



# BUILD, BABY, BUILD!

## Getting Great Britain Building

By Nigel Hawkins

BRIEFING PAPER

### EXECUTIVE SUMMARY

- During the 1950s, the UK's annual new house-build exceeded 300,000 units. Prior to the introduction of wide-ranging planning legislation in 1947, the annual figure had been even higher in the 1930s.
- In recent years, despite a steadily rising population, around 200,000 new units per year have been built, so that the English housing stock figure is now c23.8 million dwellings. The shortfall in new housing stock has contributed to soaring property prices, and the consequential erection of major financial barriers to first-time buyers.
- For under-35s, unless they are high earners or the beneficiaries of family financial support, the hopes of becoming a homeowner before their mid-30s are receding. Many of this age-group are accepting—perhaps reluctantly—the attractions of home rental rather than home ownership.
- Following the financial crisis in 2008/09 and despite ultra-low interest rates subsequently, securing the necessary mortgage has often been challenging; indeed, house-building levels fell.
- While constructing more homes is a widely-held priority, volume house-builders (VHBs) face real challenges in navigating the time-consuming planning process, before even a brick is laid.
- This Paper examines a number of potential ways that Britain could increase the level of housebuilding at a national and local level: Local authorities must reverse their opposition to smaller units in order to provide Londoners with more housing choice at affordable levels.
  1. Major planning reform
  2. Modest Green Belt encroachment
  3. Easing constraints for medium-sized/small house-builders
  4. Dismantling some rental restrictions covering Housing Associations
  5. Promoting innovation within the house-building sector
  6. Establishing some Infrastructure Developments Zones (IDZs) which could offer tax incentives and relaxed planning laws
  7. Developing surplus public land
  8. Kickstarting the New Garden Towns proposals

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He is a regular features writer for Utility Week magazine and frequently contributes to the financial media. In addition, he undertakes various research projects on energy, water, health, housing and economic policies for Westminster-based Think Tanks.

For the Adam Smith Institute, where he is a Senior Fellow, he has written several previous publications:

- *Privatisation – Reviving the Momentum;*
- *Re-energizing Britain (UK Electricity);*
- *Ten Economic Priorities;*
- *The Party is Over – A Blueprint for Fiscal Stability;*
- *Privatisation Revisited;*
- *High Speed Fail – The Case for HS2;*
- *Cash in the Attic;*
- *Utility Gains—Assessing the Record of Britain’s Privatised Utilities;*
- *Network Fail: Getting UK Rail Back on Track.*

Prior to joining the City, he worked for six years in politics, including three years as Political Correspondence Secretary to Lady Thatcher at 10 Downing Street. In 1987, he stood in the general election as Conservative Party candidate in Sedgefield against Tony Blair.

He was awarded a degree in law, economics and politics from the University of Buckingham and subsequently qualified as an Associate of the Institute of Chartered Secretaries and Administrators (ACIS), while working as Export Sales Manager for Marlow Ropes, Hailsham, East Sussex.

Although every effort has been made to ensure that the data in this paper is accurate, neither the author nor the Adam Smith Institute accepts legal liability for any errors that may have arisen.

Clearly, there is no straightforward answer to the UK's lack of new-build housing which has failed to adjust sufficiently to rising population levels, to rising incomes over the years and to the most marked regional pricing disparities in UK history.

But the annual house-build is at least rising steadily, having recovered sharply from the financial crisis of 2008/09.

Various measures are put forward for discussion by this Paper, which should at least continue – and hopefully stimulate—this encouraging trend:

- Reforming current planning law with the criterion that there should be a clear presumption in favour of sustainable housing development;
- Using the Revised National Planning Policy Framework (NPPF) Rule-book to make the planning system far more efficient and far less drawn-out;
- Adjusting current Green Belt policy to permit building in the least environmentally-sensitive areas and within a short, specified distance, say of up to 1 mile, from main-line railway stations;
- Reinvigorating the medium-sized and small-sized house-building sector, especially through meaningful planning reforms and by vigorously marketing the Home Building Fund scheme;
- Dismantling some of the existing rent controls applying to Housing Associations, who are major builders of new homes;
- Encouraging the development of innovative design and building techniques, including more off-site modular construction, for new residential estates;
- Establishing a few Infrastructure Development Zones (IDZs) to kick-start major house-building schemes—of 1,500+ units per site—alongside infrastructure projects;
- Selling off surplus land held by public sector bodies, especially by the MoD and by the NHS, for new house-building: redundant airport sites are obvious targets for this policy;
- Delivering at least some of the New Garden Town (NGT) projects identified by the Government.

The history of UK house-building – and of the type of tenure – is complex. In the mid-1930s, 350,000 new homes were built annually: land and labour were both in plentiful supply. Thereafter, the end of the Second World War, especially around the heavily-bombed London area, kick-started a major house-building programme in the 1950s.

On a yearly basis, some 300,000 homes were built during that period, many of which replaced bombed properties. And London itself expanded greatly, especially as the extension of the Underground improved communications and created many suburbs. Many other urban areas also saw major house-building initiatives.

Subsequently, house-building volumes fell. Particularly from the 1980s onwards as Local Authorities sharply reduced their house-building activities.

**TABLE 1: HOUSING STOCK MOVEMENTS SINCE 2001**

YEAR	ALL DWELLINGS (M)	OWNER OCCUPIED (M)	YEAR	ALL DWELLINGS (M)	OWNER OCCUPIED (M)
2001	21.2	14.7	2009	22.7	15.0
2002	21.4	14.9	2010	22.8	14.9
2003	21.5	14.8	2011	23.0	14.8
2004	21.7	15.0	2012	23.1	14.8
2005	21.9	15.1	2013	23.2	14.7
2006	22.1	15.1	2014	23.4	14.7
2007	22.3	15.1	2015	23.5	14.7
2008	22.5	15.1	2016	23.7	14.8

Source: Department for Communities and Local Government, Dwelling Stock Estimates

On the demographic front, the post-war baby boom, which peaked in 1964, drove an increase in population. Subsequently, throughout the 1970s, 1980s and much of the 1990s, the UK population level was broadly flat. However, from the mid-1990s onwards—as immigration levels rose—the UK’s demographic profile changed.

