

Constraints - Planning

- Insufficient land made available through the planning system.
- Lack of or out of date Local Plans and 5 year land supply – appeals.
- Poorly specified LPA policies which are unclear to prospective developers.
- Complexity and bureaucracy.
- Different LPAs charge different fees, fee structures are vague and hard to understand.
- Nature of pre application discussions including the length of time taken and the amount of information required for outline planning permission.
- Policy and practice relating to planning obligations - time taken in S106 negotiations.
- Slow decision making in LPAs on planning applications.
- High refusal rates. Lack of consistency in decisions.
- A ‘silo’ mentality within LPAs so that planning and housing do not talk to each other (or to other relevant departments).
- Inadequate LPA resources, especially skilled and experienced staffing.
- Relationships with elected members.

Constraints - House building industry

- The development process, land banking, land trading – time from permission to build. Risk.
- The nature of the housebuilding industry where there are conflicting incentives to complete new schemes quickly so that capital is not tied up for long and to delay completion if sales are not strong.
- Skills, labour and material shortages.
- The nature of different sites.
- Large sites – few volume builders, lack of entrants to market.
- The cost and availability of finance.
- Loss of SMEs.
- Issues with house design and quality.

NIMBYism

- Legitimate concerns vs. lack of voice for the poorly housed.
- The “loud voice of objectors”, a frequently cited issue that halts development (Sarling and Blyth, 2013).
- Not a key party political issue.
- Variation in number of permissions.
- Elected members.
- NPPF – permission on appeal if refused with no local plan/five year land supply.

Changing governance

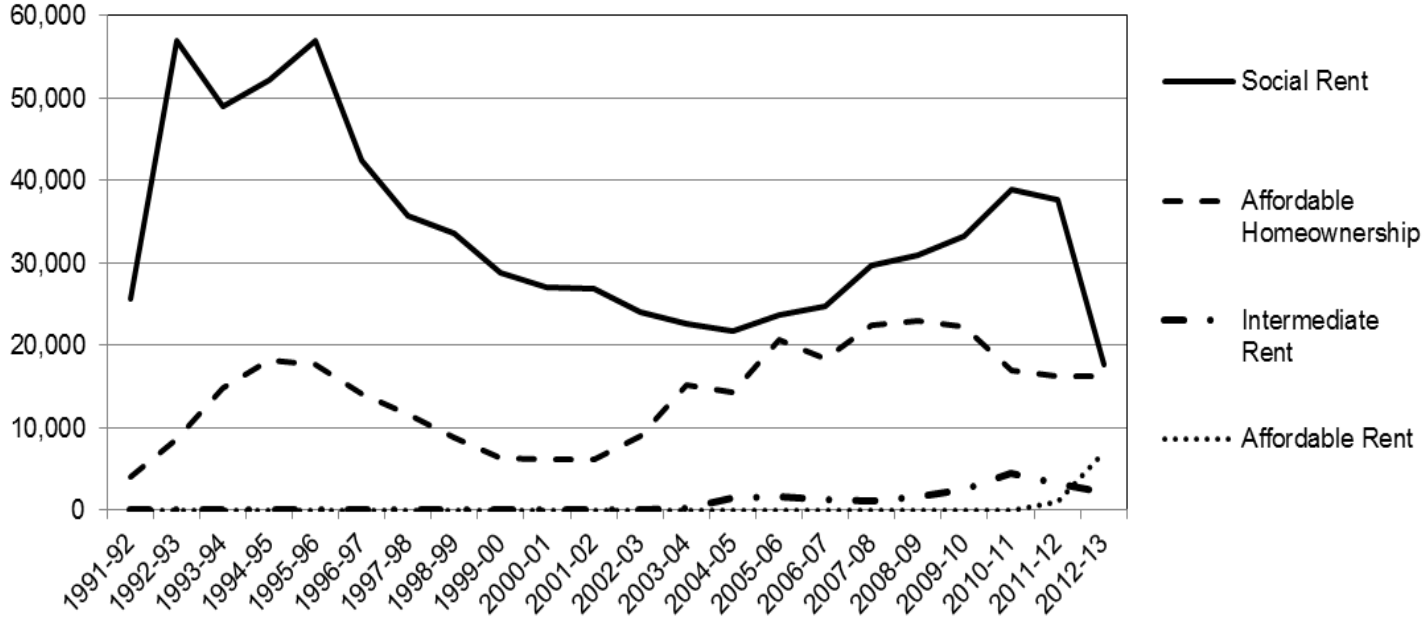
- Coalition government abolished regional tier and national housing targets.
- Localism.
- National Planning Policy Framework - NPPF.
- Presumption in favour of sustainable development.
- Return to ideas about needing another tier of governance - maybe cities.

