

Solutions for the housing shortage

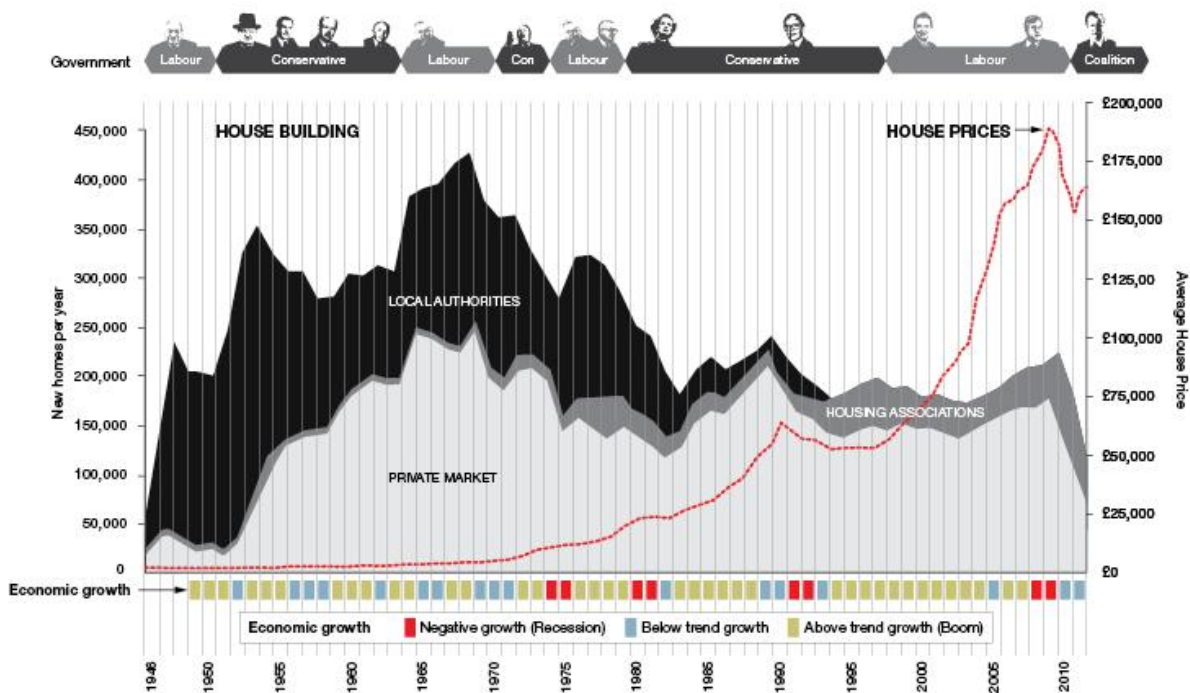
How to build the 250,000 homes we need each year

This briefing is based on a longer report available at shelter.org.uk/policylibrary

The housing shortage

There is a massive housing shortage. For many years we have built far fewer homes than we need. We should be building 250,000 homes per year just to meet newly arising need, let alone start tackling the backlog, but in England we're currently delivering less than half that amount each year. This is fewer than in any peacetime year since the First World War. Even before the recession, when the economy was booming and credit was flowing, we didn't build enough. **The shortage of supply coupled with high demand drives up the cost of housing, putting an affordable home out of reach of many families.**

The chart below shows how building has slumped while house prices have risen.



Data: DCLG, Nationwide, HMT. Image: A Right to Build, Architecture 00%, 2012 <http://issuu.com/architecture00/docs/arighttobuild>

Why we need urgent action

Rising housing costs mean young people are increasingly priced out of buying or renting a home of their own. For the first time in 100 years, home ownership is on the decline. Twice as many families are renting compared to ten years ago, on short term tenancies in an overheated and overpriced market. High costs force working families to rely on housing benefit to cover their rent, driving up the cost of welfare. Meanwhile, business leaders like the CBI agree that we are missing an opportunity to give the economy a quick and effective boost through supporting housing construction.

