

## **What more should Government do to promote the building of new homes**

### **A contribution from the members of the Lyons Housing Commission November 2016**

Faced with the consequences of decades of failure to build the homes the country needs, public concern about housing is now at the highest it has been for 40 years. In the two years since the Lyons Housing Commission published its review of housing supply, tackling the housing crisis has risen up the national political agenda and is firmly embedded as a top priority for government. David Cameron called for a national crusade on house building and an ambition to build one million additional new homes over the period from 2015-20. But, despite a suite of new policies, a new Housing and Planning Act and a further Planning Bill in the offing, current projections suggest we will fall far short of the target. Demand-side solutions and policies to support home ownership, such as the 'Help to Buy' scheme and the Starter Homes initiative will not on their own address the structural challenges of the housing market. That will require a greater attention on policies to increase supply and have a focus beyond home ownership. The economic uncertainty as the country prepares for Brexit presents further risks to housing supply as the boom and bust cycles of the last three decades has shown. Without a more comprehensive approach housebuilding will continue to slavishly follow the fortunes of the wider economy.

For the new Prime Minister, the Secretary of State for Communities and Local Government, Sajid Javid and Minister for Housing, Gavin Barwell, a sustained step change in house building will be critical to the health of the national economy and to improving the quality of life for current and future generations. The Government has the opportunity in the forthcoming Housing White Paper and the Industrial Strategy to develop a more comprehensive approach that is capable of driving a sustained increase in the quantity, quality and affordability of new homes being built.

As the Commission's original report demonstrated, this will not be achieved by relying on the existing volume house building industry alone. We need to mobilise new entrants into the market and a significant increase in development activity and investment from smaller house builders, Housing Associations and Local Authorities. The strategy needs to go beyond a focus on home ownership recognising that housing to rent – both at market and sub- market rates - has a very important part to play in driving up build rates, providing counter cyclical supply and increasing affordability and choice needed to support a functioning economy.

Building on recommendations from our previous report this article sets out a number of proposals for the Government to consider as part of its White Paper, including:

- Addressing dysfunction in the land market to bring forward a wider range of sites and ensure that sites with planning permission are built out more rapidly;
- Advocating a whole-system solution, focusing on supply-side measures and going beyond the narrow focus on home ownership;
- Growing the capacity of the industry to deliver more homes, recognising the important roles that Housing Associations, Local Authorities and SMEs can play;
- Emphasising quality as a core necessity for sustainable and successful development over the long term; and,
- Recognising the different needs of different areas, in particular to do more to deliver more homes in the capital, and other areas of the country where growing demand outstrips the homes available.

*Bringing forward sites for housing and making sure they are built out.*

Government has grasped the need to ensure that a sufficient pipeline of land for new homes is identified in Local Plans and is tightening the requirements on local authorities to get plans in place. However, with the number of planning permissions granted outstripping the number of starts on site and widespread concern about the pace at which sites are built out, a change is needed in our approach to the land market to bring forward a wider range of sites and ensure they are built out as rapidly as possible.

The [initial Lyons report](#) called for greater transparency in the land market, in particular in relation to options agreements to make it easier to assess land availability and the extent to which land is held by those who intend to bring it forward for development. Such a change would be timely as the government considers the future of the Land Registry and it will be important this opportunity is not compromised by any sale of the service.

There also needs to be a stronger public role, nationally and locally, in assembling sites for development. We welcome the government's tentative steps towards direct commissioning on public land (including "parcelling" of sites to support SME builders), and believe that such an approach should be pursued more widely by both central and local government. In the case of major new settlements, including urban extensions and garden settlements, an active approach to land assembly, up front funding for infrastructure and the ability to agree build out timescales will ensure more certain and timely delivery.

We would reiterate the compelling case for a new generation of Development Corporations to deliver major new settlements, noting that a strong government role reduces risk other partners are expected to bear in terms of finance, infrastructure delivery and planning, and in return can give a clearer development timescale. The Government's intended reforms to powers for Compulsory Purchase should go further to allow a greater part of the uplift in land value to be captured to pay for infrastructure and to the benefit of the local community whilst still granting a fair return to land owners.

