Better understanding the housing market

Places for People Group with research support from the University of Cambridge Centre for Housing and Planning Research

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When we began this work we expected, like so many other studies, to be making a series of targeted recommendations for change.

It is only after a lot of work that we have concluded that if we are to deliver the step change required to get us to 300,000 new homes per year, we need to do more than tinker around the edges. We need to properly diagnose structural weaknesses in the housing system — and fix them.

That is not to say there are not important improvements to be made now - there are. And we make a series of recommendations in this report.

These recommendations aim to improve housing supply and affordability. But they will have a limited impact without a detailed understanding of the housing market as a system.

We conclude the time has come to stop trying to tackle different parts of the housing market in isolation without understanding the market as a whole.

The only way to tackle a crisis is to understand its underlying causes at each spatial level — from central government, down to the neighbourhood level.
What is causing the crisis?
The simple and widely repeated theory for the big increase in housing costs since the turn of the millennium, is that there are not enough homes to go around.

We conclude this is right, and it is impacting on housing costs. But it is only one factor in a complex picture. It is undoubtedly true that the UK has failed to build enough homes to keep up with demand for decades.

The gap has developed, and continues to grow, not just because too few new homes have been built, but because demand continues to grow, fuelled by population growth and changing social patterns.

As the gap between housing supply and consumer demand grows simple economics dictates that prices will rise and affordability will fall.

But in addition to this important driver our research and analysis suggests that a series of other factors and market failures have combined to increase housing costs.

These factors affect both the supply of, and the demand, for housing. The most significant among these are:

- An ageing society
- Changing household patterns
- The growth of urban areas
- Monetary policy
- Low volumes of second hand sales
- Lack of specialist housing
- Declining investment
- Land costs and planning constraints

The impact of Covid-19 has strengthened the demand for homes that provide dedicated space to work from home.

Later in this report, we consider the extent to which these trends will impact the distribution of new homes.

What is the crisis?
If we simply focus on headlines, the UK housing crisis is simple to diagnose.

Those who did not buy a home before the turn of the millennium, face higher housing costs than their parents’ generation and a much longer wait before they can raise a sufficient deposit to buy their own home.

The crisis impacts everywhere in the UK but it is at its most acute in London and the South East. In our view, these higher housing costs are the nub of the crisis.

Anything else that gets bundled into the discussion (from standards for renters and mortgage affordability through to inter-generational fairness) stems from this single, simply understood affordability crisis and the steps the country has taken, and needs to take in future to tackle it.

We use the word “crisis” throughout this report but we should recognise that the housing challenge in the UK is beyond a crisis. It is not a short-term difficulty, it is a long-term challenge — decades in the making — which cannot be solved quickly or easily.

This report was written during a time of unprecedented economic turbulence caused by the Coronavirus pandemic.

The information collated here represents the most up-to-date facts and figures available at the time of publishing. The housing market is volatile and attempting to better understand it is an evolving task.

We continue to closely monitor the economic disruption and extensive policy change associated with the pandemic and the aftermath of the Brexit referendum and will continue to adapt our thinking as the market and policies change.

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While there is undoubtedly scope for government across the piece, and Homes England, to develop fewer, and more strategic, funding streams, analysis of the type we describe here can be most usefully done within sub-regional housing markets and should be taken forward by combined authorities, city region mayors and/or local enterprise partnerships.

Not all of the levers that need to be pulled to tackle the housing cost crisis are in the gift of government and the housing sector.

As we note in this report, the expansionary monetary policy that we have seen in the UK over the past decade has been a significant driver of higher house prices.

Why does it matter?

We argue that increasing housing costs matter because they:

- undermine inter-generational fairness
- increase the tax bill through housing related welfare costs
- act as a brake on growth
- reduce the benefit derived from infrastructure investment.

What should we do to tackle the crisis?

We suggest that at each spatial level, government funders, commissioners and suppliers of housing need to work together to understand the housing market as a system that should meet demand for housing of different types, in different geographies, and at different price points.

This requires a detailed understanding of the inter-relationship between the type and tenure of new and existing supply, and prices in each local market, over the long term.

This is not easy, changes frequently, and is impacted by a range of economic, social, and political factors. In our view, this complex analysis should begin with a robust assessment of demand for different housing products at different price points.

That demand analysis should be used to inform a supply strategy that balances:

a total desired housing supply in aggregate terms, including new and existing homes
b total desired housing supply for each tenure and price point
c the infrastructure required to support and enable the housing needed.

As the Venn diagram illustrates, these factors are connected and need to be considered in the round.
Recommendations

As part of a long-term plan to tackle the housing affordability crisis, central and local government should pay particular attention to:

**National policy and strategy**

1. **Major research to understand the housing market as a system.**

   DLUHC should establish a commission to lead a major piece of research, which aims to provide an understanding of the housing market as a system.

   This would help target government policies, funding streams, and market interventions.

   A greater understanding of the housing market would allow government agencies to more successfully support and, where needed, disrupt the housing market.

   The goal should be to develop a detailed understanding of the inter-relationship between the type and tenure of new and existing supply and prices across the country.

   This approach could usefully include a focus on testing and scaling new methods to accelerate the delivery of net zero housing.

2. **Rejuvenate our understanding of the benefits of new, large scale places.**

   DLUHC should conduct a review of the use of government programmes and the way they strategically link together to create new, sustainable, large scale places.

   At the moment, funding streams are disjointed and it is down to developers and local authorities to create a patchwork of support to make schemes viable.

   In order to boost supply towards 300,000, Homes England should prioritise delivery at scale, identifying at least 10 new growth areas across England with strong civic leadership, aligning support using grants and loans; and the new towns’ powers; as well as special purpose vehicles that already exist in legislation.

   Delivery at scale on these lines, both in new towns and through expanding existing settlements, not only provides a sustainability benefit, but delivers a strong economic benefit from the agglomeration impacts created.

   We should not do this instead of developing small and medium sites - we need to do it as well to boost overall supply.

3. **Boosting plans for new places and those being regenerated to level up and improve opportunities in all parts of the country.**

   Planning and delivering new places and regenerating existing places is an opportunity to invest and provide opportunities for people everywhere, including those who have felt left behind. The plan for new areas and existing areas of regeneration should be boosted and make sure people have these opportunities. This will mean plaiting together government programmes at the local level to maximise the investment and deliver positive change.
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Diversifying housing supply

4 Providing more affordable housing.

There is a chronic under supply of affordable housing and we need to boost new supply of affordable housing if we hope to tackle the housing crisis as a whole. We welcome the current grant settlement, but more is needed.

However, given the inelastic nature of supply we need to ensure extra grant does not create a bidding war that just fuels price increases.

DLUHC should change social housing grant conditions so that, in order to qualify for additional grant, housing providers must demonstrate that they are boosting employment, employing SMEs to spread the economic impacts of new build and bringing land into use that would not otherwise be available to guard against price inflation.

Our joint venture with National Grid shows this is possible.

5 Support and promote other methods of providing additional housing supply.

The current solid housing supply line from major housebuilders and housing associations should be taken as the base position.

If we are to boost supply towards and beyond 300,000 we need to innovate to grow these markets and the delivery by SMEs, particularly by boosting self build and custom build.

Government should also establish a body to match MMC supply to demand.

The new body will need to guarantee the order books of a small number of MMC factories for at least five years to enable the sector to scale up whilst meeting patterns of demand.

6 Improve the availability of saving methods for first-time buyers.

Although home ownership affordability is improving, and the government’s new mortgage guarantee scheme will improve this further, the fact that rents are increasing reduces people’s ability to save for a deposit, which remains the biggest obstacle to buying a first property.

HM Treasury should lead a campaign to promote the Lifetime ISA so it is used by more people, enabling them to save for a mortgage deposit.
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Strengthen the planning system

7 Make planning proactive.

Planning should be proactive rather than reactive: a verb — not a noun. DLUHC should introduce radical changes to the planning system that result in a more proactive, fair approach to housing development.

In other countries, planners focus on understanding local patterns of demand and draw on that analysis to initiate and promote residential development rather than primarily reacting to requests to agree to planning permission.

Those countries build more homes and create more sustainable thriving places.

Spatial leadership should be developed, with Metro mayors required to develop local infrastructure strategies which would ensure housing and infrastructure are delivered hand in hand and lead to improved local infrastructure and amenities.

8 Change the planning system to make better use of land value.

DLUHC should find ways to incentivise newly proactive local planning authorities to do innovative deals with land holders in which consent is contingent on releasing land at, or close to, agricultural value, with the promise of an uplift later on through a financial stake in the development.

Local authorities should deploy deals such as these to reduce the cost of new homes and stop the current practice whereby the cost of local infrastructure is met by house buyers not land owners, tax payers, or developers.

Land owners are, of course, due fair value for their land, but prices are inflated by state intervention through the planning system. The “hope value” baked into land valuations is dependent on infrastructure delivery and securing a development that generates expected house prices. It is only right that the landowner should take a stake in delivering these requirements — and be remunerated once the development succeeds.
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9 Improve national planning practice
guidance to ensure enough specialist
housing is built.

