The state of UK housing:
From safe as houses to crisis calling

Joe Sarling, September 2012

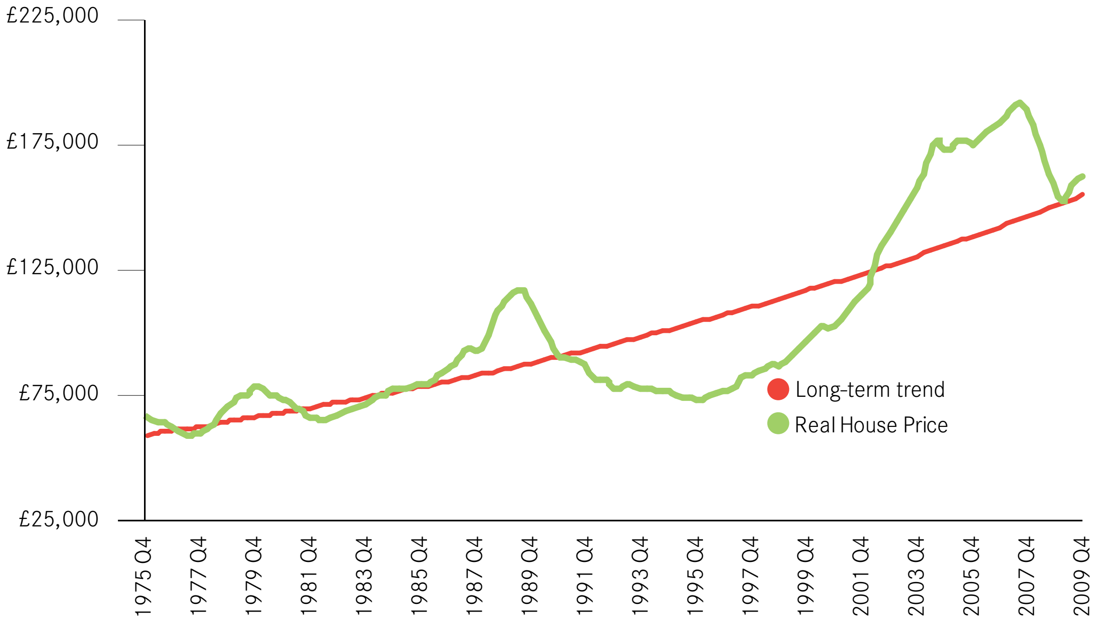
Overview of the UK housing market

High house prices and under-provision of housing in both the occupier and rental markets are long standing issues in the UK.

House prices have increased in the UK over a long period: by **273 percent in real terms since 1959.** The rate of increase has accelerated in recent years; since 1997 house prices have doubled while earnings have only increased by 28 percent, illustrating the increasing affordability problem.[1]

The oil crisis and associated inflation in 1973 marked the start of a trend towards home ownership that continues today, as people chose to protect the value of their savings by investing in housing. Increasing home ownership, combined with a rising number of households and a low number of housing completions has led to prices increasing at a faster rate since 1975 than in any other developed country.[2]