As the table overleaf shows, there has been a population increase of over 17% between 1995 and 2017.

**TABLE 2: UK POPULATION OVER TIME**

YEAR	POPULATION (M)	YEAR	POPULATION (M)
1975	56.2	2000	58.9
1980	56.3	2005	60.4
1985	56.5	2010	62.8
1990	57.2	2015	65.1
1995	58.0	2017	66.0

Source: Office for National Statistics

Along with other factors, rising income levels being key, these demographic trends have a knock-on effect on housing provision. Combined with both higher divorce rates and the increasingly stark regional disparities, it is hardly surprising that, in some prosperous areas, there has been an acute housing shortage – manifested by rapidly rising house prices.

Furthermore, housing tenures have changed noticeably, with the private rental sector falling from the 1960s onwards while Local Authority provision has dropped sharply over the last thirty years.

Until the financial crisis of 2008/09, home ownership – under the “Property Owning Democracy” slogan – had been the aspiration of millions of people.

COUNTRY	HOME OWNERSHIP (%) AT 12/2016
France	65
Germany	52
Netherlands	69
Italy	72
Spain	78
UK	63
USA	64 (12/2017)

Source: Trading Economics

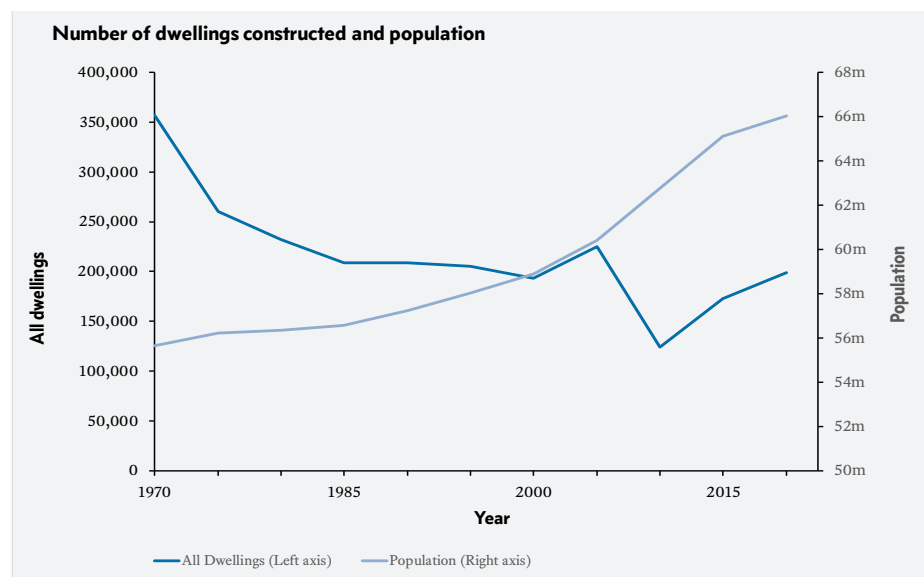
More recently though, the difficulties of raising the required deposit for a mortgage has resulted in many young people eschewing the attractions of home ownership; they are now renting a property instead.

Nevertheless, even after the recent decline, UK private home ownership levels remain high—and well above that of Germany where the home rental model has long been popular.

## HOUSEBUILDING DATA

While some years in the 1950s are well-known for the 300,000+ new homes that were built – some of distinctly variable quality – the 1960s also saw a major expansion of the housing stock.

The table below shows that, in 1969/70, a formidable 357,000 new homes – a sizable percentage of which were flats – were built in the UK. To be sure, there was also considerable house demolition activity at the time. In the intervening near 50 years, the UK annual house-build has fallen to around 200,000 per year, despite a noticeable rise in population, especially since the late 1990s. Perhaps not surprisingly too, there was a sharp reduction after the global financial crisis in 2008/09 as the depressed 2009/10 new-build figure illustrates.



Source: Office for National Statistics

Aside from declining house-build numbers, it has been the change in tenure that has also been particularly newsworthy. As recently as 1974/75, over half the UK's new house-build was undertaken by Local Authorities. In just one generation, that figure had fallen to almost zero as the Conservative Governments of the 1990s either discouraged or prevented Local Authorities from undertaking major house-building activities.

Partly in compensation, Housing Associations (essentially private not-for-profit organisations) have become leading residential builders, where their role is crucial in providing new, low-price accommodation. According to the National Housing Federation, they started building an impressive 47,700 new homes in 2016/17 and completed over 38,000 new homes during the same period.

To continue this positive house-building trend, it is important that Local Authorities and Housing Associations work more closely together, especially in respect of social housing provision.

On the financial front, as it seeks to confer greater freedoms on Housing Associations, the Government no longer consolidates their outstanding debts within the National Accounts.

However, it still regulates many rents, notably for social housing. In October 2017, the Department for Communities and Local Government (DCLG) announced that increases to social rents will be linked to CPI plus 1% for five years from 2020.

While it is sensible that through this formula, medium-term revenues are underpinned – thereby facilitating long-term borrowing – the system of rent regulation should be progressively dismantled. Greater freedom to set rents within a prescribed range should be given to Housing Associations.

The 15 leading Housing Associations in London – members of the g15 group which includes well-known names such as Peabody—now own or manage around 550,000 homes. In 2016/17, they completed 9,550 properties, over half of which were in the affordable rental or share ownership category. By 2025, g15 plans to have delivered 180,000 new homes.

