

# Square Deal for Housing

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One of the basic promises of Britain's free society is that anyone who works hard and saves up for a few years should be able buy a decent home at a price they can afford. The greatest scandal of the past two decades is the failure of political leaders to keep this promise. Through cowardice and complacency, we have stood by while the ordinary dream of owning a home has turned into a nightmare.

## **Origins of an oligopoly**

For twenty years it has been clear that Britain has a fundamental problem with its housing market and its housebuilding industry. A market that is prone to price booms and busts is supplied by an industry which is incapable of building enough new homes every year to keep pace with the needs of our growing population. For twenty years we have known that the main victims of this dysfunctional market would be those in the next generation who are not lucky enough to inherit a deposit from their parents and are not paid enough to have any chance of saving up for one by themselves. Nearly two of these generations have now come of age. The vision of home ownership that we laid before them has turned out to be a mirage. For twenty years, successive governments have tinkered with reform but shied away from the policies needed to break the logjam in the land market and change the behaviour of the housebuilding industry. Why? Because they have all been too worried about the reactions of those with vested interests in the existing system: landowners, major housebuilders and those lucky enough to own their own home already. If Britain ends up with a government of the populist left that

decides to nationalise the housebuilding industry and levy new taxes on private property, then we know who to blame: those believers in a free society, elected to positions of power, who saw the problem, knew what needed to be done and failed to find the courage to do it.

The root of the low supply and high cost of housing in most parts of the UK is the planning system. As a country, after the war, we decided to nationalise development rights, bringing an end to landowners' freedom to build what they wanted on the land that they owned. In future, they would have to apply to local planning authorities for permission before they could embark on any new development. By doing this we engineered a dramatic restriction of the amount of land available for development. In areas where the demand for new houses and commercial space was high, the combination of high demand and tightly restricted supply had a predictable result: a massive increase in land prices leading to a similar increase in house prices.

But blaming the planning system for our housing shortage is banal and a bit beside the point. The planning system reflects the fervent desire of the British people to protect the countryside against urban sprawl and avoid the desecration of ancient landscapes by inappropriate building. It is entirely legitimate for people to want to do this. Indeed, I believe they are right to do so. Although it makes the task more complicated, there is no reason why we shouldn't retain a system of planning controls and still manage to build enough houses to keep house prices stable and meet the needs of our population. But we need to have a clear understanding of the economic impact of the planning system, if we want to design policies to counteract its most damaging side effects.

The planning system has erected a daunting barrier to entry for new housebuilders. Previously, anyone could buy a plot of land, get an architect to draw up some designs and hire a local builder to build a few houses. The only requirement was the capacity to finance the purchase of the land and the construction of the houses until they could be sold. If house prices in an area went up by much more than inflation, would-be developers would rush into buy up plots of land and build additional houses to satisfy the demand.

This free market in housebuilding no longer exists. To get planning permission to build houses on a plot of land requires expertise on a huge range of subjects and takes a lot of time. The proliferation of rules on the design of footpaths, the protection of newts and the avoidance of flooding – all of them matters of genuine public concern – means that a housebuilder has to have the capacity to fund a much longer, slower and more expensive process, and to tolerate a certain level of failure and rejection, before they can start building a single house. As a result, the number of suppliers of new houses has collapsed. Instead of a free market with a potentially unlimited number of suppliers, we have created an oligopoly, with utterly predictable results. A small number of large housebuilders produce between them far fewer houses of a lower quality and at a much higher cost than the free market would. Sheltered by the planning system from competition by new entrants, they fail to innovate or invest in new, more efficient ways of building houses. And the consumer just has to take what she's given.

No doubt the planning system can be improved. The Coalition government made a big effort to reform it with the introduction of the National Planning Policy Framework and the expansion of permitted development rights. As one of the ministers responsible, I believe we made the planning system a bit more accessible, predictable and streamlined. The percentage of planning applications that are approved has gone up and more houses are being built each year. But the fundamental truth remains: the modern planning system creates a barrier to entry which has

turned the housebuilding industry into a state-sponsored oligopoly. Since we want to keep the planning system in something like its current form, we must find other levers to bust open the oligopoly and boost the supply of new homes.

We need to do three big things. First, we need to increase the amount of land made available for housebuilding each year. Second, we need to twist the arms of the major housebuilders to build out sites more quickly than they would, if left to their own devices. And third, we need to bring in new suppliers of housing – ones which won't immediately start behaving like members of the oligopoly, and restricting output to keep prices (and the value of their land banks) high.