Affordable housing

- Definition of affordable housing in the UK has varied over time.
- Traditionally, council then social housing - low cost rental for people on the lowest incomes, such as general needs, supported housing and housing for older people.
- Expanded to include other forms of low-income housing.
- Intermediate housing which includes affordable homeownership and intermediate renting for households who can afford to pay more than the price of social rented housing but are unable to afford full-price open market housing – shared ownership and shared equity.
- Recently, the definition has been amended by the coalition government to include ‘affordable rent’ which is a new form of social housing.
- Now includes social rented, affordable rented and intermediate housing, in which affordable rented and intermediate housing are open to a broader range of household incomes than social rented housing.

Supply of affordable housing

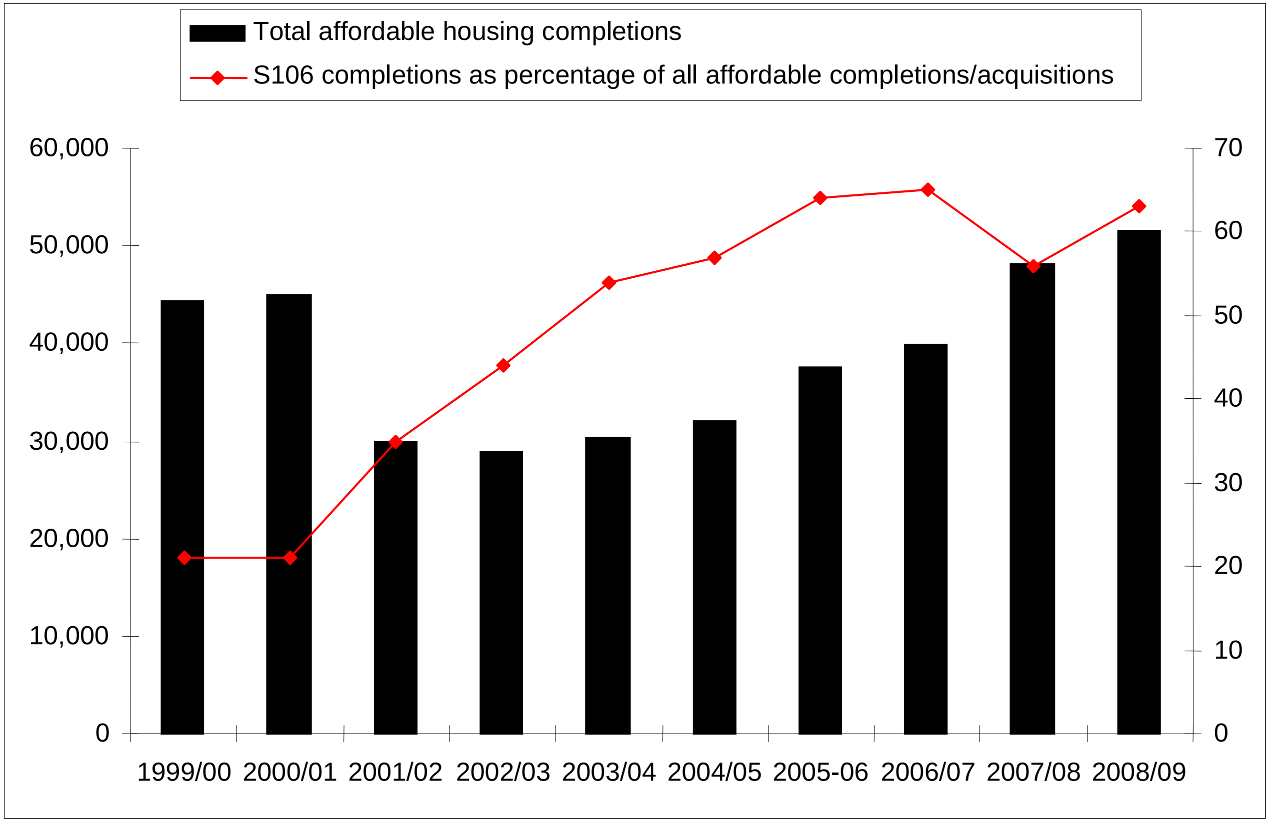
- Trends in the gross supply of affordable housing, England, 1991–92 to 2012–13 (Source: DCLG Live Table 100, CCHPR, forthcoming)



