

# Shelter briefing: Backbench Business Debate on Housing, Planning and the Green Belt

## Summary:

- Shelter helps millions of people every year struggling with bad housing or homelessness and we campaign to prevent it in the first place.
- At the heart of every problem that we see is the overall lack of affordable homes. Quite simply we aren't building enough homes – and haven't for a generation. In addition, the homes we are building are all too often unaffordable, unattractive and lacking in necessary community infrastructure.
- In England we have a heritage of building beautiful and affordable places to live; from Edinburgh New Town and Bath, through to garden cities like Letchworth and the post-war new towns. We need to rediscover this tradition of housebuilding and focus again on a civic model of housebuilding that works for all – **not just one that works for developers and landowners.**

## Overview

In England, we need to build more homes – this is an accepted fact. However, in the 'Housing White Paper' published in February this year the government accepted that the housing market is broken and simply isn't delivering<sup>1</sup> : in 2016/17 in England just 183,570 new homes were built, and of these just 41,530 were affordable<sup>2</sup>. While this is an increase on the previous year it remains well below the government's 300,000 homes per year target.

- Shelter research earlier in 2017 found that typical new homes built today are out of reach for **eight in ten (83%)** working private renting families across the country – even if they use the Government's Help to Buy scheme.<sup>3</sup>
- The 2017 Home Builders Federation and National Housebuilding Council customer satisfaction survey results show **98% of buyers reporting a problem** with their new build home.<sup>4</sup>
- Satisfaction with the condition of new build homes has **fallen by 10% between 2012 and 2017**, demonstrating that this problem is getting worse rather than better.<sup>5</sup>

In seeking to build more homes it is vital that we build homes that people actually want, that are affordable and that benefit local areas. In [New Civic Housebuilding](#), Shelter highlights that it is possible to do this - although sadly such high quality, affordable developments are the exception not the rule. We need to address high land costs and strengthen the remit of local authorities to ensure that sufficient affordable, high quality housing supported by decent local infrastructure is built.

<sup>1</sup> [Fixing our Broken Housing Market](#), DCLG, February 2017

<sup>2</sup> [DCLG live tables on affordable housing](#).

<sup>3</sup> Shelter calculations based on Office for National Statistics HPSSA median new build prices, average regional first-time buyer advances and loan-to-income ratios from Council of Mortgage Lenders data (CML) and gross household incomes (excluding income related benefits) from the Family Resources Survey.

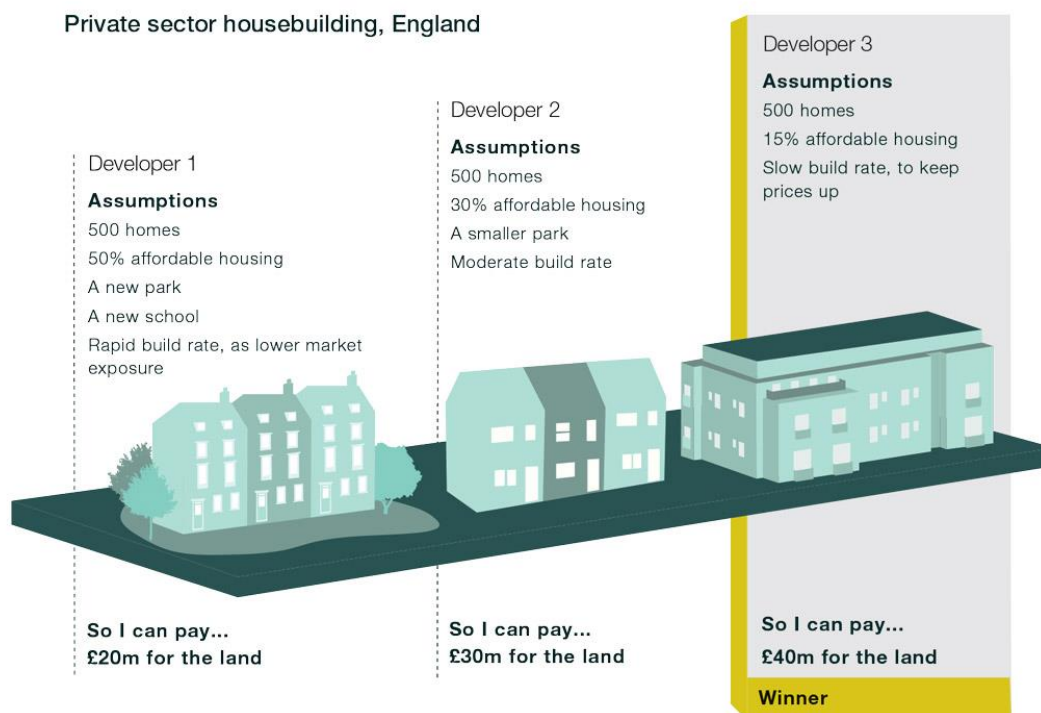
<sup>4</sup> Home Builders Federation; National new home customer satisfaction survey, March 2017

<sup>5</sup> Shelter analysis of Home Builders Federation; National new home customer satisfaction survey, March 2017

## The speculative housebuilding model

The UK's major housebuilders currently operate using a speculative development model – meaning that they buy land and build homes without knowing who they will sell them to, or what price they will fetch. Under this system, developers compete against each other to pay the most for land, which ratchets land prices upwards. Having taken on a large upfront risk, developers then need to recoup their investment and make profit, which means that they are strongly incentivised to squeeze down on costs by cutting corners where possible.