A small but increasing proportion of society
needs specialist housing and we cannot rely
on the market to deliver that.

The National Planning Policy Framework
(NPPF) can only ever send a very high level
signal. DLUHC should review and update
existing planning guidance to ensure local
community needs are properly understood
and met.

At a local level, newly proactive local authority
planners need to do deals with neighbouring
local authorities and commissioners to deliver
supported housing that comes with a secure
long-term revenue stream.

10 A more flexible approach to the green belt.

DLUHC should legislate to change the way
the green belt is operated more flexibly with
gradations in place, with different rules for
different grades of land.

This approach would recognise that not all
green belt land offers outstanding amenity
and beauty and begins to move us away
from a binary judgement on whether land
is developable or must be preserved in
perpetuity.

Local authorities should lead a better
informed conversation in the planning system
about the amenity value of land held in the
green belt and the way that amenity value
could be enhanced through targeted release of
land for development that delivers improved
local infrastructure, amenities and high value
usable public space.

Failure to address this issue will mean the
loss of green areas and local school playing
fields will continue.

11 Giving consumers a stronger voice.

Potential new residents should be able to take
full part in the planning process alongside
those who are already living in the area
— creating new places should be part of a
participatory democracy.

Young people in particular are often under-
presented in the planning process and
do not get a voice. We think their voice is
important and should be heard to influence
infrastructure development and ensure it is
delivered effectively in the right places.

Local authorities should hold registers of
people wanting to live in new communities
and give equal voice to them as part of the
planning consultation process. This could take
a similar approach to the local “self-build”
registers.
In this report we argue that despite progress in recent years, national and local politicians, and arguably many sector leaders and commentators, do not fully recognise the need to understand the housing market as a system, which meets demand for housing of different types, in different geographies, and at different price points.

Such an approach requires a detailed understanding of the long-term inter-relationship between the type and tenure of new and existing supply, and prices and economic growth in each local market.

Yet, in our political discourse, housing is not consistently considered explicitly in this systematic way.

The Barker Review of Housing Supply, published in 2004, is widely considered to be the most comprehensive review of the UK housing market in recent decades (Barker, 2004).

Other impressive and far reaching reports, which propose solutions to the housing supply crisis include Lyons, 2014; Lloyds Banking Group, 2015; KPMG/Shelter, 2015; Elphicke and House, 2015; Fagleman, 2015; London Housing Commission, 2016.

While all were important contributions to the housing debate, we think that the housing market needs to be viewed more holistically.

However, there is academic work that makes these connections, for example, Piazzesi and Schneider, 2016; Adams and Füss, 2010; and Goodhart and Hofmann 2008, connect housing to the macro economy, both nationally and internationally. Oswald, 1999; Blanchflower and Oswald, 2013; Strauss, 2012, analyse connections between housing and labour markets.


Taken together, this academic work suggests the UK housing offer should try to meet demand for housing of different types, in different geographies, and at different price points.

That means improving local planning so that it is focused on the breadth of local housing requirements and demands, as well as planning and delivering whole new towns and cities.

In short, it means delivering housing developments as part of large-scale plans for national economic infrastructure, driven by local analysis that takes account of demand side factors such as regional wage economies as well as supply side drivers.

It is self evident that focusing on large places delivers economies of scale and maximises the return on investment for both public and private investors.

Expensive and insufficient housing holds back growth by reducing labour supply in high demand areas and diverting consumer spending onto housing that could be directed to more productive parts of the economy.

Long distance commuting also impacts adversely on economic productivity. Housing should be seen as vital infrastructure for our economy and society — just as energy, broadband, roads and rail lines are.

1 https://www.jrf.org.uk/report/local-housing-market-volatility
What is the crisis?

The average house price quadrupled in the 25 years to 2020.\(^2\)

This means that those who did not buy a home before the turn of the millennium face much higher housing costs than their parents’ generation and a much longer wait before they can raise a sufficient deposit to buy their own home.

The crisis impacts everywhere in the UK but it is at its most acute in London and the South East.

The Cabinet reshuffle in September brought an increased focus to levelling up, with the appointment of Michael Gove as Secretary of State for levelling up, housing and communities at the head of a new Department for Levelling Up, Housing and Communities. A White Paper is expected this Autumn setting out what Government will do on levelling up to improve opportunities in all parts of the country. The new Secretary of State has already said that levelling up means strengthening local leadership, raising living standards, improving public services and enhancing the pride people feel in the place they live.

This is not to say there are not other challenges related to housing. The UK builds some of the smallest homes in the world, new build standards need to improve, and we need to diversify our supply in terms of off-site manufacture and more flexible, and new types of, tenure.

We need to improve the offer for social housing tenants to tackle the stigma they can face, and we need to professionalise the private rented sector to improve the experience of private renters.

All of this needs to be done while rising to the challenges presented by climate change and achieving carbon neutrality as soon as possible.

As a major placemaking and regeneration business we are committed to tackling these challenges and passionate about building well planned, vibrant, and sustainable places where people want to live and can access work and good quality services.

We touch on these themes throughout this report but we keep returning to the nub of the crisis — why housing costs as a proportion of income have grown and how they can be reduced.

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Housing affordability in the UK

In 2019, Kensington and Chelsea had the highest ratio of house prices to annual salary in England and Wales, with house prices being 39.6 times greater than median gross annual salary,\(^3\) making it the least affordable area to buy a property in England and Wales.

Londonderry in Northern Ireland replaced Stirling in Scotland as the most affordable area of the UK to buy a property.

The average house price in Londonderry is four times the median annual salary.\(^4\) In 2019, of the 10 least affordable local authorities, seven were in London.\(^5\)

Since 1998, the ratio of average house prices to average earnings has more than doubled in England. For around 14 million low income households across the UK, the average affordability ratio for housing has risen sharply from 4.41 in 2002 to 7.06 in 2019.\(^6\)\(^7\)

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Affordability trends

Higher prices are good news for some and bad for others. The scale of increases in recent years and the impact differs across different tenures. The National Audit Office has previously noted that:

• For existing homeowners, housing has become more affordable in recent years, but for first-time buyers it has become less affordable due to the difficulty of saving for a deposit. Recent analysis by lender Halifax found that deposit requirements surged in 2020 reaching an average of £57,000.

Given the unprecedented circumstances for the housing market in 2020, this was a 23% rise on the 2019 average first-time buyer deposit of £43,000.

Research shows that average first-time buyer house prices rose by 60% between 2005 and 2018, compared to average first-time buyer incomes which have risen by just 30% in the same period.

This has meant that the first-time buyer group are becoming increasingly wealthier, having 1.8 times the mean income of their cohort compared to 1.5 times in 2006.

Rising rents are also adding to this problem. Increasing rents are reducing people’s ability to save for a mortgage deposit, which remains the biggest obstacle to buying a first property.

• Since 2006, the cost of private rented accommodation has broadly followed changes in earnings across England as a whole, however more recently, this has begun to increase further. As discussed above, rising rents are reducing people’s ability to save while in the private rented sector.

Although the financial incentive of owning your own property is increasing due to the rising availability of cheap mortgages and low interest rates, the ability to get on the ladder with a mortgage deposit is getting further out of reach for many young people who are unable to save while paying their rent.

• There is substantial regional variation in the housing market across England. In November 2020, the average home in London cost 85% more than the average home in England. While absolute values have increased, this regional variation has not changed. In 1995, an average home in London cost 85% more than the average price for England.

Official figures from the Office for National Statistics (ONS) show that the average UK house price is now 7.8 times average earnings. The average London home made its owner more than £17 an hour during the working week in 2019/20 — considerably more than the average Londoner’s hourly rate.

While this is positive for those who own property in the capital, it is impeding entry for those who do not.

According to Lloyds Banking Group data for 2019, the UK’s 20 least affordable cities are in England, including Oxford and Greater London with house prices to earnings ratios of 12.6 and 10.3 respectively, compared to the UK’s cities average of 7.2.

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If these trends continue, the private rented sector will become the largest sector within 50 years. 15

In London, the pace of change is even faster, with private renting projected to catch up with owner occupation by 2025.

As data from the National Audit Office shows, discounted rents have risen far less dramatically — and have even fallen in some places — as a result of increasing pressure on the rental sector following rising for sale prices in recent years. 16 17

Research by the Bank of England in 2019 showed that UK rents had fallen by 40% relative to house prices over 30 years. 18

While rent inflation has been much more measured, the Royal Institute of Chartered Surveyors (RICS) expects decline in the number of landlords and a decline in the availability of homes for rent, alongside an increased demand for housing in recent years. 19

The most affordable cities include Londonderry (4.4) in Northern Ireland, Stirling in Scotland (4.4) and Swansea (5.5) in Wales, as well as several in the north of England and the Midlands, for example Bradford 4.6, Hereford 5.1 and Sunderland 5.2).

In 2019–20, 35% of households were outright owners and 30% had a mortgage (see fig 1). The increase in outright ownership is partly explained by the ageing population, with large numbers of baby boomers reaching retirement age and paying off their mortgages.