Figure 1: House prices in the UK

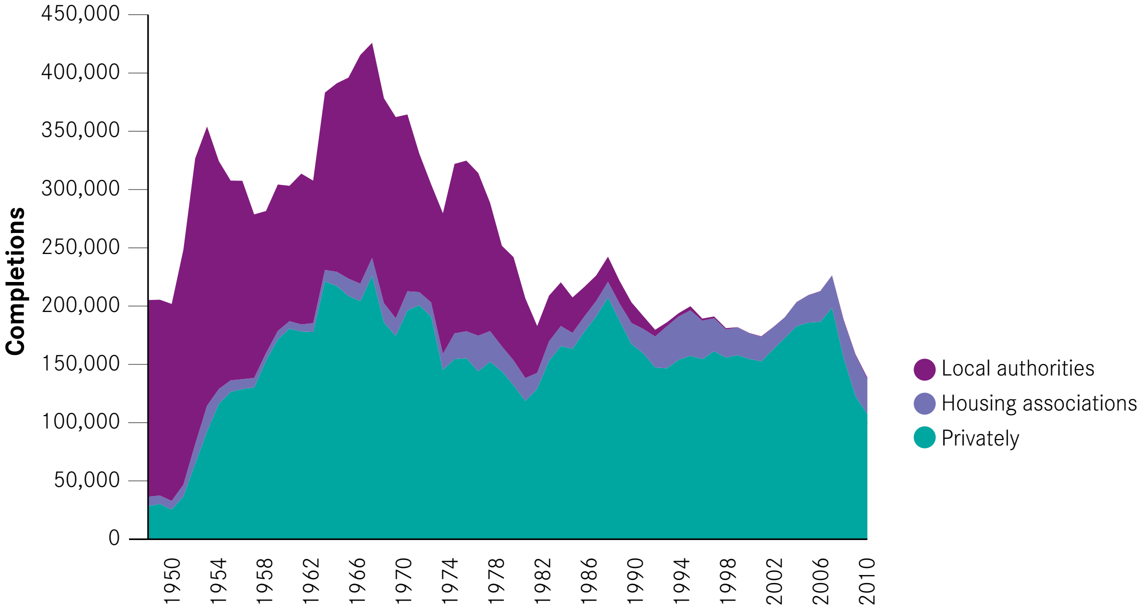


Source: Nationwide

1. Aldred T (2010) *Arrested Development: Are we building houses in the right places?* London: Centre for Cities
2. ibid

Since the mid-1970s, housing supply has become separated from demand. As Figure 2 shows, the number of completions has fallen from its late 1960s peak. The long-term reduction in completions from over 400,000 new houses per annum in 1968 to 109,000 in 2011/12 has been predominantly caused by the withdrawal of local authorities from housebuilding at the end of the 1970s. The contribution that local authorities used to make to housing numbers has not been replaced either by the private sector or by Registered Social Landlords (RSLs).

Figure 2: Housing completions by sector, 1949 to 2010



Source: Department for Communities and Local Government - Table 241 Permanent dwellings completed by tenure

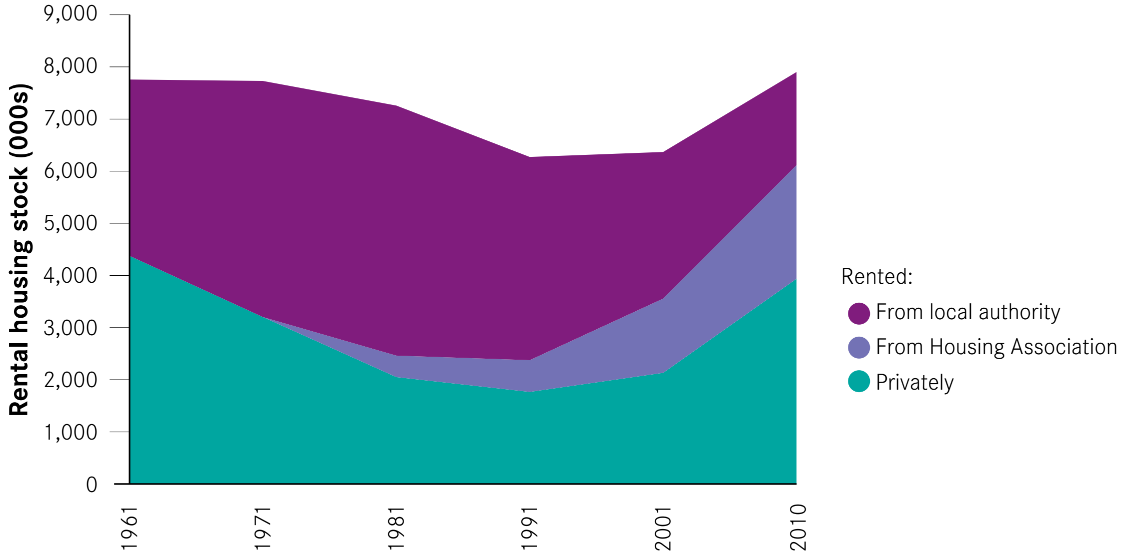
Houses are not being built in the areas with highest levels of demand. Over the last 40 years, economic and technological forces have shifted the UK's centre of economic gravity southwards and, in particular, away from northern industrial and port towns. However, new housing developments have often been built in the areas with low demand. For example, Cambridge - a strong and growing economy - built fewer houses per head than Doncaster – an economy with high levels of unemployment – in spite of prices being twice as high in Cambridge.[3] And in Manchester under 25 percent of the new houses built between 2004 and 2008 were in the three local authority areas with the highest house prices, while 30 percent were built in the authorities with the lowest prices.[4] This is not an efficient use of funding, as well as widening the gap in house prices and contributing to an affordability crisis in the south.