**The competitive nature of this model drives down affordable housing and infrastructure provision and results in slow build out rates.**



This competitive nature is supported by some of the limitations of our existing planning system. In particular, the flexibilities that the National Planning Policy Framework (NPPF) provides around the provision of affordable housing.

Current rules in the NPPF guarantee developers and landowners a 'competitive' return (generally accepted to be a profit margin of 20%), which effectively removes much of their risk. Instead it is the community benefit – typically the affordable housing requirement – which has to adjust to the maximise the land price and sustain developer profit margins.

Restricting supply to keep sales prices up is only possible as a business strategy because the nature of the land market also acts as a barrier to entry. With land prices so high it is extremely difficult for new entrants to come into the housebuilding market. SME housebuilders are also crowded out of this market by the larger developers.

High land prices and the speculative building model make it difficult to resolve the underlying problems with house building. Fundamentally what is needed is to get land into development at lower cost, and to diversify the range of suppliers and business models. This would enable more of the value generated by development to support quality, affordable housing and infrastructure, as

well as opening up the market to SMEs and new entrants to diversify supply options, increase overall output and drive improvement through competition.

## **Solutions**

The current speculative housebuilding model makes winners out of landowners and the UK's major housebuilders. They are, quite rightly, acting in a way that brings the biggest returns for their shareholders based on the market they operate in. But developers themselves are not solely responsible for the current state of affairs: they are responding rationally to the wider context of the planning system and the dysfunctional markets in land and homes.

We cannot expect the existing players to radically transform their businesses for public benefit. Instead, Shelter is calling for policy reforms and public investment to kickstart a new era of large scale housebuilding which prioritises public benefits and long term returns over short run speculative gains. Civic models like this have been hugely successful in our past, and remain widespread in other countries that have done far better at providing decent homes than England has in recent decades.

In the 'Housing White Paper' the government took some steps in the right direction, however, more action is needed to really address the problems that are faced in building high quality, attractive and affordable new homes. The Letwin review now provides a further opportunity for this government to address the systematic failings within our housebuilding system.

In *New Civic Housebuilding*, we outline in detail how we can build more, better and more affordable homes.

### **1. Reduce the flexibilities and uncertainties of our current planning system, by giving public bodies stronger powers to masterplan high quality developments**

Providing local and combined authorities with the powers and resources to positively masterplan areas would give landowners, developers and local communities clarity over what can be needed to be delivered. Land prices would then reflect local policy priorities, rather than speculative pressures and unrealistic landowner expectations.

Lower and more predictable land prices would enable higher quality development, and higher, more even levels of output. Developers would enter into schemes knowing exactly what must be delivered, and that they would not be able to overcome having overpaid for land by reducing their contributions to communities.

### **2. Powerful new development corporations that are able to assemble and masterplan land**

A new wave of development corporations with powers to assemble land and act as master developers should be formed. These corporations would be responsible for raising finance, assembling sites (using Compulsory Purchase if necessary), master planning large scale developments, organising infrastructure investment, granting planning permission, and parcelling permissioned land out to developers – including SMEs, new entrants and public bodies.

### **3. Make better use of public land**

As the government have themselves acknowledged our current housing market is 'broken', public land should be invested intelligently, to deliver quality homes and long-term value for the public-purse, rather than being sold off to the highest bidder under the speculative model. Where public land is sold, it should be appraised on the basis of high quality development proposals, including

exemplary levels of infrastructure and affordable housing, so that the price reflects public policy priorities.

#### 4. Reforms to the process of viability

Shelter research from November 2017 showed that in eleven councils, covering nine English cities, local communities [lost 2,500 affordable homes](#) in just one year due to the use of viability assessments. We are calling for the government to use the NPPF re-write as an opportunity to redefine the process of assessing financial viability, to give developers and landowners alike greater certainty and ensure that developments can support appropriate levels of affordable housing and infrastructure.

#### 5. Encourage public sector housebuilding

As the Treasury Select Committee said in its response to the Budget, significant amounts of public housebuilding will be needed if the government is to reach its target of constructing 300,000 homes a year. Lifting the cap on council borrowing, and restoring social housing grants, could finance a new wave of construction – and boost the supply of genuinely affordable homes. Councils and housing associations building homes for social rent are not constrained by the market absorption rates that limit the output of the speculative housebuilding model, so public housebuilding can happen at a much faster rate, raising the overall level of supply and increasing diversity and competition in the housebuilding sector.

#### Additional reading

- It is often said that a key reason behind the shortfall in housing completions is that the planning system is too complicated, too slow and demands too much of developers. The implication of this argument is that further planning liberalisation would result in more planning consents, more houses and ultimately lower house prices. Shelter disputes this claim, and argues that planning needs to provide more certainty, not less. Our findings from last year show that over the course of the last five years only 68% of planning permissions have actually turned into homes – this means that across England there are 324,000 homes that could have been built but haven't. You can read more about this research and our methodology on [our blog](#).
- The full [New Civic Housebuilding report](#) gives a comprehensive overview of Shelter's proposed housebuilding model and our wider calls for reform in housing supply.
- Our [Slipping through the loophole](#) report examines the issue of viability assessments and the steps that can be taken to resolve this in greater detail.
- Our short [briefing on green belt](#) sets out our position for a balanced approach that provides protection for green belt while setting some sensible reforms to the existing system.
- At the release of the latest annual customer satisfaction report from the Home Builders Federation, Shelter's research team conducted a [short analysis](#) of the results. These showed that those who were satisfied with the condition of their home when they moved in have dropped by 20% since 2012 and there has been an 11% rise in those experiencing more problems than they expected.

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The Shelter logo consists of the word "Shelter" in a white, sans-serif font, centered within a solid red rectangular background.