Section 106

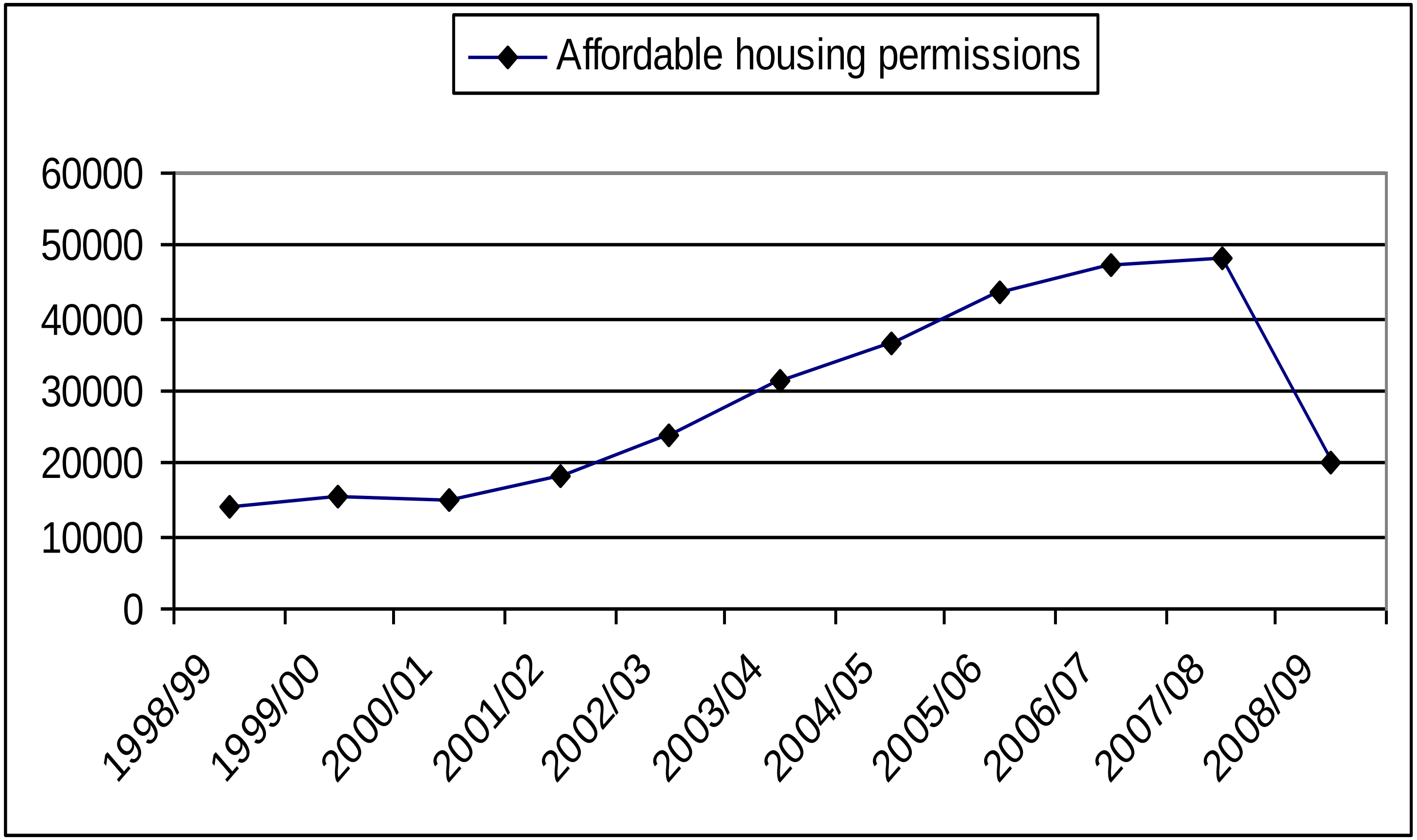
- Inclusionary housing through the planning system.
- Since 1990 local planning authorities (LPAs) have had powers to require contributions from developers both in the form of affordable housing and through financial contributions.
- These agreements, most of which are made under S106 of the Town and Country Planning Act 1990, are ‘struck’ alongside the process of securing planning permission (planning gain).
- Planning obligations may include affordable housing and contributions to local infrastructure such as education, transport, open space, children’s play areas and community facilities.
- Use of S106 increased and HAs dependent became on planning obligations to secure new affordable homes, more than 60 per cent of all affordable completions delivered this way in the last three years.