This has important implications for the housing market and the pattern of housing demand and supply, particularly of retirement housing.

In 2019–20, the private rented sector accounted for 4.4 million or 19% of households in England. Throughout the 1980s and 1990s, the proportion of private rented households was steady at around 10%. However, the sector has more than doubled in size since 2002.

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These changes mean that those with mortgages and those in the private rented sector are having to use an increasing proportion of their income to meet housing costs. This increasing cost of housing is not just damaging the life chances of individuals, it is weakening the productivity growth of the country.

The ‘locked out’ generation

Rising house prices have created a generation of people who are locked out of home ownership either until much later in life or for good.

Housing is becoming increasingly unevenly distributed across generations, leading to much research into intergenerational fairness and multiple demand side policies, such as the Help to Buy scheme and more recently, increasing stamp duty relief to properties up to £300,000 for first-time buyers.

Figures released in 2020 by the ONS and the Department for Levelling Up, Housing & Communities (DLUHC) show that the UK’s average age of a first time buyer is now 32, an increase of two years compared to 2018 when the average age was 30 years old.

Statistics show a considerable slump in first-time buyer uptake since 2007 that the UK only very recently recovered from in 2019.

Research from Barclays showed that in 1995 it would take just one year to save for a deposit on a house. Now, it can take up to 11 years to save for a down payment, depending on where you live.

This in part explains why homeownership among 16 to 34 year olds fell from 54% in 2004 to just 36% in 2019-20 (see fig 2).

A good deal of analysis suggests that it is the cost of buying, and particularly the need for deposits that is currently the biggest barrier to prospective first-time buyers.

For those lucky enough to have access to a deposit, typically thanks to the bank of mum and dad, the current cost of owning is very affordable, and is increasing due to the rising availability of cheap mortgages which the government’s new mortgage guarantee scheme will further improve.

However, for those without a large deposit, the increasing proportion of income that is spent on covering rent makes saving for a deposit very challenging. ONS statistics have shown that some rental tenants are now spending as much as 48% of their salaries on rent, not including utilities.

Figure 2 illustrates how young people have been forced out of the housing market and into the rental sector over the past 15 years. This can be explained by an amalgamation of factors such as rising house prices, the deposit barrier and the cost of renting.

However, as shown in figure 2, the gap between home ownership and private renting has started to decline in the past two years because of the availability of a number of affordable products such as Shared Ownership and Help to Buy.

We expect this to decline further as a result of the mortgage guarantee scheme announced in the Budget 2021.

Figure 2

Tenure trends of young people: % of all households of 16-34 year-olds

What is causing the crisis?

The simple, and widely repeated theory for the big increase in housing costs since the turn of the millennium, is that there are not enough homes to go around.

We conclude that while this is right, and is having an impact on housing costs, it is only one factor in a complex picture.

It is undoubtedly true that the UK has failed to build enough homes to keep up with demand for decades.

The gap has developed, and continues to grow, not just because too few new homes have been built, but because demand continues to rise, fuelled by population growth and changing social patterns.

As the gap between housing supply and consumer demand grows’ simple economics dictates that prices will rise and affordability will fall.

But in addition to this important driver, our research and analysis suggests that a series of other factors and market failures have combined to increase housing costs.

These factors affect both the supply of, and the demand, for housing. The most significant among these are explored in more detail in this chapter.

On the supply side, we identify the principal drivers of the affordability crisis to be an ageing population; changing household patterns; the growth of cities; and the availability of cheap money.

On the demand side we identify the principal drivers of the affordability crisis to be low volumes of “second hand” sales, a lack of choice in the market, and a long term failure to build sufficient homes to meet demand — driven by weak investment, high costs, and a combative and constraining planning system.

An ageing society

We are all living longer, and this demographic change has a massive impact on the housing market.

Put simply, the increasing number of older people means that where the UK housing stock once housed three generations, it now houses four — yet the stock has not expanded to cater for this.

This increased life expectancy is driving increased care costs in older age. Housing wealth that previous generations passed to their children is significantly delayed, often significantly eroded and sometimes not passed on at all because of care costs.

It is projected that 88% of the growth in the number of households between 2016 and 2041 will be in households headed by someone aged 65 or over.

Meanwhile, the number of households headed by someone aged 65 or over is projected to increase by 54% by 2041, which will bring the total number of households headed by someone aged 65+ to almost 10 million, whereas the number of households headed by someone under 65 is projected to grow by just 3%.26

There are 3.8 million people over the age of 65 living alone in the UK — almost 70% of them are women, and 2.2 million of them are over the age of 75.27

A key part of the housing market is how it works for the people who need housing of a specific design and/or require support.

While we are encouraged by the DLUHC’s work, we think there needs to be a major focus on ensuring there is a detailed understanding of the process to create housing for the different groups of society, so those schemes are delivered in a way that works for people’s specific needs.

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Changing household patterns

Over the last 30–40 years, we have seen the housing crisis change the social fabric of the UK and vice versa.

The increasing prevalence of single people living alone and households being split as result of family breakdown, has resulted in a steep increase in demand for housing.

Meanwhile, the housing crisis has begun to disrupt family life in the UK in recent years by forcing millennials to delay different stages of adulthood, which has increased demand for a diversity of different types of housing and tenures.

According to most recent data by the ONS, there are 27.8 million households in the UK, which is a 6.8% increase over 10 years.

Population increases are projected to push the number of households in to 28.9 million by 2039.

Local partners need to understand these changes as part of an analysis of detailed patterns of supply and demand to improve affordability in their area.

Retirement homes

The increase in the proportion of older people has been described as “one of the most significant social transformations of the twenty-first century.” (United Nations, 2015).

As we age, what we need from our homes can change. However, older people are a very heterogeneous group, so there is also diversity in what we need from our homes as we get older.

Currently in the UK, only just over 3% of households made up of older adults move every year, with most of these moves being within mainstream housing, rather than into specialised housing for older people (Hammond 2018).

Many people do prefer to age in their existing home, but for those who seek a new home to meet their changing needs, their choices can be limited.

The supply of specialised housing for people as they age is relatively low in the UK.

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What is causing the crisis?

For example, analysis done in 2017 by Savills showed that to ensure 40% of households in the South East can afford a home in the region, the property would have to cost no more than £250,000 — the average house price there at the time was £290,00 and is now even higher.

The research from Savills concluded that we are continuing to build relatively low volumes in relation to high demand in the South.\(^{30}\)

There is evidence to suggest that these high housing costs are influencing social structures in the UK.

In June 2020, the affordable housing commission reported that 1.8 million adults under the age of 45 had been delaying, or deciding not to have, children due to their housing situation.\(^{31}\)

The average age of mothers and fathers has increased for the 10th consecutive year with the number of women having multiple children decreasing for the fourth year in a row.\(^{32}\)

There are now nearly a million more 20 to 34 year olds living with their parents than there were 20 years ago.\(^{33}\) This equates to 1 in 4 people in that age group.

Nearly 1 in 3 parents with adult children living at home don’t expect them to move out at all or expect that their adult children moving out will take 10 or more years.\(^{34}\)

In its 2017 report on demographic change, Civitas pointed to a projected rise in population which will create demand for 4.25 million new homes by 2039, as well as the need for thousands of new hospitals, schools, leisure facilities, employment opportunities and general infrastructure.\(^{35}\)

They make the case for a more strategic plan from Government, overseen by a dedicated Minister who would lay out a strategic framework for evaluating and addressing the impact that the population growth will have.

But it is not just central Government that needs to act. Local government has a key role to play to develop a detailed understanding of market conditions and housing requirements in its area, taking into account needs at different price points and travel to work patterns.

We recommend building on current Mayoral arrangements and city and housing deals to enable local authorities to collaborate on housing across a travel to work area.

This collaboration should focus on understanding the detail of housing need in the area and proposing policy changes or investment strategies that would make the whole housing system more effective and efficient.

This would involve joint work to ensure new homes are supplemented by new infrastructure and delivered in advance.

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\(^{33}\) BBC. (2020). Housing: Six things you’ll learn from the BBC Briefing. BBC. [DATE ACCESSED: 8th June 2020]. Url: https://www.bbc.co.uk/bitesize/articles/z7km2sg


What is causing the crisis?

The growth of urban areas

The latest UN projections expect the world's population to grow to 9.7 billion by 2050 and to 11.2 billion by 2100.36 By then, 80-90% of the global population will live in cities.37

These changes are fundamentally impacting on demand for housing in, and close to, cities in the UK and the world over. Recent analysis by the Centre for Cities shows that the scarcity of building new homes in the most economically successful areas, such as major UK cities, creates huge inequalities in housing wealth.

Its research highlights that there are localised housing crises focused in cities and towns where employment opportunities draw in large numbers of people, and therefore the housing supply does not match demand.38

While the pandemic has temporarily boosted demand for rural homes, few analysts think this will translate into a long-term trend.