Increases in house prices may place a greater emphasis on the rental market. Historical trends within the rental market have shown little change in overall stock since the 1960s and more recently a shift away from local authority provision (see Figure 3). There was a large increase in private rental properties from 2001 as a response to both rising demand for rental, as house prices were increasing, as well as an increase in credit availability. However, the supply of rental properties available has not increased at the same rate as the demand and so prices, particularly over the last three years, have continued to rise.[5] A restricted private rental market and high house prices mean

3. Aldred T (2010) *Arrested Development: Are we building houses in the right places?* London: Centre for Cities
4. Webber C, Larkin K, Tochtermann L, Varley-Winter O & Wilcox Z (2010) *Grand Designs? a new approach to the built environment in England's cities*, London: Centre for Cities
5. http://www.rentright.co.uk/rrpi.aspx

people continue to rent for longer as they save for a deposit. This also prevents new workers from moving to an area.

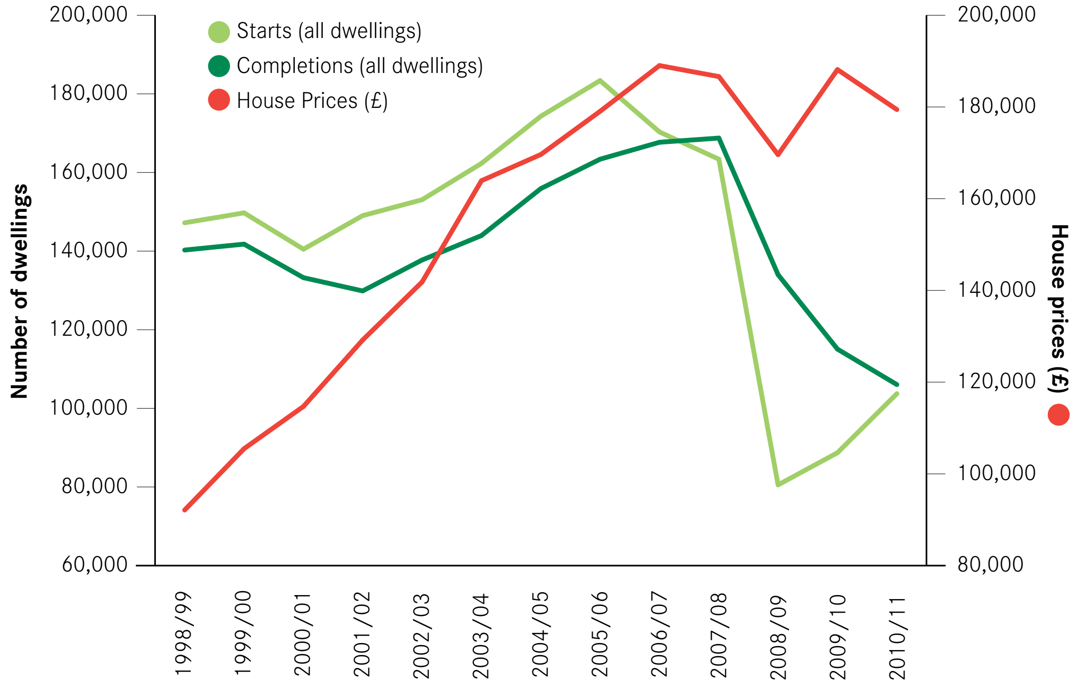
Figure 3: Housing rental stock by sector