Despite the expanding operations of Housing Associations in London and in other UK cities, the new-build sector remains dominated by the volume house-builders (VHBs), with sector-leader, Persimmon, being particularly strong in the Midlands and in Yorkshire. Indeed, in the Chilterns area and in the surrounding region, many new housing estates are currently under construction, with the VHBs playing a key role.

## **HOUSE PRICES**

From the 1980s onwards, house prices in parts of the UK began to rise sharply, most notably in London. There was a heavy inflow of funds from overseas investors: the annual compound growth of residential property in many London Boroughs was unprecedented.

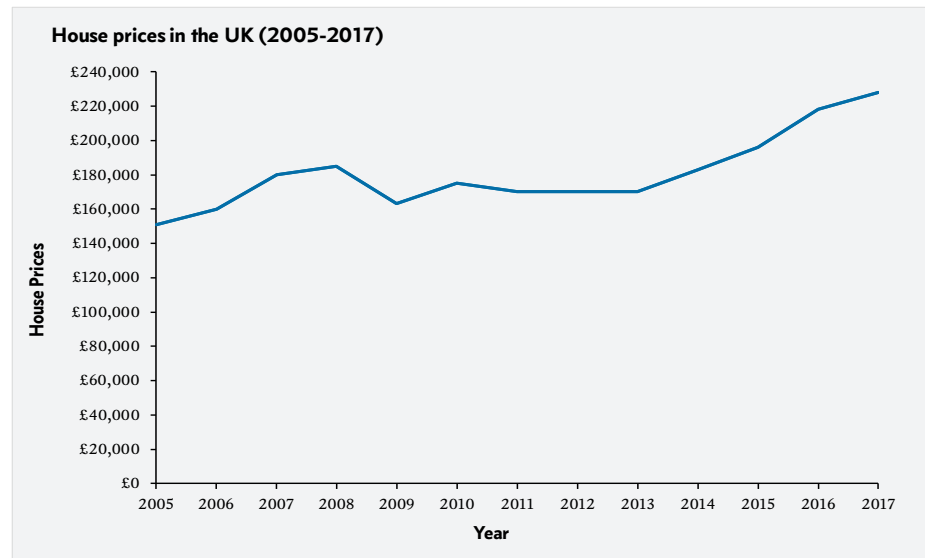
Houses in other well-to-do areas, especially in the South-East and in many areas encircling London, have also seen their values appreciate very considerably – and way above historic levels.

In the north of England, some areas, such as the more upmarket parts of the Manchester region, have also seen higher prices, along with the older, tourist-focussed cities, such as York and Durham. Elsewhere in the north, house price growth has been far more muted.

These regional disparities have grown so pronounced that the price differential of two identical low-grade properties, one located in the most depressed part of South Wales and the other in Chelsea, is now approaching 100x – an astonishing valuation disparity, based almost solely on location.

By contrast, several US cities, with fast-growing populations, have reported modest house-price increases; in many cases, the market value of new-build properties is little more than their actual building cost.

The graph below shows how UK house prices have performed since 2006. The very noticeable dip from 2008/09 is attributable to the financial crisis, which made it much harder for potential buyers to raise the necessary deposit to secure a mortgage. Ultra-low interest rates and the Help-to-Buy scheme have enabled house prices to recover subsequently.



Source: Office for National Statistics

More specifically, the following table indicates how average house prices have changed in major regions of the UK since 2004. Not surprisingly, the London region has delivered, by some distance, the most pronounced increase. Growth in the north-east, by contrast, has been sluggish at best. All figures quoted in the table overleaf are in £000s.



REGION	01/2004	01/2009	01/2014	01/2017
North East	91	119	115	124
North West	96	127	130	150
Yorkshire & Humber	97	126	132	148
East Midlands	119	132	145	174
West Midlands	123	140	152	180
Eastern	160	176	206	279
London	219	253	356	491
South East	182	195	241	319
South West	158	173	198	243

Source: Office for National Statistics

It should be noted that the price rises experienced in London over the last 20 years have not been generally replicated elsewhere in Europe, although currently there is high demand for residential property in Paris.

Indeed, when compared with leading cities in Germany, house prices in both London and, to a lesser extent, in Paris are very high. Although the cost of an average apartment in Munich is more expensive than elsewhere in Germany, those in Berlin and Hamburg cost up to four times less – on a square metre basis – compared with similar properties in London.

## HOUSEBUILDING FINANCE

Historically, any notable movement in interest rates has been a key influence on the UK housing sector; furthermore, since 2008/09, ultra-low interest rates have undoubtedly helped to underpin a very nervous housing market.

Significantly, over the years, the provision of housing finance to potential borrowers has changed quite markedly. Prior to the 1980s, many aspiring home-owners sought to build up a Building Society account, with a long-term view of securing a mortgage against the growth in their initial deposit.

The availability of mortgage interest relief, up to a certain level, along with the continuing exemption from Capital Gains Tax for any profits arising from the sale of a prime residence, also drove the home-ownership phenomenon.

For those either unable to afford home-ownership or simply disinclined to do so, renting from the Local Authority was the most common form of alternative tenure. Private rental ownership was also popular in the post-war period but by the 1970s was noticeably less evident as rental legislation – in the face of several high-profile scandals—became increasingly prescriptive.

From the 1980s, home ownership levels – on the back of the Right-to-Buy policy—began to rise appreciably. By 2003, home ownership in England had peaked at 71%.

In some years, especially in the early 1990s, falling house prices caused negative equity, to the obvious detriment of a minority of house-buyers. But prices in many regions subsequently recovered.

Furthermore, from 1996 when Buy-to-Let mortgages became widely available, this form of ownership took off. By the start of the new century, it was well-established, especially in London, and was – in most cases – highly profitable.

However, the financial crisis of 2008/09 exposed the housing sector to serious risks. Not only were some house-builders very heavily in debt, such as Taylor Wimpey, but also new house-build volumes fell sharply since the requisite finance was much harder to secure.

The most renowned building society, Halifax, had controversially merged with Lloyds Bank; several others collapsed and had to be subsumed into other banks, most notably into Santander.