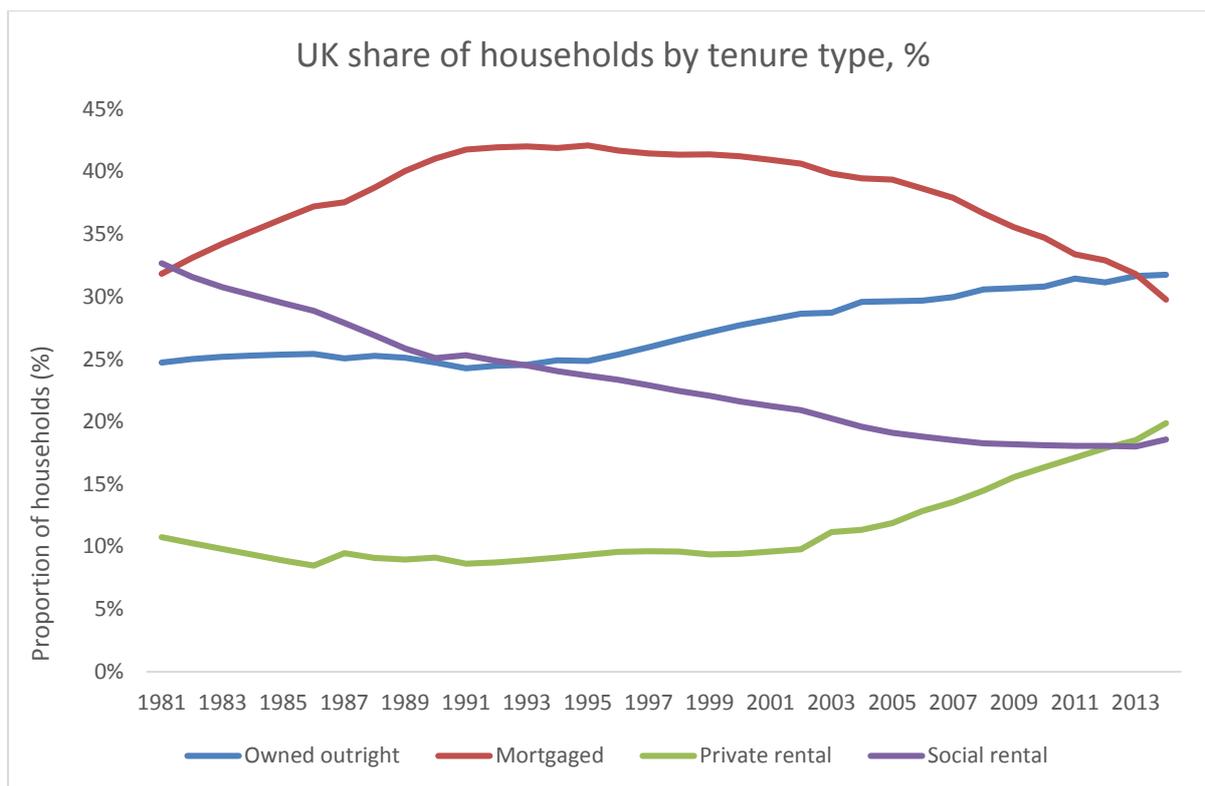
**Support the creation of a new generation of Development Corporations, backed by advanced infrastructure funding, which would channel direct action by central and local government, and ensure development happens in a timely fashion, with appropriate infrastructure in place. These need to be focussed on the creation of attractive, economically sustainable communities not just housing numbers and could be linked to emerging devolution deals and structures stemming from them.**

*A whole-system solution, going beyond the narrow focus on home ownership.*

Government policy to date has been preoccupied with home ownership. Initiatives such as Help to Buy and Starter Homes may provide short-term, demand-side boosts, but they are expensive, meet the needs of only a few households and fundamentally fail to create the type of sustainable Housing Strategy we need to address the needs of all of those seeking homes.

Further efforts are required to provide greater flexibility and diversity in tenures. There is a growing concern in relation to the provision of genuinely affordable homes for those that require them. As such, the Government should provide greater recognition of the need to provide more homes for shared ownership and genuinely affordable rents.

In addition, a policy that is consistent with the changing patterns in tenure choice needs to be created. For example, according to a recent report by PwC, as house prices have risen and social housing supply has remained constrained, the number of households in the private rented sector has more than doubled since 2001 and now comprises around 20% of the total of all homes. PwC projects that this trend will continue, with an additional 1.8 million households becoming private renters by 2025 – or around 25% of the total. These trends will inevitably increase pressure on rents and significantly increase the Exchequer bill for supporting affordable housing.



