

# Building strategies

**Dr Gemma Burgess** and **Sarah Monk** discuss the findings from their RICS research paper into the mechanisms available to increase housing land supply

**T**he UK faces a housing crisis. Successive governments have accepted the need for more housebuilding, but output runs

far below the estimated 240,000 new homes required each year up to 2031 (<http://bit.ly/1pnVaZJ>). Bringing more land forward for housing is crucial if availability and affordability are not to worsen.

A recent review identified measures taken successfully in other countries (see <http://bit.ly/1olnXAF>). It also showed that in England and Wales many of these mechanisms are already available or in place in some form.

The current research for RICS built on the review to identify case study examples where the mechanisms have successfully been used in England and Wales.

The key research questions were:

- What measures are used successfully in other countries to bring more land forward for housing?
- What can we learn from case study examples of local authorities that have successfully used some of these mechanisms in England and Wales?

## Assessing options

While a range of measures used in other countries to bring land forward were identified, the ones explored further in the current research were:

- flexible growth limit boundaries – green belt ‘swaps’
- putting infrastructure in place prior to development – revolving infrastructure fund
- putting infrastructure in place prior to development and land value capture – Tax Increment Financing (TIF)
- land value capture and compensation and incentives – the Community Infrastructure Levy (CIL)
- local authority involvement in land assembly – compulsory purchase.

Two examples illustrate the challenges of such complex mechanisms.

## Tax Increment Financing

TIF has been used widely in the USA since the 1950s to help fund inner city regeneration schemes. Local authorities are able to borrow against the future tax income that will accrue from the redevelopment once it is completed.

In the UK, the London Borough of Wandsworth is using TIF to borrow against future CIL, section 106 receipts, and business rates to help fund the

extension of an Underground line to Battersea as part of the redevelopment of Nine Elms in Vauxhall. The Nine Elms regeneration project – covering up to 194ha of land on the south bank of the Thames – will be the first in England to be funded through TIF. An extension to the Northern Line will provide transport links for the planned 16,000 homes and 25,000 jobs targeted for the area. The intention is to put infrastructure in place that will enable housing development to take place at a faster and greater rate than otherwise would be the case.

The local authority is confident that, despite repayment being tied to long-term schemes that may not come on-stream for some time, the development will go forward at a pace that will provide the necessary receipts. However, concerns have been raised about the slow pace of CIL income being achieved by local authorities and the risks involved in using TIF to fund the Underground line extension as future receipts cannot be guaranteed.

In a period when public sector expenditure is likely to continue to be severely constrained, the momentum behind the campaign to roll-out the TIF model across the UK is understandable. However, the model is predicated on the





uplift in land value that may be difficult to achieve during a recessionary period.

Funding infrastructure by borrowing against future income from section 106, CIL and business rates should be viable in London due to the capital's relative economic strength, but the opportunity to use TIF in other parts of the country or on smaller development schemes is perhaps questionable, because TIF models are easier to implement in economically vibrant locations.

In conclusion, while clearly successful in the USA, TIF has not developed as quickly in England and appears to carry significant risks for the local authority. It is predicated on eventual economic growth, which would be underpinned and encouraged by the infrastructure provision. In a sense, it is similar to a revolving fund, because the investment cost will be recovered once it has become successful. That, of course, is where the risk lies for the local authority. TIF is likely to be most useful for large schemes in areas that would be expected to be buoyant in normal economic conditions, such as London, but not necessarily elsewhere.

## Compulsory purchase

In France, Germany, the Netherlands, parts of the USA, Australia and New Zealand, local authorities play an active role in land assembly and land readjustment. This can be crucial in large-scale housing extensions to existing urban areas and new towns as well as redevelopment or regeneration. It is often coupled with

compulsory purchase powers, which are widely used in Germany and France for example.

Land readjustment and compulsory purchase could be used more effectively in England. Especially in brownfield and regeneration sites, there are major issues about land assembly arising from fragmented land ownership, the prevalence of home ownership and Buy to Let, among other factors. This can mean that it takes years or even decades to bring a site to development. However, authorities have been consistently reluctant to use compulsory purchase except as a last resort, because it is complicated, risky, time consuming and politically sensitive.

While a compulsory purchase order (CPO) can be used as part of the regeneration of areas with different owners, it can also be used in cases where the land only has one owner. A case in Denbigh, Wales, shows how long and complicated the CPO process can be and the risks involved.


The site was occupied by a hospital that had been closed in the 1990s, including an important listed building that was falling derelict. Although planning consent was granted in 2006, with an agreement that the listed building would be repaired, no development took place. The local authority had to step in and undertake £1m of repairs and finally made the decision to serve a CPO when the listed building was at risk of being lost. This was resisted by the landowner, who argued that the site was worth £1.9m, whereas the local authority offered £15,000 through the CPO.

The site is difficult and financially unviable for housing development, with high costs and relatively low house values, hence

the owners' failure to build. But the local authority will allow housing development as a means to fund the repairs, although it also bears the risk. The final decision on the price to be paid for the land could eventually be made by a lands tribunal if agreement cannot be reached.

The case studies of the use of CPOs suggest that these are viewed as contentious by planning authorities. In some cases, the costs will be prohibitive, while in others the situation regarding land ownership and land assembly can be extremely complex and time consuming.

## Key findings

It is clear that without action to increase the supply of housing, availability and affordability will worsen. However, while the mechanisms discussed, and the other measures explored in the research, were selected because of their potential for greater use in England and Wales, the case studies illustrate why it may be difficult for them to become an established part of the planning toolkit, particularly in the current economic climate. They require upfront public investment, which should be recouped when development takes place, but this is guaranteed and therefore carries considerable risk. In addition, processes such as CPO are unpopular and politically contentious, and both CPO and TIF are complex and lengthy to implement. 

## More information

> The *Mechanisms to increase housing land supply in England and Wales* research paper, funded by the RICS Research Trust, can be downloaded from <http://bit.ly/TSsddf>

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