Importantly, after the financial crisis, Loan-to-Value (LTV) ratios, which prior to 2008/09 had been applied quite liberally, were now required to be enforced more vigorously. Many potential homeowners were simply unable to raise the necessary deposit to secure a mortgage.

Subsequently, the position has eased but it remains immensely difficult for potential new home-owners to acquire property in London and in other prosperous areas where housing is very expensive, unless they have substantial earnings and/or savings or at least an enviable credit line from older family members.

In London, private rental, at 30%, is now the most prevalent form of tenure, followed by outright ownership at 25%. Homes with an outstanding mortgage now account for just 22% while rental in the social sector also amounts to 22%.

Historically, mortgage approval levels have provided a reliable barometer of the underlying UK housing market. Prior to the financial crisis, the monthly mortgage approval figure over the preceding decade had averaged 104,000: by the latter part of 2008, the figure had plunged to below 27,000.

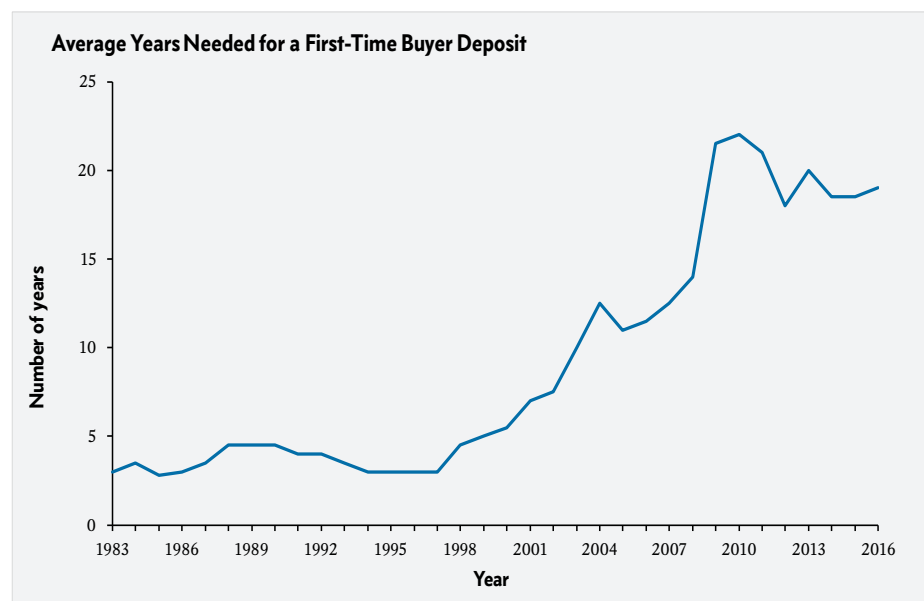
While mortgage approval levels have risen in recent years to around 75,000 per month, the latest figures show a rather lower rate of approvals per month. Quite

simply, fewer properties are now being bought and sold than previously – to the obvious disadvantage of estate agents.

Undoubtedly, the controversial introduction of the Help-to-Buy scheme, whose origins date back to 2013, has helped raise sufficient finance for over 180,000 mainly first-time buyers in England to join the housing ladder. In fact, relatively few buyers have benefited from Help-to-Buy in London where the cut-off price is now £600,000: but, in the north-west, it has proved very popular. In the 2018 Budget, it was confirmed that the scheme will not only be extended to 2023 but also that a price cap will be imposed on a regional basis.

The Help-to-Buy scheme is based on enabling potential buyers to acquire a new-build home with a 5% deposit, while the Government offers a 20% top-up towards the purchase price.

Even so, it remains difficult for many young people to raise the required deposit to buy their first home: the graph below, compiled by the Resolution Foundation, shows the number of years needed to do so. Since the 1990s, this period has risen from around four years to almost 20 years currently – a massive increase within just a generation.



Source: Resolution Foundation

## VOLUME HOUSEBUILDERS

As in other sectors, notably banking, food-retailing and energy, UK house-building is dominated by a few key companies. Following sector consolidation, notably with Persimmon's acquisition of Beazer, Charles Church and Westbury Homes, the UK house-building market is now led by the triumvirate of – Barratt, Persimmon and Taylor Wimpey.

There are other notable house-builders including the Newcastle-based, Bellway, which built over 10,000 new homes last year, the London-centric Berkeley Homes and Redrow.

The table below lists the latest financial and operational data published by the three largest volume house-builders (VHBs); they account for c20% of the total UK market. Importantly, though, and especially for Persimmon and Taylor Wimpey, volume – in the form of units sold—is the key financial driver.

COMPANY	ANNUAL REVENUE (£BN)	UNITS SOLD PER YEAR	AVERAGE SELLING PRICE (000s)	MARKET CAP (£BN)
Barratt Homes	4.9	16,680 (ex JVs)	289	5.8
Persimmon	3.4	16,043	213	7.7
Taylor Wimpey	4.0	14,387 (ex JVs)	264	5.5

