

Shelter

Briefing: Supply of homes and affordable homes to buy

For a generation now we have failed to build enough homes, particularly affordable homes. Rightly tackling this is now a political priority for all parties, however, it is important that the approach that is taken is the right one.

In this briefing we have outlined the key methods by which we can begin to dramatically increase the supply of homes and affordable homes in England, these are:

- 1. Enable the creation of a new generation of New Towns by reforming Compulsory Purchase Order compensation (CPOs);**
- 2. Address the slow rate of build-out;**
- 3. Look again at the role of viability in determining levels of affordable housing;**
- 4. Make better use of public land.**

The government must now build on its Housing White Paper and commit to taking action in these areas, without doing so we will not see the progress that we need.

Our [New Civic Housebuilding](#) report outlines in more detail how this can be done. It provides Shelter's vision for how England can revisit its tradition of building beautiful and affordable places to live.

The scale of the challenge

In the year 2015-16 in England, 163,940 new homes were completed.¹ Of the new homes completed during this period just 32,630 were classified as affordable housing.² Both of these statistics underline just how far we currently are from meeting government targets on housebuilding.

This shortfall is largely down to the model we use to build homes. Currently our reliance on speculative housebuilding is responsible for both the overall shortage of supply, and the poor levels of quality and affordability found in new build homes.

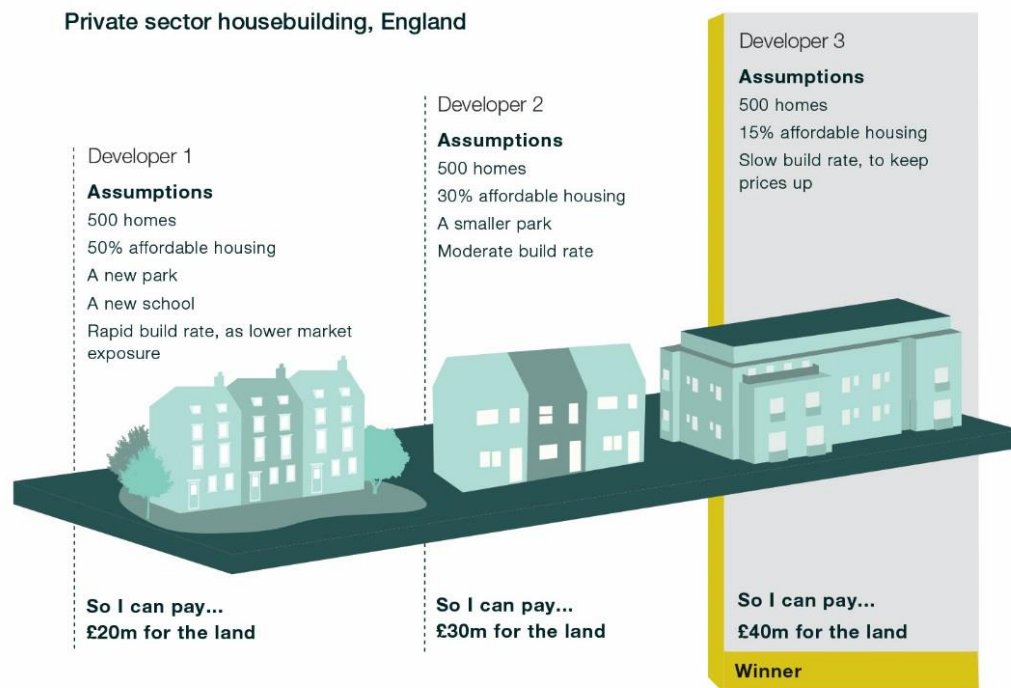
Under the speculative model housebuilders buy land competitively with each other on the basis of who can pay the most. In order to decide how much they can pay developers make assumptions on the final sale price of the home and on other expenditure they must make, such as how much affordable housing they can provide, how much community infrastructure they can deliver and how they can build the homes at the right pace to ensure prices aren't undermined locally.

¹ This refers only to new build completions. In terms of net additional dwellings, which also takes into account conversions and change of use, 189,650 homes were created.

² [DCLG live tables on affordable housing.](#)

This model means that the firm that is able to squeeze their costs the most, including reducing affordable housing and other commitments, is the one that can pay the most and, therefore, secure the land.

The graphic below demonstrates how this speculative model works.



In addition, the homes that are built under this model are often unaffordable and of poor quality:

- 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.³
- The 2017 Home Builders Federation and National Housebuilding Council customer satisfaction survey results show that 98% of buyers reporting a problem with their new build home.⁴
- In addition, satisfaction with the condition of new build homes has fallen by 10% between 2012 and 2017,⁵ demonstrating that this problem is getting worse rather than better.