Completions of all new affordable homes in England and S106 completions as a percentage of the total



Source: DCLG HSSA statistics

New affordable homes secured on S106 sites in England



Type of affordable housing

- This otherwise downward trend in S106 social rented housing and the upward trend in intermediate, especially LCHO, housing was associated with rising house prices between 2001 and 2007.
- Associated increase in development values allowed LPAs to secure increases in the proportions of AH on S106 sites, especially for those priced out of market housing but ineligible for social rented housing.
- The trend also influenced by policy decisions to limit grants on S106 schemes especially in the more expensive southern regions.
- As developers became more willing in terms of increased financial contributions to provide more shared ownership units than to increase social rented units it also enabled more affordable housing to be delivered with much less subsidy than social rented, sometimes without any public funding at all.
- The pricing of shared ownership has also allowed housing associations to ‘cross-subsidise’ social rented housing from the surplus they make when selling additional equity shares to shared owners, therefore enabling more social units to be built for the same funding.

Post GFC

- Downturn - mixed responses in use of S106, non-enforcement of existing obligations, negotiated changes or granting of new permissions with fewer obligations, to (perhaps surprisingly) increases in affordable housing where some developers offered whole schemes to RPs or built the affordable element first to help their cash flow.
- Recent statistics show that since 2007–08, there has been a fall in the number of affordable homes being agreed through S106 agreements. In 2011–12, the number was approximately 32,000, a 33 per cent reduction as compared to over 48,000 in 2007–08.
- Despite that, Savills' analysis found that the proportion of affordable housing coming through S106 agreements was still 60 per cent.
- Nevertheless, to improve viability of 'stuck' development sites, the government introduced measures to improve housing delivery through the Growth and Infrastructure Act 2013.
- In particular, Section 7 of the Act allows the renegotiation of S106 agreements in relation to affordable housing requirements, to modify or remove them completely if the requirement renders the development economically unviable.

Community Infrastructure Levy (CIL)

- In addition to the impact of the downturn and new legislation to deal with viability issues, there have recently been significant changes to the way in which planning gain will be secured in the future – CIL 2010.
- Infrastructure, not site specific. Standard per sq m tariff based on viability.
- S106 scaled back – affordable housing.
- Impact?
- Concerns will reduce AH contributions – still negotiated element.
- Only a very small proportion of LPAs were charging CIL by September.
- By then only 48 percent had adopted plans and only 4.9 percent were charging CIL levies.
- Moreover as many as 58 percent had no published CIL plans at all.
- CIL rates should be set according to viability – but variations suggest political motivations e.g. high rates to discourage development.

Shift from grant funding to revenue funding

- In 2010, the government announced the end of grant funding for social housing and the introduction of funding for a new ‘affordable rent’ product under the Homes and Community Agency’s (HCA) Affordable Homes Programme.
- The programme was expected to deliver some 80,000 homes between 2011–12 and 2014–15 through a mixture of affordable rent and affordable home ownership (HCA, 2011).
- Affordable rent is a new funding model, whereby RPs can charge higher rents than have been normal in the past (up to 80 per cent of market rate), both for new homes and for some new tenancies of existing homes.
- The extra income generated from the higher ‘affordable rents’ is intended to cross-subsidise new development.
- However, at the end of the programme, there was £2.2 billion of uncommitted funding for the development of new affordable housing for the period 2011–15.

Use of guarantees

- Guarantees are used by well-established social and affordable housing finance systems in Europe and the US to reduce reliance on public funds and to attract suitable long-term investment in supply and renovation.
- September 2012 DCLG announced debt guarantee schemes for affordable and private rental housing.
- The guarantee scheme (£3.5 billion initially, with £3.0 billion held in reserve) is complemented in England by grant funding, although the guarantees themselves are UK wide.
- The minimum size threshold for affordable housing is £5 million.
- The guaranteed debt will be secured against organisational assets, just as in the case of regular borrowing.
- In order to limit government exposure, guarantees will cover only 80 per cent of scheme borrowing.
- May 2014, under the Affordable Housing Guarantee scheme, 13 HAs secured £208.4 million of funding through AAA-rated 28-year bonds, which is believed to be the HA sector's cheapest ever bonds.
- Estimated will support t delivery of 5,800 additional homes, over 4,100 homes to outside London.