Source: Annual Reports, Bloomberg

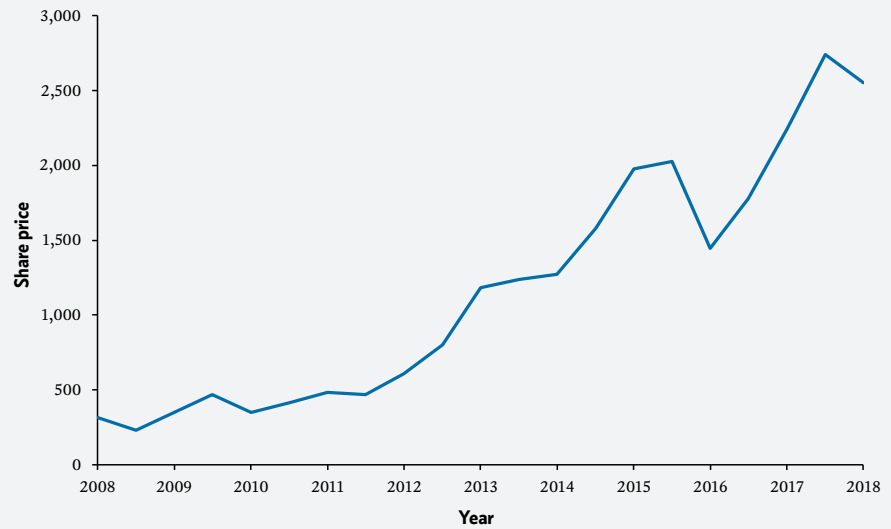
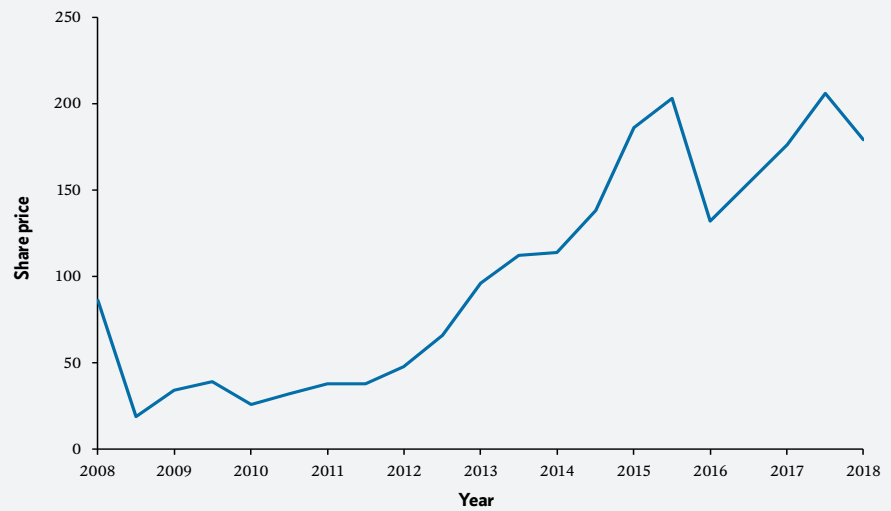
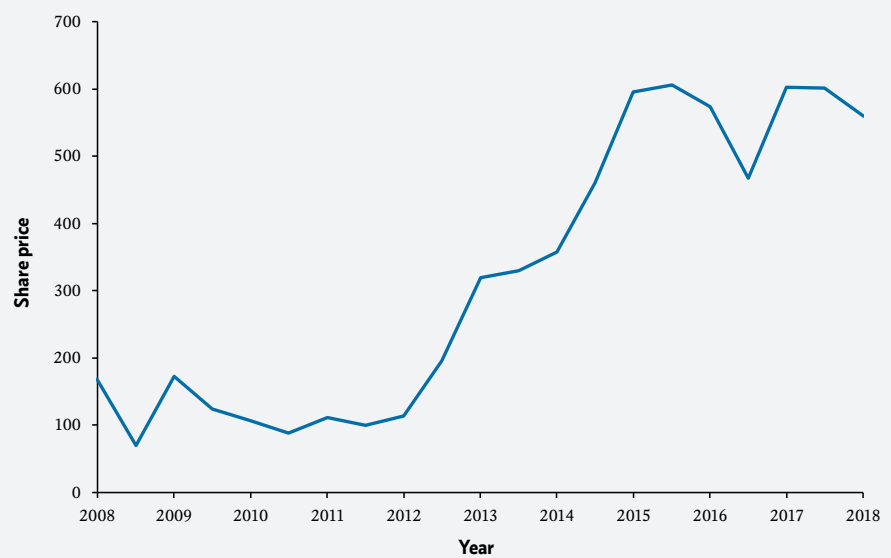
Recently, senior Government ministers have focussed on the VHBs in their quest to build more homes. Although such a policy is not necessarily in the interest of VHBs' shareholders, it remains core to the Government's housing policy. It also glosses over the major constraints inherent within the planning system, which creates many obstacles that VHBs need to overcome if they are to develop individual sites.

In analysing the financial drivers behind a VHB, it should be remembered that Taylor Wimpey, currently capitalised at £5.5 billion, was desperately close to collapse following the financial crisis of 2008/09. Its shares fell to just 11p in November 2008 – and few believed there was a way back for Taylor Wimpey.

As such, the financial model of VHBs seeks to minimise risk. Hence, the sequence of annually rising house prices, more units built, improved cash flow, increased earnings and raised dividends suits them – and their owners, namely their shareholders – rather well.

This 'golden scenario' has undoubtedly benefited VHBs, along with the obvious financial benefits of the Help-to-Buy scheme which has helped to underpin house prices. Both Persimmon and Taylor Wimpey have seen major advances in their share price ratings in recent years.

The graphs below show the ten-year (over six-month intervals) share price performance of both Persimmon and Taylor Wimpey: they have been quite weak in recent months due mainly to Brexit-driven uncertainties. Nevertheless, compared with such household-names as Centrica, the owner of British Gas, and Tesco – whose share prices are down by a half and by c.40% respectively during the same period—these house-building returns are mightily impressive.

**Persimmon share price****Taylor Wimpey share price****Barratt**

In the light of this data, it is hardly surprising that neither company seeks to undertake a radical change in policy. Both, though, recognise that the limited time-span of the Help-to-Buy scheme is likely to dent their share price rating quite seriously. Indeed, market rumours of a premature end to this scheme had caused their share price periodically to wobble.

In reality, given the electoral timetable and the wafer-thin majority that the Government commands at present – thanks to the shaky agreement with the Democratic Unionist Party in Northern Ireland – it is no surprise that the Help-to-Buy policy has recently been extended to 2023; this decision has been welcomed by the VHBs.