Low volumes of “second hand” sales

The UK housing market is largely a market in “second hand”, as opposed to new dwellings. House prices are largely determined by the interaction of demand and supply for existing dwellings sold from the stock and, to a large extent, housebuilders are price takers.

The percentage of private housing turnover almost halved between the financial years 2007/08 and 2008/09 from 1.4 million UK wide to just 796,000 sales.

Even before the pandemic, this number had still not recovered and stood at 1.1 million units in 2019/20. Meanwhile the UK population has grown by 6.8 million people during the same timeframe.

Monetary policy

While all housing costs have increased, house price increases have significantly outstripped rental increases. The expansionary monetary policy that we have seen in the UK over the past decade has been a significant driver of higher house prices.

We share the view of some analysts that the increase in house prices over the last two decades owes as much, and maybe more to, low interest rates than a mismatch between supply and demand.

Research by Ian Mulheirn of the Tony Blair Institute for Change shows that the collapse in interest rates between 1996 and 2018 is the primary reason for the 160% real-term rise in UK house prices.
A failure to build enough new homes to meet demand over several decades

Arguably, since the Government shifted the emphasis from production to quality in the 1977 Green Paper, the UK has built insufficient volumes of housing.\(^{41}\)

The UK is not building as many new dwellings per thousand population as it did in the last century, or as many as other countries.

France managed to build 6.2 homes per thousand in 2014 while the UK delivered less than half that rate — 2.3 homes per thousand.\(^{42}\) This inelastic supply has a number of drivers. The key ones are discussed below.

**Lack of choice in the market**

People’s lives are dynamic and full of change and the housing market needs to respond to this with flexible housing products. Yet the market is not particularly responsive to consumer demand.

In London for example, an estimated 58% of demand is for homes costing less than £450 per square foot, but this accounts for just 15% of the five-year build forecast.\(^{39}\)

The retirement market is another good example. In the UK, 4.8% of the over 55s live in retirement accommodation, compared to 17% in the US and 13% in Australia and New Zealand.\(^{40}\)

At current rates of build, it will be the year 2132 before we achieve these rates in the UK. These examples demonstrate the failure of new supply to meet the needs of consumers.

Despite obvious demand, the costs and risks associated with development have not led to the innovation that high demand seems to drive in other markets in the economy and has not brought in new entrants.

This may be partly to do with capacity — in a recession, both skilled and experienced labour and materials are lost and, for materials such as bricks, the overall capacity to produce them may disappear.

The failure of forms of modular housing to achieve scale in production and thus achieve the cost reductions promised is also a factor. The Calcutt Review of Housebuilding Delivery was published in 2007. It noted that:

> Housebuilders are not in business to serve the public interest, except incidentally. Their primary concern is to deliver profits for their investors, now and in the future — in other words, to ensure that their business is a good investment. Housebuilding executives are answerable to their investors, not to Ministers or the wider public. It follows that Government is not in a position to place general delivery obligations on housebuilders.


What is causing the crisis?

Figure 3

Housebuilding in a historical context: 1950-2019

In the past, council housing maintained sufficient demand for construction inputs to maintain capacity through recession — such investment is often termed ‘counter-cyclical’ as it provides a cushion for both employment, enabling skills to be retained, and for materials production.

However, that investment was made at a time when councils had fewer constraints on capital and revenue budgets and the country was not spending such large sums on housing benefit, the wider health and welfare system, and household income subsidies such as tax credits.

Housing subsidies have shifted from capital to revenue over many years (LBG, 2015).

This divergence between capital and revenue spend may be irreversible in political terms. This is because large increases in capital subsidies to support additional supply and lower rents would need to come before very large cuts in benefit expenditure. This would mean significantly more public expenditure during a period of adjustment.

If this analysis is correct, governments have few options available to them aside from intervening in the market to reduce rents — something the current Government has already done in the social sector but is unlikely to choose to do in the private sector.

In an earlier report, we compared the amount of investment in housing as a percentage of Gross Domestic Product (GDP) in different countries.

In a comparison between selected advanced economies, on average over the period 2000-2014, the UK was second lowest only to Sweden in terms of the proportion of GDP invested in housing.

On average, from 2000 to 2014, the UK devoted 3.4% of national output to housing investment. Most other countries invested around four to seven per cent. The comparatively low level of housing investment in the UK is a long-standing phenomenon.

In 1970 and 1990, most other countries, for which the data is available, had a higher level of housing investment than the UK.

Traditional bank lending has been heavily constrained since the global financial crisis. The Government has initiated a high level of activity aimed at tackling this problem.

But more needs to be done to support new entrants to the market and to grow small builders into medium builders, and medium-sized companies into large ones.

The most recent Federation of Master Builders annual housebuilder’s survey sites the planning system, with its overly complex processes and information requirements, as the most significant barrier to increasing the SME sector’s output of new homes.

While the number of small site opportunities has also decreased significantly, the survey finds that lending conditions for SMEs are rated particularly low and have deteriorated significantly in the past year.45

New finance mechanisms such as tax incentives and new bonds, like retail bonds, have been successfully tested in the UK and abroad. These approaches could help to increase access to finance, particularly for small builders.

It is therefore unsurprising that the UK is not building as many new dwellings per thousand population as many other countries.

A market dominated by a small number of developers

The volume developers in the UK are the backbone of new supply and produce the majority of new homes each year. But their business model is based on return on capital employed and they are not likely to be willing or able to grow their output sufficiently to meet the levels of supply the Government seeks.

Between 2007 and 2014, the number of housebuilders delivering 30 or fewer homes more than halved from 5,156 to 2,244. As recently as 1995, firms building fewer than 100 homes were delivering more than a quarter of the UK’s housing stock. In 2015, they delivered just one unit in eight.44

Housing construction is capital intensive — requiring heavy upfront investment during the land assembly, planning and construction phase before a receipt is received at sale.

This, and the cyclical nature of the housing for sale market, makes it difficult for small builders and new entrants to secure the finance they need to move into, or grow in, the market.

What is causing the crisis?

Tax incentives

The principle of using tax incentives to encourage investment is established in the UK. This is illustrated by the Venture Capital Trusts (VCT) scheme. This principle could be built on to develop a form of tax credits that would promote investment in new housing.

The current VCT scheme started in 1995. It is designed to encourage individuals to invest indirectly in a range of small, higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange.

A VCT spreads risk over a number of companies. VCTs must be approved by HMRC. Investors are entitled to various income tax and capital gains tax reliefs and VCTs are exempt from corporation tax on any gains arising on the disposal of their investments.

For investors, income tax relief is currently at the rate of 30% of the amount subscribed for shares issued in a given tax year.

It is conditional on holding the shares for five years. If an investor sells or otherwise disposes of shares within five years of them being issued, the investor will have to repay some or all of the income tax relief. The income tax relief at 30% is available to be set against any income tax liability, whether at the basic or higher rate.

It is only available for investment in new shares. There is an exemption from income tax on dividends from ordinary shares in VCTs (dividend relief). Furthermore, the investor will not have to pay capital gains tax on any gain from disposal of VCT shares.

Dividend relief for ordinary shares in VCTs and capital gains tax exemption on their subsequent disposal are given only for shares acquired up to the ‘permitted maximum’ of £200,000 in the tax year.

To be approved by HMRC, the companies that VCTs invest in must meet certain conditions. These include the company being unquoted. This means that none of its shares, stocks, debentures or other securities can be listed on a recognised stock exchange.

The company must exist for the purpose of carrying on a ‘qualifying trade’. Certain activities are excluded, including dealing in land and property development. (HMRC, 2016 a).

In 2015-16, £435 million of funds were raised by the 43 VCTs that raised funds in that period and there were a total of 80 VCTs managing funds. Since 1995, a total of £6,375 million of funds have been raised by VCTs. (HMRC, 2016 b).

Clearly, the VCT scheme does not provide an “off the shelf” model for applying tax credits to support investment in new housing in the UK.

It does rather show that the principle of using tax incentives selectively to promote investment in certain types of activities is firmly established. There are other examples that have been used in the past, for instance, the Business Expansion Scheme (BES).

In fact, the Enterprise Investment Scheme (EIS), which incorporates VCTs, was introduced as the successor to the BES. From 1989, the BES provided similar tax incentives for investment in Private Rented Housing.

Research into the success and impact of the BES in the private rented sector (Hughes, 1995) showed that, in nearly six years of existence, the scheme attracted £3.4 billion of investment from private individuals, over 900 companies were formed and 81,000 dwellings were brought into the private rented sector at a cost of £1.7 billion in tax relief.

This means there is a history we can build on. A new scheme that uses tax reliefs to encourage investment in housing can borrow from international experience and UK history, as well as current practice.

A new scheme could promote investment in any housing tenure — rented or ownership — while still having the sort of occupancy and affordability conditions that characterise American low income housing tax credits.
What is causing the crisis?

The cost of development land

Evidence from other countries suggests that the green belt should be operated more flexibly, with boundaries revisited regularly.

Planners should monitor land supply and respond to price changes by adjusting potential supply.