Source: Department for Communities and Local Government - Table 104 Dwelling stock

The financial crisis has simply accentuated these long term trends within the UK, with restricted mortgage availability slowing the housing market down. Although housing starts were beginning to fall in 2005/6 before credit constraints arrived, the subsequent financial crisis deepened these existing trends and led to a sharp reduction of around 50 percent in housing starts (Figure 4).

Figure 4: House build starts and completions and real house prices in England (1998-2011)



Source: DCLG www.communities.gov.uk/publications/corporate/statistics/housebuildingq42011

Current housing policies

As a result of the continuing decrease in housing starts since the recession, a number of government initiatives have attempted to kick-start development, boost demand and remove planning constraints. The housing strategy can be broadly summarised as follows:

Supply side

Get Britain Building

- An investment fund announced in November 2011 which will support building firms in need of development finance, including small and medium-sized builders, as well as unlocking marginal sites for development by sharing risk through taking equity stakes.
- The money will be administered through the Homes and Communities Agency (HCA) which aims to recover its investment by March 2018.
- The requested funding should be no more than 50 percent of total project cost, be allocated for stalled developments (i.e. no construction activity since 1 September 2011) with at least 25 homes to be completed by the end of December 2012 and applicants must have existing planning consent and development control of the sites.
- The fund was increased by a further £150 million to £570 million in March 2012. The HCA has now shortlisted 224 schemes that will be invited to take part in a thorough due diligence process and they can be found at www.homesandcommunities.co.uk/get-britain-building
- So far, over £520 million is to be invested in return for 14,000 houses.

Whilst supporting the additional funding, the National Housing Federation has stated that, in spite of the increase in funds available for this scheme, the number of homes it has forecast to deliver will stay roughly the same. They argue that RSLs would be able to deliver more houses with this money, and that the Government should instead channel these funds into the Affordable Homes Programme (see below).[6]

New Homes Bonus

- An additional, un-ringfenced fund worth £1 billion over the Spending Review period (2010/15) which rewards places with a payment for every new house completed.
- The Department for Communities and Local Government has committed nearly £200 million in 2011/12 (in year one) and £250 million for each of the following three years with funding beyond these years coming from Formula Grant.
- Currently, the allocation of the New Homes Bonus for 2012/13 totalled £431 million and includes the second year one instalment of £199 million and the first year two instalment of £233 million. It also includes the first affordable homes premium of £21 million.
- The creation of a new home will be rewarded with a bonus, based upon the council tax band in which the house sits, for the first six years it is occupied. The payment will increase incrementally over six years and then continue, as least in theory, in perpetuity.

Commentators, including Centre for Cities, have argued that while the bonus is a step in the right direction, the size of the pot may not be large enough to have an impact,[7] *and have also pointed*

6. Carr J (2012) *Budget 2012 Briefing*, London: National Housing Federation
7. Larkin K, Wilcox Z & Gailey C (2011) *Room for improvement: Creating the financial incentives needed for economic growth*, London: Centre for Cities

out that it favours private housing over social housing because the former commands three times the bonus. In addition, the grant is paid once the home is occupied which means there will be a lag between planning permission and occupancy of around two years. This means that while some authorities are benefiting from previous planning decisions, others will not see a benefit from the bonus for some time.