### **This land is your land**

The government is right to dangle tastier carrots in front of local councils (and prod them with sharper sticks) in the hope that they will then allocate enough land in their local plans to meet their housing needs. But this will not be enough. We should give councils new responsibilities to bring land forward for development and new powers to ensure that development benefits the wider community. Currently, councils play a reactive role. They wait for landowners and developers to propose sites and then respond by granting planning permission subject to a large number of conditions and the negotiation of a Section 106 agreement, which is meant to secure reasonable financial contributions from the developer to the cost of improving local infrastructure. The process is tortuous and expensive. Developers are adept at keeping their financial contributions to a minimum. As a result, necessary improvements to local infrastructure are underfunded and local people become even more hostile to new development.

We should move towards the system that operates in Germany, which I first got to know when, as planning minister, I visited some of the superb new extensions to the city of Freiburg in 2013. There, local councils take the lead in acquiring land for major developments and putting in the necessary basic infrastructure – roads, sewers and utilities as well as parks and schools – before selling off serviced plots so that private developers can start building houses. They have the power to purchase land compulsorily at a value that relates to its current use and not its future use as a development site. As a result, councils are able to capture most of the increase in land value and use the money to fund the infrastructure that unlocks sites for development and offers benefits to the wider community.

To introduce a similar system in England, we will have to change our laws on compulsory purchase, specifically the 1961 Land Compensation Act, and give local councils (and their development corporations) the power to buy land at its 'current use value', if it is going to be used to meet the community's need for housing or other kinds of development. It would be a mistake to restrict the new powers to brownfield sites, as was proposed in the last Conservative manifesto, as large urban extensions will usually involve a mixture of brownfield and greenfield land. Instead we should seek cross-party support for a broad reform to the land market which ensures that the interests of the community in meeting housing need and maintaining high quality infrastructure are balanced against the rights of landowners to receive fair value for their property (1).

### **Use it or lose it**

Getting major housebuilders to build out sites more quickly will require targeted intervention to make delay less attractive to them. Currently, when housebuilders apply for planning permission to build a total of, say, 450 houses on particular site, they will tell the planning authority (the local council) that they will build it out at a rate of 150 houses a year over three years. They

know that councils will want the site to be built out quickly so they don't have to go through the politically painful process of granting planning permission on lots of other sites to meet their housing need. But once planning permission has been granted, most housebuilders will slow down their build-out rate – especially if they get the sense that sale prices are softening. They do so secure in the knowledge that the local authority will usually have no choice but to renew the planning permission and give them more time to complete the development. When all major housebuilders do this – and they all do – the number of houses completed each year falls substantially.

The most powerful way of altering the calculation of housebuilders without unreasonably restricting their ability to manage their businesses would be to introduce a requirement that they offer at book value any plots that they fail to build out on schedule to other builders who are willing to start building immediately. Individual plots with planning permission and small parcels of such plots would offer opportunities to self-builders (individuals and families who want to commission a home of their own) and small, local builders who lack the capital to fund a strategic land bank. The major housebuilders will naturally object to this intervention. But a plot of land with planning permission is the product of the marriage between a private asset (the land) and a public asset (the permission to build.) It is not unreasonable for government to insist on defending the public interest in seeing the plot built out in a timely way. Housebuilders will not be required to make a loss as they will receive book value. If they want to avoid being forced to sell plots to other builders, all they need to do is to build out on the agreed schedule.

Making undeveloped plots available to small builders will increase the speed at which sites with planning permission are built out, and boost the overall number of houses built each year. But it isn't going to transform the housebuilding industry in the fundamental way that is required. For this we need a new source of supply that is immune to the economic forces that shape the behaviour of the oligopoly.

### **Grenfell Housing Commission**

Central government needs to get into the business of building houses. At the moment, we are in the worst of all worlds: the state has made a massively distorting intervention in the free market by nationalising landowners' rights to develop their land and introducing the planning system. If we want to maintain this form of state control over land use, and for the most part we do, then we cannot stop there. We have to give government the responsibility for making sure that the land market works properly, and that enough new houses are built every year to meet housing need and prevent property price bubbles.

The Government should relaunch the Homes and Communities Agency as the Grenfell Housing Commission and give it the responsibility of building half a million new homes over the next 10 years. There could be no better memorial to the people who lost their lives in the appalling disaster that engulfed the Grenfell Tower than building 500,000 new affordable homes. The Commission will require deep pockets to fund this. The Treasury should organise a dedicated bond issue (the Grenfell Housing bond), in which savers are offered special tax incentives to invest money over the very long term. The bond issue should be promoted as a patriotic investment in the same way as War Bonds, and marketed with the same gusto as shares in privatised utilities under the Sid campaign.