The recent Planning White Paper provides a positive step in the right direction in this regard.

This approach should begin to move us away from a binary judgement on whether land is developable or must be preserved in perpetuity, towards a better informed conversation in the planning system about the amenity value of land held in the green belt and the way that amenity value could be enhanced through targeted release of land for development that delivers improved local infrastructure, amenities and high value, usable public space.

Land availability and planning constraints are limiting the responsiveness of housing supply to the specific demand. As mentioned earlier, demand varies across geographies, and planning needs to respond to this variation.

In the past, Governments of all hues have sometimes argued that “it may be in the interest of speculators and developers to snap up land for housing and then sit back for a while as prices continue to rise”.

We think this oversimplifies the issue, as our own research concludes that numerous issues in what is a very opaque land market, mean high land prices.

Fundamentally, securing land for development is difficult and progressing the land through the current planning system is very slow and fraught with risk.

In these circumstances, it is perfectly reasonable for the land holder to seek a reward which is commensurate with the level of risk and uncertainty involved.

A particularly strong emphasis on ‘brownfield first’ can create problems of land assembly, particularly on regeneration sites where there may be many owners. We still lack clear and adequate mechanisms for funding and providing infrastructure.

Market volatility increases the risks and uncertainty of development.

There are limited incentives for local authorities to support new housebuilding and anti-development attitudes among existing residents because of real and perceived pressures on services and local infrastructure.

We think local planning authorities should be encouraged to do deals with land holders in which consent is contingent on releasing land at, or close to, agricultural value, with the promise of an uplift later on in which landowners could benefit through a financial stake in the development.

In this scenario, the land might be bought at c.15% of its value as housing land.

This would enable providers to properly fund infrastructure and the right mix of housing at different price points (including affordable housing) to meet the needs of the local area.

It would also reduce much of the horse trading that dominates the current S106 negotiations.

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There should not be a ‘silo’ mentality within LPAs whereby planning and housing do not talk to each other (or to other relevant housing departments). Inadequate LPA resources, especially skilled and experienced staffing, reduces the capacity of planning departments. Relationships with elected members can slow planning permission down.

The government recognised many of these barriers in the recent Planning White Paper (2020). The consequent policy and regulatory changes to speed up planning and introduce a new methodology for calculating objectively assessed housing need and five-year housing land supply will have a positive impact on these barriers.

There is a case for more radical changes to the planning system which would result in a more proactive approach to housing development. It would mean that planning was delivered at a higher spatial level, focusing on travel to work areas and aimed to a greater extent to initiate and promote residential development rather than simply reacting to requests to agree to planning permission.

This approach to planning policy would increase efficiency by providing homes for people closer to their place of work, ultimately stimulating economic development in local areas.

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Planning delays and constraints

The Government has focused significant effort in recent years on improving the planning system, but fundamentally the system still acts as a brake on growth.

Poorly specified local planning authority (LPA) policies can be unclear to prospective developers and the planning system still has a degree of complexity and bureaucracy. Different LPAs charge different fees for planning services and fee structures are vague and hard to understand.⁴⁷

On top of these challenges, the lack of, or out of date, Local Plans and five-year land supply has led to planning permission via appeals.

The nature of pre-application discussions has a particular impact on the speed of planning permissions, including the length of time taken and the amount of information required for outline planning permission.

Policy and practice relating to planning obligations also have an impact, particularly the time taken in S106 negotiations.

Slow decision making in some LPAs on planning applications, high refusal rates and a lack of consistency in decisions can be a problem.

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What is causing the crisis?

This would replicate proactive planning systems seen in other countries which actively combine public sector development and planning functions (Oxley et. al, 2009), to deliver a more strategic planning-led approach to site assembly and infrastructure provision.

It would mean local planning and development bodies could identify land for development and ensure the infrastructure is in place so that sites are ready for builders from all sectors to begin building new dwellings.

**Labour availability**

The Q2 2020 RICS Construction Market Survey suggests skill shortages continue to be a key impediment to growth in the sector, with an average of 40% of respondents reporting a shortage of labour to be an issue, contrasting with an average of 10% in 2008.48

Most analysts expect the construction industry to face significant headwinds in the coming years as a result of the economic impact of the pandemic coupled with the UK’s decision to leave the EU. This puts plans to grow new supply at risk.

**Public resistance to new housing**

The ‘loud voice of objectors’ is a frequently cited issue that halts or reduces development (RTPI, 2013). However, there is a balance between legitimate concerns and a lack of voice for the poorly housed.

We find our current planning system can be adversarial and removes the voice of those people who require housing and want to live in a place in favour of those already there.

There is a case for considering changing the way in which we deal with planning applications to allow people who wish to live in a new place or new development to register their interest in doing so. They would then take a full part in the planning process alongside those who are already living in the area.

Creating new places should be part of a participatory democracy. It is important to engage with all parties to influence infrastructure development, to ensure it is delivered effectively in the right places.

The quality of homes delivered is also a point that is often addressed in the public’s objection to housing development plans.

If we can provide evidence that quality is to be delivered, both in terms of housing and other supporting infrastructure, then we have the potential to reduce resistance and bring on board public support.

There may be a good case to hypothecate planning gain to individual developments to give support to local communities to improve infrastructure.

**A mismatch between supply and demand**

It is evident that each of these factors has combined over many decades resulting in insufficient supply to meet demand. But as we have noted already in this paper, jumping from that headline analysis to effective interventions requires careful thought and targeting, both by geography and price point.

Taking the supply side first, it is evident that house building in the UK has been on a downward slope since the 1970s; the number of homes completed in 2016-17 was less than half the number completed in 1969-70.

Annual net additional dwellings have only recently began exceeding 200,000 again since the 2008 financial crisis (2016-17 onwards). While house building has shown signs of recovery, the number of housing completions in England still only reached 178,310 in 2019.49


What is causing the crisis?

The Barker Review of Housing Supply, published in 2004, is widely considered to be the most comprehensive review of the UK housing market in recent decades (Barker, 2004).

More recent analysis has failed to replicate the central coherence that Barker established on the relationship between supply and demand. The report concluded that:

1 The UK had experienced a long-term upward trend of 2.4% in real house prices over the past 30 years.

2 In order to reduce this rate of increase to 1.8%, an additional 70,000 houses in England each year may be required.

3 In order to reduce this rate to the EU average of 1.1%, an additional 120,000 houses each year may be required (in 2004, 170,000 homes were built). Barker was suggesting that at least 290,000 new homes were needed each year. Last year (2019/20) we built 220,000 new homes.

Arguably, the recommendations made by Barker to bring closer alignment between supply and demand have only been partially understood and implemented by successive governments and have been simplified over time to a single argument — we need to build more houses.

Research by Liam Halligan finds that a 1% increase in housing stock reduces prices by up to 2%. Therefore if we increase house building by 20% to reach the government’s target of 300,000 homes a year, this could have a dramatic impact on house prices.

As the chart below shows, the natural high watermark appears to be around 240-250,000 new homes per year.

If we diversified our supply by introducing incentives to boost custom and self-build as well as boosting SMEs and the output from housing associations that could deliver an extra 50,000 new homes per year to reach the 300,000 aspiration.

Figure 4

New additional homes per year of UK housing stock

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What is causing the crisis?

Local Place Partnerships — ResPublica

ResPublica’s report Devo Home: A double devolution of housing to people and places, from 2015, recommends a new kind of local institution that devolves housing to people and places.

ResPublica argue that building the homes we need while also creating beautiful communities with the necessary infrastructure for people to flourish can only be achieved through the creation of new ‘Local Place Partnerships’ (LPP).

This gives the control of housebuilding to all interested parties: private developers, housing associations, residents, civil society and local business, and addresses their concerns and wishes through one decision point.

ResPublica proposed the creation of LPPs as a set of newly formed locally-led bodies dedicated to housebuilding and placemaking, offering the support needed to overcome the barriers faced in the delivery, funding and planning of new homes and infrastructure.

This approach would recast local authorities as co-ordinators of development in their localities and offer a single point of decision making that could ensure swift delivery.

ResPublica argue that LPPs led by local authorities would act as forums for which the often opposing interests of the parties involved in the development process, could be resolved.

With a focus on placemaking and the ability to cross boundaries, the new partnerships would possess powers to accelerate delivery and encourage diversity within the housebuilding market, ensuring the local outcome each region needs.

The key recommendations in the report are:

- The creation of locally-led bodies dedicated to housebuilding and placemaking called Local Place Partnerships.
- Citizens should be able to instigate Local Place Partnerships and take control of housebuilding and development in their areas.
- Homes England should transfer surplus public sector land directly to Local Place Partnerships to ensure swift release and efficient use.
- The use of local government pension funds to invest in new homes and development.
- Where appropriate, the creation of cross-development plans that can take a ‘larger than local’ approach to development.
- Introduce the use of Local Development Orders to capture the uplift in the value of land and offset the cost of affordable housing and infrastructure projects.
- Trailblazing the use of new technology and methods to engage communities and give them real power over the shape and direction of their areas.
Barker suggested that increasing housing production would have a moderating effect on house price inflation. The impact was, however, predicted to be small. She argued that to reduce the real rate of house price inflation to 1.1%, an additional 120,000 houses each year would be required.