Affordable Homes Programme

- The Affordable Homes Programme 2011/15 aims to increase the supply of new affordable homes in England. The HCA will run the scheme – as they have done in the past – with housing providers who are awarded Investment Partner status through completion of pre-qualification rounds.
- The HCA will invest £4.5 billion throughout 2011/15, with the majority focused on affordable rent.
- The announcement of the 146 partners - three more than when the programme ran in 2008-2011 - came in July 2011 and the HCA expects the scheme will provide 80,000 new affordable homes (of the Government's target of 170,000 across all programmes) by 2015.

Clusters of Empty Homes

- A £50 million fund announced in November 2011 (increased to £60 millon in May 2012) to tackle the worst concentrations of poor quality empty homes in low demand areas.
- It will fund the refurbishing and reconfiguring of 3,600 empty homes, as well as improving the public realm and tackling wider issues in the local area.
- The Clusters of Empty Homes fund was open to Local Authorities and HCA Investment Partners and funding allocations were announced at the end of May 2012.

Growing Places Fund

- Worth £730 million with an extra £270 million allocated in the 2012 Budget, the Fund aims to generate economic activity in the short term by meeting immediate infrastructure and site constraint needs in order to promote jobs and housing. It has been allocated to Local Enterprise Partnerships on a formula basis (50 percent weighting on population and 50 percent weighting on employment earnings) to help them deliver growth objectives.
- The Growing Places Fund (GPF) allocations, including the extra £270 million announced in the budget, have been released by the Department for Communities and Local Government with all 39 Local Enterprise Partnerships receiving a slice of the £730 million.
- The GPF can include funding for housing where LEPs see it has a method by which to boost and support local economic growth.

Critics have argued that the fund is too small and too fragmented to be able to deliver the projects it wants to and have suggested pooling allocations with other LEPs and schemes to undertake larger projects.

National Planning Policy Framework

- The NPPF has been reformed to hand greater responsibilities to local areas in order to create an increase in housing supply whilst ensuring choice and competition for land.
- Regional Spatial Strategies and their associated housing targets have been abolished, replaced by the Duty to Co-operate which requires councils to work together across boundaries on strategic planning, including house building.

Demand side

New Buy

- A scheme led by the Home Builders Federation and the Council of Mortgage Lenders that aims to improve access to mortgages of up to 95 percent for new build properties (to a maximum of £500,000) in England, backed by a house-builder indemnity fund.
- Under the new scheme, house-builders will deposit 3.5 percent of the sale price in the indemnity fund for each home sold through the scheme; the Government will provide additional security for the loan in the form of a guarantee. In the event of repossession, the lender will be able to recover any losses on mortgages to the maximum covered by the scheme.
- The scheme only began in March 2012 and is too early to measure its impact.

Commentators have argued that while the scheme aims to make house ownership more accessible, especially to first time buyers, it effectively passes part of the risk from mortgage lenders to the Government. Furthermore, many people will not be able to take advantage of New Buy as supply remains low and prices high.

Upcoming housing policies

Stimulating the rental market: The most recent draft of the Local Government Finance Bill in May 2012 aims to remove barriers preventing social landlords from applying for Real Estate Investment Trust status, a policy change that could further stimulate private investment within the rental sector.

Stimulating housebuilding: The Communities and Local Government Select Committee launched an inquiry in September 2011 into the use of new funding sources to stimulate house building. The inquiry suggested considering pension funds as an initial source of capital to leverage further investment into housing. They have also recommended piloting a specific housing investment fund, possibly administered through the Green Investment Bank, and encourage housing associations to consider the potential of retail bonds (bonds issued by firms in the retail market but differ from corporate bonds as they can be bought in smaller quantities and are traded transparently). They recommend too that Government lift the cap on local authorities' borrowing for housing, and reconsider the decision to rule out pooling of Housing Revenue Account borrowing between local authorities.

