

Housing supply – challenges for policy makers

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Housing production

- 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).
- Affordable housing supply needs to be regarded in the context of low levels of overall supply.
- No silver bullet to increase housing production.
- Particularly where affordable housing is delivered through the planning system via Section 106, it is tied to market supply.
- Affordable housing supply faces many of the same constraints as market production.

Constraints – land supply

- 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.
- 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.

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- Lack of or out of date Local Plans and 5 year land supply – appeals.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 – housebuilding 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.

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.
- Sale of 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.

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.

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.

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