## **SMALL HOUSEBUILDERS/NEW ENTRANTS**

Since the 1990s, the smaller house-builders have experienced real problems. Between 2007/08 and 2009/10, no less than one-third of such companies—defined as those building between 1 and 100 homes per year – ceased doing so.

In 1988, according to the Home Builders Federation, small builders constructed around 40% of new-build homes, compared with just 12% today. Furthermore, medium-sized builders – defined as those constructing between 101 and 1,000 houses per year – have reduced substantially in number. Nonetheless, some house-builders outside the major VHBs have expanded in recent years.

Cala Homes, whose origins date back to Aberdeen in 1875, is now owned by Legal and General, a leading insurance company. Cala claims to have been the fastest growing major house-builder over the last decade; it has recently increased its annual house-build target from 2,500 units to 3,000 units.

In the case of the Edinburgh-based Miller Homes, now owned by private equity group, Bridgepoint, recent growth has been equally impressive. Between 2013 and 2017, completions rose by 60% to almost 2,700 per year while average selling prices were up by 32% over the same period. Miller hopes to complete 4,000 units a year by 2020.

Cala and Miller aside, more complex – and drawn-out – planning requirements partly explain why most medium-sized and small house-builders have struggled. It is noteworthy, too, that the average permissioned estate has increased by 17% in acreage over the last decade alone.

Of course, securing the requisite development finance, especially the up-front payments, also poses a real challenge.

Given the consolidation in the sector over the last two decades, it is no surprise that the focus for more house-build is bound to be fixed on the VHBs.

Nonetheless, according to the Home Builders Federation, around 25,000 additional homes per year could be built if there were the same number of firms operational as there were back in 2007.

To stimulate activity from small house-builders, the Government launched the Home Building Fund in October 2016, which provides loans. The initial £3 billion fund has now been increased to £4.5 billion. Outside London and the South-East, the take-up has been disappointing.

Aside from seeking to re-establish the important role played previously by small and medium-sized house-builders, there are three other issues which merit serious analysis.

First, the decline in Local Authority house-building since the mid-1970s has been pronounced. Indeed, over the last 20 years, Local Authority new housing has equated to c1% of the total UK house-build. To a certain extent, the expansion of Housing Associations, along with the activities of the private rental sector, have offset the marked shortfall in Local Authority house-building.

The Government's policy on Local Authority house-building, as set out in the 2017 White Paper, is equivocal. The Government has, though, recently announced its decision to remove the cap on borrowing against Local Authorities' housing revenue accounts.

In any event, Local Authorities should be encouraged to release surplus land under their ownership—which is suitable for new housing—to private sector house-builders.

Secondly, it is significant that many other sectors have been subject to market disruption such as Direct Line in insurance, Aldi and Lidl in food-retailing and Purplebricks in estate agency. To date, the long-standing model of the VHBs in the UK housing market has not been changed by any significant disruption initiatives. In time, this may change.

Thirdly, while innovatory design and building techniques have been discussed for years, there have been relatively few changes, especially at the VHB level.

To be sure, a greater focus is being directed towards energy provision. Smart energy initiatives – both at the design stage and during construction—are now more aggressively pursued than previously, notably on the electricity front: the installation of solar panels is becoming more standard.

In recent years, off-site construction has become more popular as modular building techniques develop. Aside from limiting weather-related delays, off-site construction markedly eases logistical challenges. Housing Associations are particularly well-placed to benefit from developments on the off-site construction front, especially in building low-cost homes.

In general terms, the UK housing sector has not been impacted by these trends, some of which have emerged overseas. In part, it may be because the sector is very UK-centric, with only Barratt in California in the 1980s – the business was sold in 2004—and Taylor Wimpey in Spain/Gibraltar having acquired any material overseas presence.

Arguably, some disruption should be welcomed but setting up new companies from scratch, as the Government has discovered with its various initiatives to provide realistic competitors to the ‘big four’ banks or to the ‘big six’ energy suppliers, is not straightforward.

## LAND-BANKING

Increasing concerns about land-banking – the practice of sitting on land with planning permission and waiting for it to increase in value – have caused the Government to commission the fifth land-banking inquiry since 2004.

Previous enquiries have effectively exonerated the major house-builders from widespread participation in land-banking; this conclusion has also been reached in the case of the latest inquiry which was led by Sir Oliver Letwin MP.

One of the three leading VHBs, Taylor Wimpey, has published details of its land-bank since 2013, which is reproduced below. Also quoted is the ratio of units sold when compared with the number of building plots in its portfolio. Interestingly, this ratio has fallen since 2013, although – until recently—the decline has been relatively modest.

YEAR	LAND-BANK PLOTS	UNITS SOLD	UNITS/LAND-BANK RATIO
2013	70,628	11,696	6.0
2014	75,136	12,454	6.0
2015	75,710	13,341	5.7
2016	76,234	13,881	5.5
2017	74,849	14,541	5.1

Source: Taylor Wimpey Annual Report 2017

Recent evidence has been compiled by Glenigan, a leading house-building consultant. In a report commissioned by the Local Government Association (LGA), Glenigan concluded that plots for almost 400,000 houses in England have received planning approval although the houses themselves are still to be built; this figure equates to almost twice the annual house-build figure in England.



Prior to announcing its conclusions, the Letwin land-banking inquiry did produce some pertinent preliminary observations.

First, it suggested that housing construction on a major site – the core business of VHBs – is very much a two-stage process. Stage 1 is the securing of all necessary approvals to allow development to start on at least part of the site. Stage 2 covers the construction process itself.

In respect of the various constraints affecting Stage 2, the inquiry has highlighted the following challenges:

- *Limited availability of skilled labour*
- *Limited supplies of building materials*
- *Limited availability of capital*
- *Constrained logistics on the site*
- *The slow speed of installations by utility companies*
- *Difficulties of land remediation*
- *Provision of local transport infrastructure*

Such difficulties have been highlighted by VHBs for many years, whether it is the lack of bricks, bricklayers or the dilatory attitude of some utility companies.