Post-reshuffle announcements, 6th September 2012

In early September, a range of new initiatives were launched in order to boost both housing supply and demand. Whilst the initiatives currently lack a large amount of detail, the Centre will follow these policies closely and highlight any developments.

Local Government

- **Current restrictions around affordable housing requirements enforced by councils on house builders will be lifted in order to start projects which have become stalled because the sites are commercially unviable.** Where developers can prove that the project is unviable as a result of the council's affordable housing requirements, the restrictions will be removed.

- **Town hall planning departments will have to improve the speed and quality of their work.** Furthermore, those town hall departments who perform the worst will be put in to "special measures" allowing developers to bypass councils.
- **A greater number of applications will go into a fast track appeal process.** Big commercial and residential applications will be directed through a major infrastructure fast track scheme and where councils are inefficient developers can opt to have their decision taken by the Planning Inspectorate.

Funding and Finance

- **New legislation for government guarantees up to £40 billion worth of major infrastructure projects and up to £10 billion of new homes.** Moreover, the Infrastructure (Financial Assistance) Bill will include **guaranteeing the debt of Housing Associations and private sector developers** in order to stimulate development.
- **New capital funding of £300 million** combined with the infrastructure guarantee aims to provide up to 15,000 affordable homes and bring 5,000 empty homes back into use.
- **An additional 5,000 homes will be built for rent at market rates** in line with proposals outlined in Sir Adrian Montague's report to government, which recommends scrapping the affordable housing quota in favour of private rental

Demand

- **The "FirstBuy" scheme, which offers new, potential homeowners a deposit in order to get on to the property ladder will be extended by £280 million** aiming to help a further 16,500 people.
- **Restrictions and bureaucracy surrounding property improvements will be lifted** for a time limited period allowing families and businesses to improve and extend their properties and stimulate demand.

What is the Centre for Cities' view?

- **Current policies focus too much on influencing the behaviour of a small number of large firms.** Opening up the market to allow a greater number of small house building firms to compete will help both increase the supply of housing and decrease the price.

- **Policy should incentivise housebuilding in areas with higher demand.** Areas with the highest levels of demand (indicated by higher house prices) should be incentivised to boost house building and a range of options will be explored by the Centre for Cities in the near future. The Government continues to preference brownfield development, but it should be left to individual cities to make decisions on the best and most viable sites for housing, which may include the greenbelt in some cities.[8] Local authorities are in the best position to understand how to boost growth in their area, including how and where to build, and local leaders will need to make the case for development wherever most appropriate, which in some cities may include greenbelt land.

8. Webber C, Larkin K, Tochtermann L, Varley-Winter O & Wilcox Z (2010) *Grand Designs? a new approach to the built environment in England's cities*, London: Centre for Cities

- **The New Homes Bonus is a step forward, but needs to be bigger to have the intended effect.** In the past, the Centre for Cities has recommended tripling the size of the New Homes Bonus in order to boost house building, on the basis that it is currently too small to incentivise development in high demand areas.[9] Given that Government is introducing business rates retention, competition for land between housing and commercial space may be exacerbated. New retail and office space can bring in large revenue streams for local government, and the relatively small amount of money received from the New Homes Bonus may mean those commercial properties may provide more financial benefit – and gain more favour – for planning authorities.

  To ensure the NHB has effect in those places with highest housing demand, the tradeoff between housing and commercial development should be minimized at the margin to ensure both residential and commercial development are embraced. However, the simplicity, certainty and clear nature of the NHB may make it preferable to business rates retention schemes in other authorities, which is highly uncertain and complex.

- **Where there is low demand for housing, the focus needs to be on quality of place improvements rather than increases in supply.** Upgrading existing housing provision, and investing in infrastructure is more likely to attract investment and higher-skilled workers.[10]

9. Aldred T (2010) *Arrested Development: Are we building houses in the right places?* London: Centre for Cities
10. Webber C & Swinney P (2010) *Private Sector Cities: a new geography of opportunity*, London: Centre for Cities

Contact

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