Source: PwC analysis of English Housing Survey, DCLG

While Government has sought to increase institutional investment into the private rented sector, or Build to Rent, more support is required. Build to Rent (BtR) offers a number of benefits that need to be harnessed. For example, BtR offers the ability to deliver housing at scale, quickly, and to a large segment of the population. The large volumes required may mean that this sector lends itself particularly well as an engine for the growth of offsite manufacturing and other modern methods of construction which will add much needed capacity in the supply chain.

As a tenure choice, its attractiveness to an increasingly mobile and flexible workforce means that it could be an important complementary strand to the Government’s emerging industrial strategy. And as a tool for regeneration and place-making, BtR can lead to the quicker delivery of schemes, particularly as the fast take-up rates can be crucial to quickly establishing vibrant new communities and de-risking future development on sites.

**In recognising the different tenure needs in national and local housing markets, more flexibility will be required to stimulate new supply and different tenure types. Areas that Government should consider as part of the Housing White Paper include reforms to stamp duty, and in particular allowing local authorities to set stamp duty rates for new build properties and large build to rent developments (such as removing the premium, or even cutting stamp duty for larger build to rent projects)– enabling property taxes to more closely reflect the demands and pressures of local housing markets, improve the viability of build to rent, improve affordability and increase the number of transactions in the local area.**

#### *Growing the capacity of the industry*

Achieving a long term, sustainable increase in the supply of new homes remains the elusive challenge for HMG. It calls for a broadly based strategy less concerned with tenure and much more focussed on increasing the range of organisations commissioning and building homes as well as overcoming existing constraints within the supply chain.

The volume house builders are an important part of the answer but will not achieve the numbers needed by themselves. They are almost entirely dependent on effective demand for house purchase and so their output follows the pattern of the economic cycle and their efforts to reach new levels of output are proving challenging. National capacity seems to have been eroded across successive downturns and that pattern must be reversed.

Housebuilders themselves are facing their own immediate supply side issues – most notably in the availability of skilled labour - and are often hampered by delays in securing approval of reserved matters even after outline planning permission has been secured. We welcome the Minister's focus on the resources available within local planning departments and the part that increased charges could play in resolving them.

We also welcome the Home Builders Federation's stronger focus on supply chain constraints, especially the availability of skilled labour, but this particular problem needs concerted attention from Government. To deliver the increase in new homes needed will require a significant increase in skilled resources across the country and importantly in the areas of intense shortage such as the South East.

It is vital that the discussions around the terms of Brexit do not adversely impact the availability of those skills the industry currently relies on from Continental Europe. Even with this short term protection we will still need a big step up in investment in training going forward, to reflect the increased numbers and the ageing workforce across the industry. Large employers simply have to do more to address this issue rather than relying on the efforts of their subcontractors.

Finally real focus should be given within any 'Industrial Strategy', to delivering greater use of 'offsite manufacturing and modern methods of construction' to deliver more consistent quality, much faster build rates whilst reducing the reliance on skilled trades.'

To reach (and maintain) the level of output that is required to address the chronic shortfall in supply that currently exists, Government needs to underpin the efforts of the volume housebuilders but most importantly to supplement this with a mixed-economy approach that takes a more strategic view of the industry's capacity and enables housing associations, local authorities and SMEs to play key roles in meeting demand.

#### *Housing associations*

Housing associations already make a sizeable contribution to overall supply, with the sector completing more than 40,000 new homes in 2015/16, across a range of tenures that includes private sale and private rent. The income generated by these activities is enabling housing associations to continue to deliver much needed social and affordable rented accommodation. This is despite the fact that there are increasingly limited opportunities to secure Government investment in this tenure. Indeed almost 50% of the homes completed by housing associations in quarter one of 2016/17 were built outside of the Affordable Homes Programme. Across the same period, of these completions, 850 homes were built for social rent outside of the programme, as opposed to just 330 in the programme.

**This appetite to build more, across a range of tenures, needs to be fostered. To support this, the Housing White Paper should propose much more flexible, strategic and long term approaches to Government investment, provided that recipients can demonstrate how this support will enable the delivery of a range of genuinely affordable tenures. This recommendation applies equally to those local authorities in receipt of funding from HCA programmes.**

#### *Local authorities*

Delivering the total numbers of units required each year has rarely been achieved in the absence of significant local authority-led development.

Despite a number of constraints on their ability to develop directly – including, for example, Housing Revenue Account borrowing caps and rent reductions on affordable housing – there has been a growing trend of local authorities returning to housing development.