In any event, deliberate land-banking can be a risky practice. VHBs would not want to enter a recession with a large land-bank. It is far more preferable to have built up a healthy cash balance which can then be used to buy new plots at depressed prices—a strategy that Berkeley Homes has successfully adopted in recent decades.

Secondly, and importantly, the inquiry’s initial findings suggested that the ‘absorption’ rate – the speed at which new-built homes can be absorbed by the market commensurate with the VHB’s projected selling prices – is pivotal. After all, potential buyers will invariably compare the prices of other local properties relative to those on a new housing estate.

On such an estate, there will normally be different sizes of house and probably various styles. In many cases, some element of social housing – often added on by VHBs as an apparent after-thought—will be required as part of the planning approval process. For the VHBs, these so-called affordable homes require an element of cross-subsidy from the remainder of the development.

In seeking to identify the chicken/egg element in the form of the ‘absorption’ process, this inquiry effectively downplays the difficulties of securing planning approval at the outset. In practice, experienced VHBs, backed up by skilled lawyers, usually manage to secure the necessary approvals, albeit with some constraints and some social housing commitments.

In its final report, the Letwin inquiry advocated various reforms for large sites—defined as those of over 1,500 units—not only with regard to planning but also with respect to the more general concept of reducing the homogeneity element of many

building sites. If these reforms are adopted by the Government, large sites could become increasingly important in driving up house-building numbers.

## PLANNING

The need to improve the planning system is self-evident – but it will be a complex process: successive Governments have introduced piecemeal changes. The reality, though, is that – for better or for worse – it remains the major constraint on house building.

Recent guidance to Local Authorities, along with their own development plans, provides a clearer indication than previously as to where new housing developments would be permitted.

Importantly, the Government is implementing its new NPPF. While many key—and controversial—issues have been addressed, the Government’s new Planning Rule-book focuses on four specific principles, namely:

- *Promoting a high quality of design of new homes and places*
- *Providing stronger protection for the environment*
- *Building the right number of homes in the right places*
- *Conferring greater responsibility and accountability for housing delivery from councils and developers*

Of course, these four principles are very much over-arching aspirations. As always with planning issues, the ‘devil will be in the detail’. Rest assured, the VHBs, in particular, will scrutinise the new NPPF.

Furthermore, Local Authorities are set to lose some of their powers to regulate development if their house-building levels fall below 75% of the Government’s targets. Concerns have been expressed that unscrupulous house-builders could act to ensure that this threshold is triggered in order to benefit from more relaxed planning requirements.

In any event, a greater emphasis on building on green-field sites—and even within Green Belts—is a likely outcome of the new NPPF although Local Authorities will be required to ensure ‘they exhaust all other reasonable options for development before looking to alter a Green Belt boundary’.

After all, the current planning process is often both very drawn-out and expensive, thereby giving an in-built advantage to those organisations with substantial funds to fight for – or against – the proposed development. Against this background, the proven ability of VHBs to secure many planning approvals is hardly surprising—a feature that may become more important if the Letwin proposals on large sites are adopted.

For smaller house-builders, the risks are compounded, especially as they lack many of the planning economies of scale enjoyed by the VHBs. After all planning involves a considerably higher proportion of fixed costs that effectively have to be financed by far lower site revenues. The affordable housing element, which often involves prolonged negotiation, may also complicate the issue. And, in the view of several small house-builders, many Local Authority planning departments are notorious both for their long delays in signing off planning approvals and for their poor communication.

Furthermore, given the small-scale of their schemes, it is likely to be more challenging to ensure that the necessary infrastructure, especially utility provision, is forthcoming. Importantly, a Community Infrastructure Levy (CIL) is now imposed on developers for all but the smallest of building schemes.

And, even then, there is no assurance that planning approval will actually be forthcoming. But house-builders have to participate in the planning system—and accept its many deficiencies—in order to carry out their business activities.

Irrespective of these reservations, recent figures compiled by Glenigan show that planning approval numbers have risen sharply since 2011, and especially since 2015.

YEAR	NORTH	MIDLANDS	SOUTH	ENGLAND (ALL)	WALES	SCOTLAND	GB (ALL)
2011	40,188	29,283	106,738	176,209	9,235	16,701	202,145
2012	48,947	26,369	119,984	195,300	6,457	15,349	217,106
2013	53,500	41,117	122,871	217,488	7,821	15,852	241,161
2014	58,241	42,120	138,949	239,310	9,690	17,812	266,812
2015	66,842	48,792	145,144	260,778	8,270	19,300	288,348
2016	83,034	44,464	165,629	293,127	9,020	20,914	232,061
2017	97,646	64,529	209,671	371,846	10,061	33,288	415,195

Source: Glenigan

It is significant that the planning approval figures quoted above are well ahead of the actual number of houses being built each year although allowance needs to be made for the period between the securing of the necessary planning approvals and the completion of construction itself. The LGA estimates that the period between the award of planning permission and completion of the house-building scheme averages 40 months.

Local Authorities are currently approving nine in every 10 planning applications. However, it is the time delays that weigh particularly heavily on the annual house-building figures. It should be added that many more planning applications would be

submitted—and approved—if the most stultifying deficiencies within the current planning system were removed.

Allied to the level of planning applications being approved is the controversial issue of planning gain which can result in a value increase of up to 100x. Currently, much of this enhanced value lies with the seller, although Capital Gains Tax will generally be payable which will reduce the net proceeds. Currently, the tax that is raised boosts the National Exchequer rather than local services.

To capture more of the planning value uplift, the Government could raise the rate of Capital Gains Tax—in specifically defined cases—from planning-driven wind-fall gains and it could earmark some—or all of it—for local community projects.