Government departments should be required by the Treasury to transfer all public-sector land that is not in current operational use to the Commission. Departments that refuse to do this should be denied all capital allocations until they comply. The Commission should be given the

responsibility of setting up development corporations in concert with directly elected Mayors and other local councils around the country. Access to the Commission's funding would be conditional on the commitment of local holdings of public land and the contractual agreement of ambitious targets and timescales for new house building. As well as pooling the land holdings of central and local government, the new development corporations would be expected to use the new powers of compulsory purchase to buy land at 'current use value.' Like the development corporations that built Milton Keynes and the other new towns, they would then take responsibility for driving the process of development: drawing up masterplans, hiring contractors to install basic infrastructure, and tendering building contracts for each plot, in which the delivery timetable is clearly specified and there are severe penalties for delay.

The majority of the new homes built by the Grenfell Housing Commission should be affordable, because it will be decades before house prices have moderated to levels that ordinary working people can afford. But they should all offer an easy route to ownership. The Commission should actively promote experimentation with mixed-tenure models of social housing like shared equity and rent-to-buy as well as new models like starter homes. Community Land Trusts have particular potential because they offer the possibility of home ownership that is insulated from inflation in land values. When someone buys (or part-buys) a house or flat, the Trust retains the ownership of the land and controls further sales so that the property is sold on to people who meet the Trust's social goals (e.g. supporting young people who grew up in the area and are on modest incomes, or people who fulfil particular roles in the local community or in local public services.) In this way, a single home can help a whole series of people take that first step onto the property ladder.

The Commission would have an initial target of completing 50,000 new homes a year. But the government should explicitly reserve the right to ask the Commission to increase supply if major housebuilders respond by cutting their output below current levels. In this way, the Commission can act as the swing producer in the housebuilding industry, increasing volumes to maintain overall levels of supply and keep prices stable in real terms. Once the Commission and its satellite development corporations have established themselves as consistent suppliers of at least 50,000 new homes a year, the major housebuilders will realise that they can no longer maximise profits by restricting supply. New housebuilders will spring up, having been created to tender for construction contracts with the new development corporations. The major housebuilders will have to confront the reality that they need to behave more like suppliers in a truly free market. We will finally see some innovation in housebuilding and the quality of housing design and construction will improve.

These three measures – reforming councils' role in land assembly, penalising housebuilders who do not build out sites on schedule and setting up a series of development corporations as major new sources of housing supply – will each make a significant impact on the numbers of new homes that are completed every year. There is one more thing we should do to increase the amount of residential living space and reassure people that we are making maximum use of already developed land and not building on any more open countryside than is necessary.

### **Passport to Pimlico**

England's cities accommodate relatively few people per hectare compared to cities elsewhere in the world. London accommodates 55 people per hectare on average and 101 people per hectare in inner London. The population density of Bristol is 52 people per hectare, Oxford's is 35 people per hectare and Peterborough's is only 5. By contrast, there are 213 people per hectare in inner Paris and 286 people per hectare in central Madrid (2). The relatively low density

of English cities stems in part from the welcome presence of large parks in our city centres, but mainly from our greater reliance on two-storey houses rather than the multi-storey apartment buildings that are common on the continent. To maximise the use of already developed land and the associated infrastructure, we should introduce a new permitted development right for any residential property in an urban or suburban area but outside a conservation area. This should allow the addition of one or two storeys up to a maximum of four storeys without the need for planning permission but subject to a design code specifying architectural style and materials so that the character of an area is maintained. Pimlico and Kensington are some of the most desirable and expensive parts of London. They are characterised by four and five storey terraces. There is no reason why building up to this level should blight an area. People could use the new freedom to add bedrooms for a growing family, to build granny flats for elderly relatives or to create separate living space that can be let out to tenants.

Fixing the housing crisis in England will take decades. There is nothing any government can do to make homes dramatically more affordable in the space of a single parliamentary term. But the government that finally grapples with the housebuilding oligopoly and ensures that we build at least 250,000 new homes every year has a chance of persuading people in their 20s, 30s and 40s that somebody cares about their future, that they too will eventually get to own a home of their own.

## Notes

(1) Bentley D. Civitas. 2017 *The Land Question: fixing the dysfunction at the root of the housing crisis*. Available at: <http://www.civitas.org.uk/content/files/thelandquestion.pdf>

(2) London First. 2015. *Redefining Density: making the best use of London's land to build more and better homes*. Available at: <http://londonfirst.co.uk/wp-content/uploads/2015/09/Redefining-Density-0915.pdf>