There was no suggestion that more housebuilding would be a panacea for the housing affordability problem. More housebuilding, it was suggested, was likely to moderate house price inflation only a little in the long run.

This small long-term effect is highly probable given the domination of housing supply in the UK by residential sales from the stock. The UK housing market is largely a market in “used” or “second hand”, as opposed to new dwellings.

House prices are largely determined by the interaction of demand and supply for existing dwellings sold from the stock and, to a large extent, housebuilders are price takers (Oxley, 2004).

Data shows that new dwellings are, in recent years, between approximately 9% and 14% of all annual residential property transactions (depending on whether one considers “all” or only “private enterprise” completions) (Figure 5).

This suggests that the vast majority of sales are from the existing housing stock and thus it would require very large increases in annual house building indeed to have a significant impact on this.

Like Barker, the Redfern review also concluded that the causes of a drop in home ownership and increased affordability problems were more complex than a lack of supply.

The review concluded that the impact of new supply on house prices in the short term is very small. For example, even increasing home production to around 300,000 for one year would reduce prices by only c.0.6%. 51

The likelihood of new housebuilding having a large and direct impact on affordability is also limited by the types of new dwelling being built.

In 2019-20 76% of all houses and flats built by the private sector in England had more than three bedrooms. This concentration on larger dwellings is a long-term phenomenon.

Data for the last 20 years shows that whilst the proportion fell to less than half in 2007-08 and 2008-09 (49% and 47% respectively), in all other years, larger dwellings with more than three bedrooms dominated new supply. 52

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What is causing the crisis?

Figure 6

Total completions and net additions to UK housing stock

Efforts to halt the widening gap between housing supply and projected new household formation have had little impact for many years.

Arguably, since the Government shifted the emphasis from production to quality in the 1977 Green Paper, the UK has built insufficient volumes of housing.53

As a result of this failure to build enough homes, most analysts today argue we need to build between 300,000 and 340,000 new homes each year in England “for the foreseeable future” to keep up with demand. While the supply of new dwellings has been increasing since 2012, we are still around 60,000 short.

Furthermore, we have only very recently reached pre-crisis build levels, however population figures are higher now than they were pre-crisis.54,55

In November 2015, a report commissioned by the Town and Country Planning Association, sponsored by Places for People Group, (TCPA, 2015) found that England was building only 54% of the houses needed.

Improvements since 2015 have been positive but we have not seen a step change in new supply.

To address the shortfall that has occurred since 2011, England would need to build an average of 312,000 homes a year; the last time that number of homes was built in a year in England was in the 1970s (Figure 6).

Similar projections have not been made in Scotland, but the Scottish Government has committed to delivering 50,000 new homes during its current Parliament.

This is not a party political issue, as no UK government has a strong record on housebuilding.

One interpretation of Figure 3 and Figure 6, is that we need to turn the clock back and repeat what we did in the fifties and sixties when production of new homes peaked.

The reduction in the availability of construction workers could dramatically affect Britain’s ability to meet housing demand.

We are beginning, from a low base, to make progress on net additions.

As shown in Figure 7, in recent years low levels of demolition, combined with higher levels of change of use and conversions, have made net additions of stock greater than new build completions but they remain stubbornly short of 250,000.\(^{57}\)

So the natural high watermark appears to be around 240-250,000 new homes per year.

If we diversified our supply by introducing incentives to boost custom and self-build as well as boosting SMEs and the output from housing associations that could deliver an extra 50,000 new homes per year to reach the 300,000 aspiration.

But some of the high rates of construction mid-way through the last century occurred at the same time as wide scale demolitions. Net additions in the UK have never exceeded 350,000 per year and have never reached 250,000 per year in England.

As the data in Figure 6 shows, net additions to the stock were high in the period 1961-70, despite the loss of 685,000 dwellings to slum clearance in this period; but in this decade, the net increase in the stock was lower than the level of new building. (Holmans, 2005).

The projections on increases in construction execution are not positive. The construction industry relies heavily on low-skilled European workers.

However, with the UK exiting the European Union and a cap on low-skilled workers being introduced, the labour forces of construction firms stand to be hit the hardest.\(^{56}\)

Figure 7

Components of housing supply, England 2011-12 — 2019-20

Source: MHCLG Live Table 120

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\(^{56}\) R. Wright. (2020). Brexit visa changes to hit sectors in need of low-skilled labour. Financial Times. [DATE ACCESSED: 8TH June 2020] Url: https://www.ft.com/content/890e84ce-5268-11ea-90ad-25e377c0ee1f

Why does it matter?

We argue that increasing housing costs matter because they:
- undermine inter-generational fairness
- increase the tax bill through housing related welfare costs
- act as a brake on growth
- reduce the impact derived from infrastructure investment.

Inter-generational fairness

As we discussed in chapter two, high housing costs undermine inter-generational fairness because they impact disproportionately on the young — specifically on those who were not in home ownership before the turn of the millennium.

Home ownership is becoming increasingly unevenly distributed across generations, leading to multiple demand side policies, such as the Help to Buy scheme and more recently, increasing stamp duty relief to properties up to £300,000 for first-time buyers.

Homeownership among 16 to 34 year olds has fallen from 52% just over a decade ago to just 41% in 2019-20. These trends are central to the sense of economic disadvantage many young people experience today in the UK.

With ‘generation rent’ now spending on average twice as much of their income on housing costs as their parents generation did in their youth, the housing system needs a thorough review to address affordability.

In his 2011 book, David Willetts argued that the baby boom of 1945-65 produced the biggest, richest generation that Britain has ever known. He argues that baby boomers now run our country and have fashioned the world around them in a way that meets all of their housing, healthcare and financial needs.

Inter-generational fairness

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Figure 8

Public benefit expenditure on housing (England)

[Graph showing public benefit expenditure on housing (England) from 1996-97 to 2018-19]

Source: MHCLG data tables

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Social, cultural and economic provision has been made for the reigning section of society, while the needs of the next generation have taken a back seat.

Increased tax bill through higher housing related welfare costs

Even before the Coronavirus crisis the number of households receiving housing benefit in the UK was rising.

Of these households, the number of claimants residing in private rented accommodation was increasing, while the number of claimants in the social rented sector was decreasing.

As discussed in chapter one, in order for housing to sit within a national as well as a local context and to recognise its role in unlocking economic and social development, it needs to be viewed as infrastructure.

To do this would require significant changes to both local and central infrastructure planning.

This is a structural weakness in the economy which leads to weaker supply of labour to growing places and increased costs from long distance commuting.

While this weakness is particularly acute in the UK, it is not unique. Housing markets in most world cities have followed a similar pattern in recent decades.

The challenge in the UK is particularly acute because we already have the second-lowest productivity among G7 countries, well behind Germany and the United States. For every hour worked, a German worker produces 36% more than a British worker would.\(^6\)

Now more than ever, we need to tackle these underlying structural weaknesses in our economy as we cannot afford to allow our housing market to undermine our growth potential.

Professor Duncan McLennan at the University of Glasgow led a study in 2017 which found that high housing costs are weakening productivity growth in the UK by diverting cash flow away from more productive economic uses.\(^6\)

For example, households in London pay on average 48% of their total annual income on rent alone.\(^6\)

According to OECD data, any household that spends over 40% of its income on housing can be considered “overburdened” by housing costs. By this metric, the UK has one of the most overburdened populations in the world.\(^6\)

This is further supported in Macleannan’s more recent report, supported by Places for People, which examines the link between productivity and housing outcomes.\(^6\) There are signs these weaknesses are increasing.

A report in 2018 found that a record high of 66% of London businesses list housing costs and availability as negatively impacting on the recruitment of entry level staff, compared with 57% when this question was asked in 2015.\(^6\)

The findings highlight the importance of housing in unlocking economic growth in an area and attracting young people into the property market.

A previous CBI report pointed to competition from other world cities, noting that rents are significantly lower in Berlin than London.\(^6\)

Why does it matter?

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Many of the large consultancies are already helping graduates with rental deposits and, in some cases, sourcing their accommodation. It is possible that without remedial action, employers will increasingly seek alternative locations outside the UK.

London’s continued growth and economic strength cannot be taken for granted. The city was the second largest on the planet, behind New York, in the summer of 1939, but it lost its pre-eminence for an extended period after that and could do again if care is not taken to support future growth and competitiveness.

Impact derived from infrastructure investment

A failure to build the right homes in the right places also reduces the economic growth we get from our other infrastructure investment.

The high economic benefits we gain from infrastructure such as new roads and rail services, will only deliver the growth they promise if the right housing is built at the end of those roads and railway lines.

Many people decide where they want to live based on their existing and potential employment opportunities.

This means that increasing infrastructure delivery in places of existing, successful economic activity could facilitate productivity growth by alleviating the pressures on current infrastructure.

