RESPONSE TO UK GOVERNMENT HOUSING WHITE PAPER

1.1 INTRODUCTION

It is evident that the housing industry in the UK is in the grip of a market failure, one that has persisted for more than a century. Here in 2017, just as we did in 1970 and 1990, we stand in the midst of yet another "lost decade" of house building. Another decade where an economic recession in the economy followed the catastrophic failure of the house building industry to provide sufficient affordable homes to meet demand.

Perversely it is high housing costs that initiates one of the largest destabilising effects on the economy as it consumes disposable incomes, fuels debt cycles, and increases social care spending within typical boom or bust cycles.

As far back as 2011, the IPPR projected 232,000 homes per year are needed up to 2030, but we are still building less than half of this. The housing market is characterised by large format developers accumulating speculative land banks as a primary business strategy, to the exclusion of any incentives to finding solutions to the national house building crisis. Added to this the homes that are built are of poorer quality, smaller in footprint, lower in operational efficiency and mostly beyond the financial means of average working families.

To cap it all, regulation in the industry is largely ignored, sustainability standards all but abandoned and a legacy for the future is created where most homes will overheat for at least 30% of the occupied period by 2050 as the effects of climate change become manifest. All the evidence is that the house building industry is not keeping pace with the needs of the future economy. If anything, the situation is going backwards in a scenario where shareholder dividends of the top ten housebuilders continue to soar.

1.2 KEY ISSUES

Why are things so bad? Examination of the underlying issues shows that there are several factors at play.

1.2.1 Supply chain diversity

The first problem is one the gradual of erosion of supply chain diversity and competition. It is a startling fact that 65% of land with planning permission is in the hands of the big seven house builders[i]. Added to this the number of house builder contractors has reduced from 12,000 to 4,000 since 2008 market crash[ii], as the large format builders continue to buy out the smaller builders in an aggressive strategy to gain access to their development land at less than pre-crash price levels. The biggest ten builders have six years' worth of supply land banked[iii]. They said they need six years' worth because that's how long it takes to get through planning. Meanwhile, the volume of housing delivered by small format builders outside the top 10 has shrunk from 57% in 1980 to just 27%[iv] today, making way for the larger developers to continue to strengthen their control over market dynamics.

1.2.2 Supply chain debt

Most of the smaller format supply chain builders still carry weak balance sheets, as a hangover from the 2008 recession and rapid depreciation of land asset values on their books. Their inability to capitalise these land values is log jamming their capacity to compete with the top 10. High street banks are less than sympathetic to this situation, with many still not liquid enough to assist small format builders out of their predicament.

As a result, increased development, new investment, innovation activities and healthy market competition are locked out until the rising market brings purchased landbank values back to something like pre-2008 crash levels. As we write in April 2017, the Savills Development Land Index shows that UK land values outside London are circa 80% of 2008 levels, which more appropriately explains the current 6-year horizon of supply availability reported by the top 10 builders.

1.2.3 Uneven playing field

With all this negative equity land lying around the larger builders have been motivated to become even more sophisticated in their dealings with planners, agents and councils when it comes to mopping up and freezing out smaller builders from any new sources of land arriving on the market. The result is new to market land prices continue to escalate for small builders; further consolidating control of the market into the hands of a few, home prices are rising, and house completion volumes are pitched at levels to support maximum shareholder gain rather than solving a volumetric crisis.

1.2.4 Skills and labour shortage

After years of recession, the industry remains in the grip of a critical skills shortage. This capacity shortage is where the industry would seek to put most of the blame for its inability to pick up the pace towards meeting the required government demand for new homes. A failure to advocate the construction profession in schools and in matched career training and the onset of Brexit and alienation of migration of labour from Eastern European countries all serves to exacerbate the situation further.

Skills shortages also reinforce the steady progress to consolidation of the market by the top 10 builders, where the highest rates of reward are found on the largest development sites in the South East. All of which further tests the viability of house building in other parts of the country as, yet again, the smaller builders struggle to complete with rates paid by larger sites in London and the South East.

1.3 White Paper Proposals

With this major market failure in the supply chain as background, it appears the White Paper has chosen to overlook the underlying root causes of the problem and to place already financially weakened local authority teams in the vanguard of a series of proposed “low hanging fruit” solutions. The white paper includes measures to;

- Promote the building of apartment blocks managed by professional companies and backed by institutional lenders.

- Force Councils to provide comprehensive local plans calculating their housing needs that must be revisited every five years.
- Give Councils the power to raise planning fees by 20pc, with only some of the new money announced allocated to help planning teams expand and deal with planning applications more quickly.
- Impose compulsory purchase orders on developers 'land bank', which sit on land with planning permission but don't build on it quickly enough.
- Mandatory listing of land ownership with the Land Registry Commission. The government aims to achieve comprehensive land registration by 2030.
- Some more help for RSLs to increase production.
- Strengthen sustainability proposals in NPPF

Separately, Government is making £2bn available to bring brownfield land to market, and introducing £3bn in investment loans from a new Home Builder Fund which is targeted at small to medium sized builders.