For example, a number of local authorities have utilised the powers afforded to them in the Localism Act (2011) to create local authority-owned companies that can deliver housing across a range of tenures (including market sale, market rent, and affordable tenures) and support the council to meet policy objectives, address market failures, and generate revenue income for the General Fund. Such approaches are gaining traction, with over 50% of local authority leaders stating in 2015 that it was their intention to establish a housing company.

In addition to direct delivery, local authorities are increasingly working with private sector partners and housing associations to deliver sites in partnership. The range of delivery models varies across contractual and corporate forms, but the key purpose is to accelerate the delivery of housing on (currently) council-owned land. Crucially partnership agreements can include build out rates, helping to address concerns with speed of delivery of sites. In a number of examples, such as in Enfield on its ambitious development at Meridian Water, the local authority is taking a much more interventionist stance on site assembly and using a development agreement with a long term strategic partner to deliver out the site and generate a range of place-making, financial and non-financial outcomes for both parties. Local Authorities need to be supported to make these interventions.

**The Government should use the Housing White Paper as an opportunity to encourage local authorities to continue to innovate and use their land assets in creative ways, in partnership with others as required, to assemble land, attract infrastructure funding and accelerate and deliver new housing across a range of tenures. Government should provide those local authorities setting up housing development companies with regulatory certainty and confidence that their efforts will not be thwarted. This will support locally important improvements in supply. In addition, any measures that unlock additional financial capacity for local authorities to achieve this, such as support for municipal bonds or, in the longer term, relaxing the cap on HRA debt when national finances permit, should be considered.**

### *Small and Medium Enterprises*

If we are to build year after year the number of homes we need, we need to bring more organisations into the development business.

The potential of the SME sector is apparent. For example, in the 1980s, approximately two-thirds of new homes were built by SMEs. Currently, provision by SMEs is closer to around a quarter, representing a 40% reduction in output in relative terms. Reversing this trend would make a significant difference to supply and tap into any dormant capacity of skills and expertise of those who were once active in the industry.

In this context, initiatives that support small firms to grow, encourage new firms in to the market and bring back those who have withdrawn from the business of house building need to be considered. However, numerous previous initiatives to support SME firms have so far failed to reverse this trend.

Among the key barriers commonly cited by SME firms are the lack of available and viable sites, limited access to finance and the costs and process of securing planning permission. Government has recognised these barriers, and moves in the Housing and Planning Act (2016) to introduce changes to make it easier to get planning permission for small sites, and the Home Building Fund which provides access to development finance for small firms are welcomed.

**However, the single biggest challenge remains access to sites. In this respect, the Housing White Paper should consider the opportunities that exist for the government to build upon its steps towards direct commissioning by encouraging a more active approach to the assembly, packaging, and de-risking of sites and commissioning SMEs to deliver homes. Where payment for the land could be deferred until sale of units this would help to increase the attraction of the sites to SMEs. This could be a key pillar in the Government's broader industrial strategy.**

### *Emphasising quality*

Building homes is a matter of quality as well as quantity. The focus on increased volume makes quality more important than ever and far greater emphasis on the importance of quality of homes and places is needed to ensure that in tackling the housing crisis we are not building the costly slums or soulless estates of tomorrow.

Local authorities, particularly through their local plans, have an important role in shaping quality places and providing a long-term vision about the kinds of places and homes which need to be built. Policy stability in the National Planning Policy Framework is important but there also is a continuing need for councils to complete local plans and to work better together where co-operation is currently weak. We therefore welcome the housing minister's emphasis that all councils must play their part, and his willingness to review resource availability, as we share the view that planning departments are being tested by increased pressures. Extra charges may have their place if they are calculated transparently and result in better services.

There is also a need to take stock of whether the current design, space and environmental standards will result in the quality of homes and places we aspire to create and we know many of our European neighbours achieve. The NPPF includes important policies on quality and climate change, however they are not easy to implement given the emphasis on financial viability of development.

National housing standards were revised by the last government, but there has been an over-emphasis on up-front costs which has hindered progress towards higher standards, which benefit householders and the environment over the longer-term. Cost is not necessarily a barrier to the wider uptake of high quality standards. For example, the costs of meeting the zero carbon standard roughly halved between 2011 and 2014 and were likely to continue to fall, only the zero carbon homes policy was abruptly terminated. There is still huge untapped potential for savings to householders from energy efficient homes. As the work of our Commission highlighted, tools have been developed by the industry and local authorities to promote and support high quality design, such as Building for Life 12, which we should not discard. It is important for Government to reconfirm its commitment to quality and lend clear support to those industry participants who are building to high quality standards, alongside policies that encourage others to follow suit. The most significant contribution that government can make is a clear long-term policy direction, supported by a well-considered national regulatory framework, which will drive innovation and lower costs across the sector.