This all underlines that the current system of housebuilding cannot deliver the homes we need on its own. Shelter’s New Civic Housebuilding model starts by bringing in land at a lower, fairer cost, and channels competition between developers into raising the quality and affordability of homes.

³ 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.

⁴ Home Builders Federation; National new home customer satisfaction survey, March 2017

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

How can this be achieved?

1. Reforming CPO to enable New Towns

Under the current CPO compensation system, the landowner wins the lottery while the public loses out. This is because landowners aren't paid the value of their land but instead a "hope value" based on what it *could* be worth in the future if it received residential planning permission.

We should reform CPO by developing a special compensation code for strategic housing developments, allowing the purchase of land at closer to its current market value. We can then capture the uplift in land value due to development, and use this money for the public betterment.

If done successfully this would mean:

- An increase in overall supply to ensure a generation isn't left behind by the housing market;
- More affordable housing;
- More money for community facilities and infrastructure;
- A diversification of the construction sector to create more opportunities for SMEs;

The government should commit to reforming CPO compensation. Including introducing a special CPO compensation code for strategic housing sites to enable the delivery of a new generation of New Towns through the Nationally Significant Infrastructure Project regime.

2. Addressing the slow rate of build-out

In the Housing White Paper, the government acknowledged the problem of slow build-out rates. That is the speed with which a planning permission turns into a new home. The measures that the Paper outlined are a good place to start in compiling an evidence base to decide what further policy intervention is required. However, more action will be needed if we are to see any real change.

Recent analysis by Shelter shows that between 2011/12 and 2015/16 on average just 68% of planning permissions turned into homes. This analysis also shows that the total number of lost homes, where the permission hasn't been turned into a house, was 324,000.⁶

We can, however, address these challenges and ensure that more planning permissions end up becoming the homes we need. To do this the government should:

- **Commit to allowing councils to levy council tax on unbuilt sites where permission has been granted but homes haven't been built;**
- **Provide robust support through the planning system for building across a range of tenures, price points and specialist markets;**

⁶ For more information on this data see [Shelter 'Phantom Homes' Research](#).

- **Commit to creating more opportunities for SME developers, local authority housing companies and other marginal players, who build on average faster than volume developers.**

3. Looking again at the role of viability

Recent experience at the Battersea Power Station development has underlined how developers can use viability assessments to reduce the contribution they make to affordable housing. While the developer is expected to make profits of £1.8 billion, local people have seen affordable housing at Battersea Power Station slashed to 9% in order to protect these profits. Too often, developers who have overpaid for land are recouping the cost by switching affordable homes for unaffordable ones.

We need to reprioritise the provision of affordable, high quality homes, the government can achieve this by:

- **Enforcing transparent viability assessments to ensure developers are properly scrutinised in public;**
- **Developing a balanced concept of viability. This means redrafting the existing definition of viability so that it is not judged against the excessive price paid for land.**

Through local planning guidance, developers are aware of their obligations on affordable housing and community infrastructure, and these should have been incorporated into the price they pay for land. Where that hasn't been done it should not be communities that lose out.

4. Make better use of public land

At the moment, disposal of public land is required to achieve 'best value'. Many public bodies interpret this as meaning it should be sold to the highest bidder. Any eventual development on such land mimics the dysfunction seen in the wider development system, driven by the high up-front cost of land.

It makes little sense for public bodies to dispose of land for a single windfall sum when there is the option to create long term revenue streams by employing a partnership model, which allows for the investment of land as equity, rather than a straightforward land disposal. A partnership model introduces more risk than a simple sale of land, but risk can be managed as public bodies will generally own the freehold to land without any debt. Crucially, this method offers greater rewards in the long term, through revenue streams, the provision of much-needed housing, and finance for infrastructure and expansion.

The announcement in the Housing White Paper of a consultation on extending flexibility to dispose of public land at less than best consideration was welcome and we would also welcome confirmation of when this consultation will be launched.

In our view to improve the use of public land there should be a commitment to:

- **Maximising the delivery of affordable housing through public land;**

- **Establishing a programme of Development Trailblazers for public land that look at partnership models;**
- **Providing a presumption in favour of public bodies developing their own land or transferring it into development corporations;**
- **Revising the Best Value regime to make it clear to public bodies that they should consider the full economic and social value of the proposed use of any land sold or transferred.**

Further information or help

If you require any further information, please contact Robin White: robin.white@shelter.org.uk / 0344 515 2052.