The NIC interim assessment report (2017) recognises this and highlights that ‘the UK is a network of very local housing markets, weakly connected in economic terms’,69

A good example of where this is done well is our Brooklands development in Milton Keynes.

Brooklands

Brooklands is a 360-acre site located on the eastern edge of Milton Keynes, and is being developed over a 15-year period to create over 2,500 mixed tenure homes with a range of other facilities.

The creation of a fully-fledged place was at the heart of our vision for Brooklands and profoundly informed the masterplan for the development.

Places for People is working in partnership with David Wilson Homes and Barratt Homes to deliver a fully formed place. This will include:

- 2,500 new homes
- Three schools
- One hotel
- Public square
- Retail provision
- 100 acres of parkland
- Primary infrastructure
- Community facilities

Before commencing any of the aspects of the development we ensured that all the relevant infrastructure was delivered upfront, establishing the key elements of the place from the outset.

This included a 10m high acoustic bund to mitigate traffic noise from the M1 motorway and a site wide sustainable drainage system (SUDS) solution to counteract risk of flooding.

Brooklands is a clear demonstration of our approach to infrastructure-led placemaking which goes far beyond simply building homes and in doing so delivers a beautiful place to live right from the outset.

By making a significant investment in upfront infrastructure and public realm ahead of residents occupying their new homes, we, and our partners, have fostered the creation of a new community and achieved enhanced values and sales rates.

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Brooklands is situated adjacent to the M1 motorway and we constructed a 3.5km long and 10m high landscaped ridge that successfully mitigates the impact of the traffic noise.

It also provides the added environmental benefits of diverting nearly one million cubic metres of locally sourced soil from land fill, improving biodiversity and, through a network of footpaths, creates an attractive leisure resource for residents.

To date we have delivered:

- 1,800 new homes with a further 800 onsite (expected completion 2023)
- Two primary schools and one secondary school
- Brooklands Community Centre
- Brooklands Medical Centre
- Brooklands Square, the commercial and retail heart

Local school children were involved in the process, helping them to play a part in creating ridge by burying a time capsule so that future Brooklands school children can learn about their predecessors.

- 50 hectares of public, green areas:
  - nature trails and cycling routes
  - 22 parks
  - six play parks
  - 14 hectare public park
  - ponds — peaceful, freshwater habitats to enhance the brooks
  - The ridge, which includes a trim-trail and leisure route footpath and acts as a noise barrier to the M1 motorway
Building communities

Schools are at the heart of many communities and so we have proactively worked with Milton Keynes Council to deliver three schools ahead of our planning obligations making them available to the new community.

To achieve this we significantly advanced the delivery of road and service infrastructure so that in 2015, the second primary school welcomed its first pupils and the secondary school was able to open in 2016.

The decision to locate the community hall next to the primary school has enabled efficiencies in design, procurement and operation.

The schools will also benefit from the early planting of the sports pitches in the adjoining Broughton Brook Linear Park.

Linear parks are a feature of Milton Keynes, and Broughton Brook will replicate many of the benefits offered by the Meadows Linear Park that we created in 2010 and which continues to mature and expand with a new play area currently being planned.

The Meadows, like the ridge, was delivered prior to residents moving in, and provides a beautiful park for residents while delivering flood attenuation and biodiversity enhancements to the neighbourhood.

As well as a plethora of green spaces and community facilities, Brooklands also adopts an innovative approach to the provision of the less attractive, but equally essential, utilities which are delivered by a single company thereby streamlining installation and interface management.

Residents benefit from superfast fibre broadband catering for use today and well into the future.

Brooklands is very much work in progress. However, it is growing rapidly and bringing together a strong, vibrant and mixed community within one of the UK’s fastest growing cities.

Brooklands demonstrates how a creative approach coupled with early investment in the provision of infrastructure can deliver value to both the developer and the new community.
The total strategic infrastructure investment for the site is:

£32m **This includes:**

- £22.5m for main infrastructure and associated landscaping
- £5.3m for noise attenuation bund and associated landscaping
- £1.4m for the Meadows sustainable urban drainage system and associated landscaping
- £3.3m for public open space, playing fields and play areas
How do we build a better understanding of the housing system?

What can we learn from past approaches and other countries?

There are stark commonalities between housing crises in different countries, and there are significant lessons that can be learnt from challenges faced and solutions implemented overseas.

Land supply and infrastructure

Planning systems are typically driven by national policies but, in England, detailed land use decisions implemented at a local level are less certain, allowing for more negotiation before planning permission is given.\(^{70}\)

The flexibility and the discretionary nature of English land use planning contrasts with the certainty provided through legally binding land use plans in other countries. The degree of negotiation over planning permission in England contrasts with decisions based more strictly on compliance (or lack of compliance) with local plans elsewhere.

The English system allows for considerable negotiation late in the process, after plans have been made. In other systems, the emphasis is on greater negotiation before plans are in place. The potential for negotiation late in the planning process, as in England, can provide benefits of flexibility. However, it can also increase the uncertainty faced by developers.

Planning systems in some other countries tend to have more significant development promotion functions. Land supply for residential use is actively promoted in such cases through land policies and processes in ways that are not found in England. Proactive, policy-driven land assembly and land supply processes in the Netherlands, Germany and France contrast with a more passive and reactive approach in England.

Public policy influences infrastructure provision and the availability of serviced land at locations where the market is willing and able to respond.

In some cases, for example the Netherlands, local authorities are actively involved in trading in the land market and in supplying land that is ready for development. In Germany, local authorities are active in acquiring land and making it available for development and they are able to facilitate social supply by selling land cheaply for social production.

There has been a tendency in other countries to promote development at desired locations as well as restraining it at others. This counterbalancing of the promotion of development is less apparent in England.

The facilitating role of the state in planning infrastructure provision is clear in all these countries. Where development has been facilitated by government, it has often involved an amalgamation of actions similar to those obtainable in England, through local delivery vehicles that can enable and facilitate specific schemes.

An examination of approaches in other countries suggests that policies that focus on dealing with constraints on the availability of suitable land by facilitating site assembly, infrastructure provision and the associated provision of services to support housing, can have positive effects on the volume and quality of, and demand for, the finished dwellings.

Tax incentives

In the US, and in a number of European countries, tax incentives are widely used to leverage investment into the delivery of new affordable housing.

The evidence for France and the USA in particular suggested that targeted tax incentives have the potential to boost the supply of rental housing of an acceptable quality and to improve affordability. The tax incentives support an investment in housing as long as the rents are limited and the dwellings are allocated to households on lower incomes.

Studies have concluded that the use of conditional objective incentives in other countries, and especially tax incentives, offer a significantly different approach to the policy direction in the UK and have much to commend them. American style Low Income Housing Tax Credits (LIHTCs) to boost the supply of affordable housing without increasing direct public expenditure; there is no direct expenditure involved, only tax reductions if affordable housing is delivered.

LIHTC support is a federal scheme operated through the Internal Revenue Service (IRS). The Federal Government allocates annual quotas (based on population levels) to each state. Each state allocates their quotas according to a qualified allocation plan (QAP). The QAPs enable each state to prioritise funding for locally important issues (for example, new build, or improving existing stock, urban or rural areas). The tax credits last for ten years and projects are required to meet the particular project’s low-income requirements for a 15-year initial ‘compliance period’ and a subsequent 15-year ‘extended use period’.

Rather than using government to fund, build and manage affordable housing, LIHTCs are used by the federal government to stimulate the private and non-profit sectors into partnership arrangements targeted at providing subsidised housing for specific income groups.

The developer (who can be a private, public or non-profit organisation) receives the tax credit and sells them on to an investor or a syndicator. The latter is likely to pool several projects into one equity fund. There is a market for tax credits so they are a tradable commodity.

Investors assume the development and operating risk when they invest in LIHTC projects. They can only claim tax credits if the buildings are maintained in compliance with programme requirements, which are monitored primarily by state housing agencies. Investors are principally corporate institutions rather than individuals.

The principle of using tax incentives to encourage investment is established in the UK. This is illustrated by the Venture Capital Trusts (VCT) scheme. This principle could be built on to develop a form of tax credits that would promote investment in new housing.

The current VCT scheme started in 1995. It is designed to encourage individuals to invest indirectly in a range of small, higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange.

A VCT spreads risk over a number of companies. VCTs must be approved by HMRC. Investors are entitled to various income tax and capital gains tax reliefs and VCTs are exempt from corporation tax on any gains arising on the disposal of their investments.

Clearly, the VCT scheme does not provide an “off the shelf” model for applying tax credits to support investment in new housing in the UK. It does rather show that the principle of using tax incentives selectively to promote investment in certain types of activities is firmly established in the UK.
How do we build a better understanding of the housing system?

Summary of recommendations and responsibilities

As we noted in the introduction, it would be incredibly satisfying to identify a list of solutions to solve the housing crisis, but we have to conclude that such a list would be futile.

Indeed our analysis leads us to conclude that the only way to tackle a crisis is to understand and address the underlying causes at each spatial level — from central government, right down to the neighbourhood.