## **GREENBELTS**

In tackling the failings of the UK housing market, setting aside suitable land for residential development – and actually building upon it – is crucial. However, there are wide-ranging constraints not least with the vast size of the Green Belt-protected land surrounding London, within which it is very difficult to secure house-building planning approval.

The UK planning system, much of which is derived from the Town and Country Planning Act 1947, along with the various Green Belts, impose major restrictions on house-building.

Currently, Green Belts in England cover some 1,639,090 hectares—around 13% of England’s land area. Although the land surrounding London is by far the best-known Green Belt area, 13 other cities are also protected by Green Belt restrictions, including Nottingham, Sheffield, Newcastle and Bristol.

Recent figures show that England has a land area of around 13 million hectares, of which just 9% is developed. Over a third of the land area is protected due to it being within either an Area of Outstanding Natural Beauty (AONB) or a National Park, or because of its location inside a Green Belt. And, of course, there are further planning policies, adopted by individual Local Authorities, that preclude – or limit—house-building on specific sites.

In terms of its population density—based on people per square kilometre—the UK figure is 265; this compares with 231 for Germany and 203 for Italy. While the EU average is 116, boosted by the large sparsely-populated areas of France, Spain, Sweden and Poland, Holland has a population density figure of 498: the figure for Belgium is 370.

As for the Green Belt, the general principle to retain it, principally for environmental reasons, should continue. However, some modest incursions into the Green Belt are eminently defensible, especially since significant parts of it are run down.

After all, over the last decade, the area of the Green Belt has declined only marginally.

First, the protection of much of the agricultural land within the Green Belt is clearly desirable but not necessarily in all cases. Tighter eligibility criteria are necessary to ensure that the lowest quality agricultural land can become more readily available for house-building.

Secondly, much of the land designated as Green Belt is either brownfield – including previously-used buildings for military or aviation purposes – or arable farmland or golf courses: the latter are very prevalent in Surrey, a prime commuting county.

Thirdly, the proposal put forward in the ASI publication—*The Green Noose, An Analysis of Green Belts and Proposals for Reform*—to permit some residential development in the Green Belt, if the site is located within a specified distance of a main-line railway station, undoubtedly has sound logic.

Unquestionably, the existence of Green Belts has driven up house prices, especially in those areas on the outskirts of London where there is a very large acreage of Green Belt-protected land.

## **SURPLUS LAND INITIATIVES**

Many infrastructure funds seek solid long-term returns for their surplus cash. While the principle of financing public sector, utility, transport and house-building projects is well-established, the volume of such investment could be raised very substantially.

To incentivise this infrastructure investment, especially with respect to developing surplus land for house-building, a few relevant sites could be designated as Infrastructure Development Zones (IDZs), which could be similar to the Enterprise Zones pioneered in the 1980s.

Within a putative IDZ, substantial tax advantages could be available to major house-builders, who team up with infrastructure investors, to construct new homes in the IDZ-designated site.

In addition, more relaxed planning controls could be applicable within an IDZ, although it would mean, in some cases, extending compulsory purchase orders—likely to be a controversial issue—to enable the construction of housing estates. Such orders are more generally implemented and more widely accepted for rail and road schemes, which are—by definition—far less mobile.

These proposals have a lot in common with the final recommendations of the Letwin inquiry in that both advocate special treatment for 1,500+ units house-building projects, especially on the planning front.

To prevent abuse of these proposed concessions, there should be a high financial eligibility threshold. The establishment of a straightforward joint venture — similar to the Independent Power Project (IPP) model widely used in the utility sector—between the house-builders and the infrastructure consortium should be obligatory to secure the tax and planning concessions that are being advocated.

In any event, these measures should raise the expected net return on invested capital — and therefore should appeal to both house-builders and infrastructure companies. It should also kick-start investment in the IDZ—and enable participating parties to benefit from some of the uplift in the site’s enhanced value.

Secondly, there are valuable surplus land assets—located outside Green Belts—held by public authorities that have been seriously under-used for decades.

In particular, the Ministry of Defence (MoD) owns considerable surplus land assets, some of which would be suitable for residential development as was the former MoD barracks at Waterbeach in Cambridgeshire. Of course, in some cases, transport issues may preclude the development of redundant MoD land especially if the site is located in a remote area.

The NHS also has valuable holdings of redundant land. Further developments, such as the housing estate built on the former NHS site of the Old Severalls Hospital in North Essex, are desirable – and would probably interest the VHBs.

Thirdly, the intention to build several New Garden Towns (NGTs)—following the post-war Stevenage precedent—may well have a significant impact on the volume of new house-build. It is important, though, that the proposed NGTs are sensibly located.

The Government has announced several potential locations for NGTs, including sites near Aylesbury, Taunton, Bicester, Didcot, Basingstoke and Ebbsfleet as well as one in the north of Northamptonshire. Such sites seem well-chosen: none are close to the coast which would limit their potential and be less attractive logistically.

Indeed, in choosing suitable NGT sites, it is important both to ensure that good transport links are, or will be, in place and that a range of long-term jobs will be available—unlike the former new town of Corby which was over-dependent upon the fluctuating fortunes of the steel industry.

In any event, it is to be hoped that at least some of the planned NGTs will be built over the next decade, along with the various Garden Villages that the Government has also advocated. Furthermore, discussions are well-advanced in the long-standing, but complex, proposal to build a ‘Varsity’ transport corridor linking Oxford with Cambridge—many new houses would undoubtedly be incorporated within this project.

Reforming the UK's flawed housing market will never be easy—too many vested interests stand in the way. There is also an excess of ingrained laws, ranging from complex planning procedures to the long-standing exemption of a prime residence from a potential Capital Gains Tax liability. The sector is also seriously unbalanced by unprecedented regional pricing distortions.

The various measures proposed in this Paper will not overturn a flawed housing market. But they would—if they were adopted—enable substantially more homes to be built each year.

In the final analysis, it is low building volumes that lie at the heart of seriously inadequate housing provision in the UK.

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