Provision of infrastructure fund

- In 2013, the government launched the £1 billion Local Infrastructure Fund, inviting councils and developers to come forward with their proposals for large scale housing developments (schemes containing more than 1,500 units) to unlock around 250,000 homes over six years.
- Thirty-six large-scale housing projects were shortlisted to receive a share of £850 million of funding to build the infrastructure such as road improvements, schools and parks to support the extra homes being planned.
- The funding will be available between 2015 and 2020 and will be in the form of a long term loan.
- 2013 Autumn Statement, the government announced that £50 million of the Local Growth Fund for 2015–16 would be allocated for investment in infrastructure to help accelerate and unlock housing developments of between 250 and 1,499 units that have slowed down or stalled because of the recession.

Use of private renting as a source of affordable housing

- Current growth of the private rented sector (PRS) was kick-started in the late 1980s, principally as a result of the deregulation of the sector.
- Particularly at the bottom end of the PRS, its growth is fuelled by housing benefit (in the form of the Local Housing Allowance).
- By 2011, the PRS had become the second major housing tenure, no longer providing accommodation mainly for short term singles and couples, but also medium and longer term accommodation for family households.
- Recognition that the PRS can play a role in boosting housing supply the government introduced two policies:
  - Build to Rent.
  - Debt Guarantee Scheme.

Build to Rent

- The Build to Rent Fund (initially £200 million, later increased to £1 billion in the 2013 Budget) is a rolling fund for the Build to Rent scheme to encourage institutional investment in ‘high-quality rented homes’.
- It is a fully recoverable commercially priced loan which can be used to fund the purchase of land, construction costs and management. Once the scheme is fully let, the developer must sell on its interest or re-finance and repay the loan/equity.
- The fund will also be used to build innovative demonstration projects to show what a more professional, larger scale private rented market might look like.
- The first group of Build to Rent projects was announced on 16 April 2013 and aimed to support the delivery of up to 10,000 new homes.

Debt Guarantee Scheme

- In September 2012, the UK Government announced a £10 billion debt guarantee scheme to support new build to rent developments.
- This scheme offers housing providers a direct government guarantee on debt that they raise, mainly in the form of bonds, which will help to reduce their borrowing costs, increasing the number of homes they can afford to provide.
- The scheme requires that the build to rent developments remain within the rental sector for the duration of the loan.
- Overall, these two measures (the Build to Rent Fund and government guarantee) are intended to reduce the costs and risk at different stages of development and ownership of the new private rental dwellings.
- Despite all these government efforts, the role of institutional investors in the PRS is still negligible.

Institutional investors

- Our recent research (Oxley et al. forthcoming), identifies institutional investors, especially pension funds, showing an increasing appetite to support HAs to deliver affordable housing.
- Found that institutional investment into social housing is very active and has played a crucial role in financing HAs over the past five years.
- In some HAs, bond finance has become a major source of funding replacing bank lending and HCA grants.
- However, institutional investment has primarily been through bonds.
- Investment through sale and leasebacks, joint ventures and “equity” investment in shared ownership has occurred but to date is small by comparison
- Three European case studies (France, Germany and the Netherlands) highlight the importance of the tax system and organisational structures and culture to the ways in which social housing is financed can affect the extent of institutional investment in social housing.

Help to Buy

- GFC, tighter regulation and the need to repair balance sheets mean banks are reluctant to offer 95 per cent loan-to-value mortgages to homebuyers.
- Help to Buy scheme Phase 1 offers first-time buyers of newly built homes (purchase price up to £600,000) an equity loan of up to 20 per cent of the purchase price.
- Supplements the buyers' own deposit, which mortgage lenders normally require to be at least five per cent.
- Borrowers then raise a repayment mortgage of typically 75 per cent of the property's value.
- Mortgages that are 75 per cent or less of a property's value often have a lower interest rate and so are more affordable.
- The government has allocated £3.7 billion to the scheme and expects to make equity loans to 74,000 households across the three years 2013–14 to 2015–16.
- No household income limit.

New Homes Bonus

- Introduced to provide an incentive to local communities to enable more new housing to be built in their localities.
- The intention was to highlight the beneficial effects of new homes by providing financial rewards to LPAs for the homes they had built (and the empty homes brought into use).
- Inspired by Germany and Switzerland, where localised land-use planning systems exist along with local incentives for development.
- Match fund the additional council tax raised for new homes and empty properties brought back into use for a period of six years.
- Received payments for delivering 550,000 newly-built homes and conversions and 93,000 empty homes back into use.
- However, the National Audit Office (2013) reported that there "is little evidence that the Bonus had yet made significant changes to local authorities' behaviour towards increasing housing supply."