We suggest that, at each spatial level, government funders, commissioners and suppliers of housing need to work together to understand the housing market as a holistic system that should meet demand for housing of different types, in different geographies, and at different price points.

This requires a detailed understanding of the inter-relationship between the type and tenure of new and existing supply, and prices in each local market, over the long term.

This is not easy. It changes frequently, and is impacted by a range of economic, social, and political factors. In our view this complex analysis should begin with a robust assessment of demand for different products at different price points.

That demand analysis should be used to inform a supply strategy that balances:

a. total desired housing supply in aggregate terms including new and existing homes

b. total desired housing supply for each tenure and price point

c. the infrastructure required to support the housing required

As the Venn diagram illustrates, these factors are connected and need to be considered equally as part of a holistic system.

Analysis of this type can be most usefully done within sub-regional housing markets and so should be taken forward by combined authorities, city region mayors and/or local enterprise partnerships.

As part of a long-term plan to tackle the housing affordability crisis, central and local government should pay particular attention to:
**How do we build a better understanding of the housing system?**

### Table of recommendations and responsibilities

<table>
<thead>
<tr>
<th>National Policy and Strategy</th>
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<tbody>
<tr>
<td><strong>1. Major research to understand the housing market as a system.</strong></td>
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<tr>
<td>DLUHC should establish a commission to lead a major piece of research, which aims to</td>
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<tr>
<td>provide an understanding of the housing market as a system. This would help target</td>
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<tr>
<td>government policies, funding streams, and market interventions. A greater understanding</td>
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<td>of the housing market would allow government agencies to more successfully support and,</td>
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<tr>
<td>where needed, disrupt the housing market. The goal should be to develop a detailed</td>
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<tr>
<td>understanding of the inter-relationship between the type and tenure of new and existing</td>
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<tr>
<td>supply and prices across the country. This approach could usefully include a focus on testing</td>
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<tr>
<td>and scaling new methods to accelerate the delivery of net zero housing.</td>
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<tr>
<td>National government</td>
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<tr>
<td><strong>2. Rejuvenate our understanding of the benefits of new, large scale places.</strong></td>
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<tr>
<td>a. DLUHC should conduct a review of the use of government programmes and the way they</td>
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<tr>
<td>strategically link together to create new, sustainable, large scale places. At the moment,</td>
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<tr>
<td>funding streams are disjointed, and it is down to developers and local authorities to</td>
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<tr>
<td>create a patchwork of support to make schemes viable.</td>
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<tr>
<td>b. In order to boost supply towards 300,000, Homes England should prioritise delivery</td>
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<td>at scale, identifying at least 10 new growth areas across England with strong civic</td>
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<td>leadership, aligning support using grants and loans; and the new towns’ powers; as well</td>
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<td>as special purpose vehicles that already exist in legislation. Delivery at scale on these</td>
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<td>lines, both in new towns and through expanding existing settlements, not only provides</td>
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<tr>
<td>a sustainability benefit, but delivers a strong economic benefit from the agglomeration</td>
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<tr>
<td>impacts created. We should not do this instead of developing small and medium sites - we</td>
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<tr>
<td>need to do it as well to boost overall supply</td>
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<tr>
<td>National government</td>
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<tr>
<td>**3. Boosting plans for new places and those being regenerated to level up and improve</td>
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<tr>
<td>opportunities in all parts of the country**</td>
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<tr>
<td>Planning and delivering new places and regenerating existing places is an opportunity to</td>
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<tr>
<td>invest and provide opportunities for people everywhere, including those who have felt</td>
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<tr>
<td>left behind. The plan for new areas and existing areas of regeneration should be boosted</td>
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<tr>
<td>and make sure people have these opportunities. This will mean plaiting together government</td>
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<tr>
<td>programmes at the local level to maximise the investment and deliver positive change.</td>
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<tr>
<td>National government</td>
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<tr>
<td><strong>Diversifying housing supply</strong></td>
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<tr>
<td><strong>4. Providing more affordable housing.</strong></td>
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<tr>
<td>There is a chronic under supply of affordable housing and we need to boost new supply of</td>
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<tr>
<td>affordable housing if we hope to tackle the housing crisis as a whole. We welcome the</td>
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<tr>
<td>current grant settlement, but more is needed. However, given the inelastic nature of supply</td>
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<tr>
<td>we need to ensure extra grant does not create a bidding war that just fuels price increases.</td>
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<tr>
<td>DLUHC should change social housing grant conditions so that, in order to qualify for</td>
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<tr>
<td>additional grant, housing providers must demonstrate that they are boosting employment,</td>
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<tr>
<td>employing SMEs to spread the economic impacts of new build and bringing land into use</td>
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<td>that would not otherwise be available to guard against price inflation. Our joint venture</td>
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<td>with National Grid shows this is possible.</td>
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<tr>
<td>National government and industry</td>
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## Table of recommendations and responsibilities (continued)

### Diversifying housing supply

<table>
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<tr>
<th>5. Support and promote other methods of providing additional housing supply.</th>
<th>National government</th>
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<tbody>
<tr>
<td>The current solid housing supply line from major housebuilders and housing associations should be taken as the base position. If we are to boost supply towards and beyond 300,000 we need to innovate to grow these markets and the delivery by SMEs, particularly by boosting self build and custom build. <strong>Government</strong> should establish a body to match MMC supply to demand. The new body will need to guarantee the order books of a small number of MMC factories for at least five years to enable the sector to scale up whilst meeting patterns of demand.</td>
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<tr>
<th>6. Improve the availability of saving methods for first-time buyers.</th>
<th>National government</th>
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<tbody>
<tr>
<td>Although home ownership affordability is improving, and the government’s new mortgage guarantee scheme will improve this further, the fact that rents are increasing reduces people’s ability to save for a deposit, which remains the biggest obstacle to buying a first property. <strong>HM Treasury</strong> should lead a campaign to promote the Lifetime ISA so it is used by more people, enabling them to save for a mortgage deposit.</td>
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### Strengthen the planning system

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<th>7. Make planning proactive.</th>
<th>National government</th>
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<tbody>
<tr>
<td>Planning should be proactive rather than reactive: a verb — not a noun. <strong>DLUHC</strong> should introduce radical changes to the planning system that result in a more proactive, fair approach to housing development. In other countries, planners focus on understanding local patterns of demand and draw on that analysis to initiate and promote residential development rather than primarily reacting to requests to agree to planning permission. Those countries build more homes and create more sustainable thriving places. Spatial leadership should be developed, with Metro mayors required to develop local infrastructure strategies which would ensure housing and infrastructure are delivered hand in hand and lead to improved local infrastructure and amenities.</td>
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| 8. Change the planning system to make better use of land value.  
   a. **DLUHC** should find ways to incentivise newly proactive local planning authorities to do innovative deals with land holders in which consent is contingent on releasing land at, or close to, agricultural value, with the promise of an uplift later on through a financial stake in the development. | National and local government |
| --- | --- |
### Strengthen the planning system

b. **Local authorities** should deploy deals such as these to reduce the cost of new homes and stop the current practice whereby the cost of local infrastructure is met by house buyers not land owners, tax payers, or developers. Land owners are, of course, due fair value for their land, but prices are inflated by state intervention through the planning system. The “hope value” baked into land valuations is dependent on infrastructure delivery and securing a development that generates expected house prices. It is only right that the landowner should take a stake in delivering these requirements — and be remunerated once the development succeeds.

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<th>National and local government</th>
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#### 9. Improve national planning practice guidance to ensure enough specialist housing is built.

A small but increasing proportion of society needs specialist housing and we cannot rely on the market to deliver that. The National Planning Policy Framework (NPPF) can only ever send a very high level signal.

a. **DLUHC** should review and update existing planning guidance to ensure local community needs are properly understood and met.

b. At a local level, newly proactive local authority planners need to do deals with neighbouring local authorities and commissioners to deliver supported housing that comes with a secure long-term revenue stream.

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<th>National government</th>
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#### 10. A more flexible approach to the green belt.

a. **DLUHC** should legislate to change the way the green belt is operated more flexibly with gradations in place, with different rules for different grades of land. This approach would recognise that not all green belt land offers outstanding amenity and beauty and begins to move us away from a binary judgement on whether land is developable or must be preserved in perpetuity.

b. **Local authorities** should lead a better informed conversation in the planning system about the amenity value of land held in the green belt and the way that amenity value could be enhanced through targeted release of land for development that delivers improved local infrastructure, amenities and high value usable public space. Failure to address this issue will mean the loss of green areas and local school playing fields will continue.

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#### 11. Giving consumers a stronger voice.

Potential new residents should be able to take full part in the planning process alongside those who are already living in the area — creating new places should be part of a participatory democracy. Young people in particular are often under-presented in the planning process and do not get a voice. We think their voice is important and should be heard to influence infrastructure development and ensure it is delivered effectively in the right places. Local authorities should hold registers of people wanting to live in new communities and give equal voice to them as part of the planning consultation process. This could take a similar approach to the local "self-build" registers.

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<th>Local government</th>
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References


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