1.4 White Paper Omissions

However, the White Paper has not provided details on;

- How the government will deal with the fundamental market failure which finds an industry incapable of disrupting its currently lucrative status quo for the few. It is obvious that until supply chain balance sheets are cleared of the financially toxic legacy of the recession of 2008, smaller builders will struggle to find the motivation to do much more than is being done currently.
- The next problem is how to make more homes affordable. Currently, average housing prices are eight times that which is affordable on average wages. This is the highest unaffordability ratio in the history of the state. Land prices account for 30% of new house cost and increasing.
- Any provisions to address the skills shortages both in the near and in the longer term throughout the industry.
- How to address the required improvement on the low quality of build that is delivered, so that end users have homes fit for purpose and fit for the future.

In identifying brownfield land as a solution, the government has shown some lack understanding of existing market drivers where developers view most brownfield land as overtly inefficient, unsuitable or unattractive for most conventional family house building needs.

Of wider consequential importance, domestic housing emits 24% of UK end-use greenhouse gases[v]. From a low emission point in 2014 provisional figures are showing a reversal in carbon emissions, which have risen 8% up to 2016. This is at a time when all new housing should be zero carbon by now.

1.5 SCR Sustainability partnership's Proposals

Where there is such deep-seated market failure, within an industry that has such profound effects on the health of the wider economy, it must surely be the responsibility of government to take the necessary measures to correct or mitigate the failures at the source. Long term solutions allied to

capital investment is needed to deliver the solutions needed to underpin the economic needs of the nation, in much the same way as the current commitment to invest in national infrastructure.

It is also evident that the UK lags other major developed countries from a low-carbon homes perspective, and it would make sense to incorporate energy efficiency, health and wellbeing (thus lowering the burden on the NHS) and other sustainable building practices into any major review or investment planning decisions related to residential housing.

Given the above and with evidence from previous research such as the BIG Energy Upgrade (http://www.sheffield.ac.uk/bigenergyupgrade), the Sheffield City Region Sustainability Partnership recommends that government establish a national framework solution for house building which would:

- Invest via Combined and Local Authorities in major house building programmes framed to support identified local economic and regeneration needs.
- Provide more funding to existing exemplary Local Authority schemes such as that run by Sheffield Housing Company, which is acting as lead developer in identifying land, producing designs and tendering attractive, affordable house building schemes to local small format contractors.
- Allow our Local Authorities to sell more land and keep proceeds to develop more social housing schemes.
- Allow Council tenants to buy their own homes so long as all proceeds go to building new local authority homes, freeing up capital for more home building.
- Allow councils to develop co-ownership models of purchase assistance, where they can own up to half of the property, before selling it back to occupants after a number of years who by then are better able to take on the full value of the loan.
- Work with the Bank of England and the commercial banks to develop a scheme which allows toxic landholders to quarantine the debt from negative equity land (until it comes back to pre-2008 valuation), particularly for the smaller developers, in the interests kick starting a more diverse builder economy.
- Put in place the necessary safeguards to prevent land banking beyond that necessary for a resilient industry. Financed via central funding, afford local authorities the preferential right to buy land made available through the liquidation of a small developers or builders.
- Work with construction industry leaders, BRE and CIOB to set more consistent cross-industry levels of reward for skilled trades in various parts of the country, working together to mitigate foreseeable skills shortages, all with the aspiration to maintain the conditions for an affordable product for house buyers.
- Utilise the expertise of the Health and Wellbeing Boards, the DQi and RIBA design quality processes to develop and mandate quality standards of homes. As a minimum, develop all new housing to the latest BRE Home Quality Mark (HQM), which includes minimum sustainability and health and wellbeing requirements. Address added feasibility costs by a mandatory Green Deal type arrangement where the energy meters of the house, plus generated Feed-In-Tariffs (FiTs) could pay back on an interest-free basis the sustainability and HQM portions of the property's development funding.
- On the above basis, it would make sense to incorporate future climate impacts and other sustainable building practices into any major review or planning regulation related to residential housing. We advocate the reinstatement of objectives that all new homes should be built to at least the standard contained in the Code for Sustainable Homes Level 5 by April 2019, and Level 6 by April 2021.

- We would encourage proposals that incentivise local community energy groups to "adopt" new housing projects in helping the release of more wind or combined heat and power energy projects.
- Stimulating the industrial and service supply chains with innovations for construction and housing such as build modularisation, smart and efficient materials, digital technology for improved productivity, smart and connected devices and homes, and so on that are future ready and resource efficient.
- Integrating sustainability requirements in every part of the housing supply chain decision making from cradle to grave, i.e. from design, planning, procurement / sourcing, manufacturing, construction to use.

We believe that unless and until such comprehensive measures are put in place to disrupt the market status quo, the housing market will continue to exert a negative weight on the economic and wellbeing fortunes of the SCR Region and the nation. It will also create even greater obstacles to the UK commitment to reduce its carbon emissions by 80% below 1990 levels by 2050, and potentially place mounting burdens on the NHS and Local Authority spending. These factors must be included in any economic evaluation of the final government proposals.

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SCR Sustainability Partnership.
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Footnote References

[i] IPPR Housing Report "We Must Fix It" December 2011.
[ii] Sheffield Hallam University CRESR "Profits Before Volume – Major Housebuilders and the crisis of housing supply

[iii] IPPR Housing Report "We Must Fix It" December 2011.
[iv] Sheffield Hallam University CRESR "Profits Before Volume – Major Housebuilders and the crisis of housing supply

[v] Authors calculation taken from UK Gov DECC published data, includes only end use sources and Land Use but excluding generation emissions from Power Stations and other Energy Generation.