Range of measures

- Finance – for HAs, house builders, PRS development and for home buyers.
- NHB – local incentive.
- Changes to planning system – but still argument that planning is a problem.
- Land?
- Nature of the house building industry.
- Possible measures to increase supply?

Improving the system already in place

- Make the existing planning system more efficient, speed up allocation and approval processes e.g. ensuring adopted local plans and five year land supplies are in place and promoting best practice and culture change in local authorities.
- Division of large sites into smaller plots to increase overall delivery rate on big schemes, encourage SMEs and new entrants to the industry.
- Supporting increased capacity in the housebuilding industry through greater investment in skills and training.
- Saving scheme for home purchase to reduce the deposit hurdle for potential FTBs. Tax-free saving schemes in China, France, Japan and Singapore have improved access to homeownership.
- Encouraging further use of tax increment financing to support urban regeneration.
- Promoting selective urban extension through planning guidance.
- Green belt ‘swaps’.

Promoting incremental change

- Pro-active land assembly and development activity by the public sector (local authorities and possibly special purpose vehicles) as used in some European countries. This may involve land readjustment.
- Likely to require more use of Compulsory Purchase Orders (CPO). But these are usually costly, complex, bureaucratic and take a long time to implement - simplified and streamlined.
- Public sector land?
- Upfront infrastructure, value uplift to repay.
- Use existing institutions, particularly housing associations, to boost supply. Focus on developing small to medium sites that are of less interest to the major housebuilders. Increased borrowing for AH.
- May involve greater use of alternative sources of funding from institutional investors.

Promoting incremental change

- Incentivising investment could involve using French and American style tax credits. A UK LIHTC system, tax credits employed to create permanent affordable housing, rather than with a 30 year restriction under the US system.
- Promote self build and custom build.
- Reducing emphasis on brownfield development, focus on mini ‘new towns’ urban extensions, commuter developments with good commuting/transport links to major conurbations and close to growth areas.
- Public engagement - focus on reducing nimbyism – awareness, incentives, compensation. Legitimate concerns vs. lack of voice for the poorly housed.
- Expand size of the PRS in a manner that enables it to perform a strong social role. A competitive tenure that can cater for a broad range of the population requires a combination of restrictions and subsidisation (e.g., rent level linked to local comparable rent and index-linked rent increases and time-limited subsidies as in Germany) that can provide strong tenant protection as well relatively stable returns on housing investment in the long-run (CCHPR, forthcoming).

Promoting radical change

- Making radical changes to the planning and land supply system to incentivise development. This might include taxation and compensation mechanisms and/or changes to the way that land is deemed suitable for residential development. The aim is that taxation and regulatory reforms would incentivise the house building process, as opposed to land dealing.
- Changing property taxation might mean replacing at least some of council tax and stamp duty land tax by an annual tax on property or land values.
- Tax changes to incentivise production might additionally include new measures to promote investment in affordable housing through tax breaks for investors. This could include American style Low Income Housing Tax Credits as mentioned above.

Recent announcements

- Reform of stamp duty.
- Government building – Northstowe – government owned former RAF site – years ongoing – masterplan 10,000 homes.
- Bicester in Oxfordshire will become a garden city, with the Autumn Statement pledging £100 million of government funding.

Existing stock

- Most supply each year comes from sales of existing stock.
- 85%+ of owner occupier supply on the market comes from this source.
- Better use of stock – e.g. downsizing, but need adequate affordable alternatives.
- Even if house building rates are multiplied many times over they will have very little impact on house prices and affordability.
- Other measures are needed to address affordability.
- Part of the answer is to build more houses that are affordable to lower income households.
- Low levels of housing investment have serious social and economic downsides.
- Radical changes carry political risks and will not provide a quick short term fix. They are long term measures to tackle a long term problem.

New production does not equal supply

- People conflate supply and new production – but most of the supply is existing stock, new build is only a small proportion.
- Leads to the myth that building more new houses will reduce house prices and improve affordability.
- Problem when planning seen as a cost, which if removed would reduce prices.
- Developers use residual value for land – reduced costs lead to either paying more for the land or larger profit margins.
- Only build in a rising market.
- Planning does impose some costs, but benefits of planning.
- Increasing production does not necessarily tackle affordability problems – what is built, where it is built, who it is for.
- Unlikely to negate need for other measures to tackle affordability e.g. specific affordable housing products. Does not tackle wider issues such as income levels and distribution.

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