**Government's housing strategy should set a long term policy direction that champions the highest quality of design and environmental standards for new homes and the places in which they are built.**

### *London*

No commentary on the housing market can be complete without specific mention of the unique challenges faced by London.

Overcoming the challenges facing London is key, and will be critical if the Government are to hit their own ambitious targets. The capital needs at least 50,000 home per year, equating to a quarter of their

own national supply target – and yet last year managed around half of this figure. The many barriers we identified in our original review are if any more entrenched in the capital – insufficient land to build the homes needed, planning resources tightly constrained, public investment insufficient for the task, and labour shortages likely only to worsen after Brexit. Without tackling these constraints, getting the homes London and England needs will not materialise.

A raft of national policies and programmes have proven difficult to apply to London’s housing market, either mismatched with the high prices and land values of the capital (the Starter Homes initiative, for example), or in a determination to reduce welfare spending at the aggregate have undermined access to the housing market for low income households, and resources for social landlords keen to build more.

But the acute challenges of London’s market are not limited to its boundaries. The challenges around mis-aligned national schemes and frameworks, as well as constraints on land supply, planning resource, and construction sector capacity are threats to high pressure housing markets across England, such as Bristol, Oxford, Cambridge, and York.

**The differentiation of housing markets across England should be recognised through a commitment to further devolution of housing policy and investment. The housing minister’s other brief as London minister offers an excellent opportunity for using the capital as a testing ground for the more radical solutions in our original report to sharply increase the provision of new homes.**

The Housing White Paper and the Industrial Strategy provide the Government with a unique opportunity to refocus its efforts on addressing the housing crisis. Significant attention must be given to measures which broaden the supply base, and must provide flexibility and diversity in tenures. This focus on supply fits well with the Government’s choice of infrastructure investment as the policy instrument of choice in countering economic instability and the risks of recession, and will be vital in providing confidence and reassurance to both the market and the electorate in the continuing uncertainty concerning Brexit.

#### Note for readers

The Lyons Housing Commission was established in the autumn of 2013 to advise on how a future Government might bring about a sustainable increase in house building in England to 200,000 homes a year by 2020. Under the chairmanship of Sir Michael Lyons, it was made up of twelve individuals drawn for their understanding and experience of different parts of the UK housing industry. Its report ‘Mobilising across the nation to build the homes our children need’ was published in October 2014 and widely welcomed within the industry for its comprehensive approach<sup>1</sup>. [An update was published in February 2016](#). Members of the Commission continue to discuss the issues involved on an independent footing and contribute solely on a personal basis.

Individuals who continue to contribute to ongoing work of the Lyons Housing Commission and support this paper:

- Chair: Sir Michael Lyons
- James Bailey, Assistant Director, Housing and Regeneration, PwC
- Tom Bloxham, Chairman and Co-Founder, Urban Splash
- Mark Clare, formerly Group Chief Executive, Barratt Developments PLC
- Bill Davies, formerly Senior Research Fellow at the Institute for Public Policy Research

---

<sup>1</sup> The Lyons Housing Review, 2014  
[http://www.yourbritain.org.uk/uploads/editor/files/The\\_Lyons\\_Housing\\_Review\\_2.pdf](http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf)

- Caroline Green (Lyons Review Director of Research) and Assistant Chief Executive, Oxford City Council
- Julia Evans, Chief Executive, BSRIA
- Kate Henderson, Chief Executive, Town and Country Planning Association (maternity leave)
- Bill Hughes, Head of Real Assets at Legal and General Investment Management (LGIM)
- Grania Long, formerly Chief Executive, Chartered Institute of Housing, now Chief Executive, Irish Society for the Prevention of Cruelty to Children
- Simon Marsh MBE, Head of Sustainable Development, RSPB
- David Orr, Chief Executive, National Housing Federation
- Richard Parker, Partner and Head of Housing, PwC
- Malcolm Sharp MBE, Past President Planning Officer's Society
- Cllr Ed Turner, Deputy Leader, Oxford City Council and Senior Lecturer, Aston University
- Prof. Cecilia Wong, Professor of Spatial Planning, University of Manchester