Doing nothing is the worst option

Inaction means accepting profound societal and economic consequences, including a continued fall in home ownership, year on year above inflation rises in rents, further increases in the housing benefit bill, and many more people living in overcrowded, substandard accommodation. **Unless we urgently build many more homes, this situation will only get worse.**

Successive governments have failed to respond

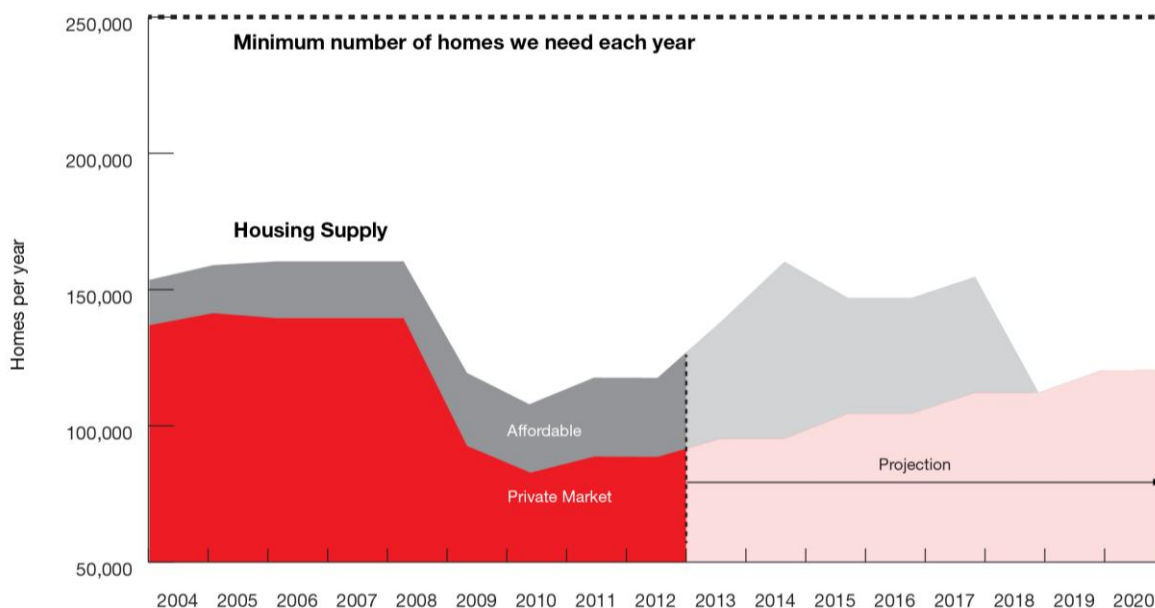
All political parties agree that that we need more homes, but so far none have offered the vision or leadership to do this at the scale required. The current government's policies may even make things worse:

We've seen **planning reform** after planning reform, but this is not the key to solving the housing crisis. Changes to planning are time consuming, politically costly and unlikely to have a transformative impact on housing supply. Constant chopping and changing **increases uncertainty** for developers and slows things down.

The Help to Buy mortgage guarantee scheme **will drive prices up** by boosting **mortgage lending** without increasing supply. More borrowing does not lead to more homes - even when banks were lending liberally we weren't building enough and home ownership levels dropped. Plus credit can only go so far if we want banks to lend responsibly.

The new housing settlement set out in the 2013 Comprehensive Spending Review is nowhere near sufficient to deliver the homes required. Overall government spending on affordable housing per year has been reduced, from £1.1bn in the current spending round to £950m per year after 2015. This is on top of the 60% cut in 2010. The target of 55,000 homes per year would still leave us about 100,000 short of what we should be building each year. Plus the plans rely on housing associations borrowing enough to plug the gap in subsidy when it is not clear that they will be able to do this. The lack of ambition suggests that the government is resigned to failing to build the homes we need for the foreseeable future.

This chart shows that, even on an optimistic scenario, current plans won't deliver enough homes.



Taking action

Housing is rising up the agenda for voters, especially priced-out renters and low to middle income families without a suitable place of their own. There is unmet demand for a bolder plan to build the homes this country needs. This is not easy. The housing supply system involves complex interactions between multiple markets in land, credit, labour and homes, so no single intervention can fully close the gap between housing need and supply. There is no silver bullet. But the problem is solvable and there is no shortage of opportunities to take action with the right combination of solutions. An ambitious package combining immediate short-term measures to boost investment and long-term structural reforms will ensure we build the homes we need now and in the future.

Opportunities for action

Political leaders now have the chance to reverse the failures of successive governments by:

1. Opening up the market to new delivery agents and vehicles

Our housing delivery system is deeply dysfunctional. It has a history of cyclical booms and busts, driven by house prices and credit availability. Developers' profitability depends on high levels of unmet demand, which means that when prices go up, we don't necessarily build more homes. A lack of diversity of organisations that build homes has reduced competition and undermined responsiveness to demand, leaving a sector dominated by a small number of players operating on the same business models. *We can address this by giving local authorities a bigger role in housing delivery, promoting new towns and garden cities, and supporting self build.*

2. Fixing the land market so there is enough land available at reasonable prices

The land market presents serious obstacles to expanding housing supply. This not just about the planning system but about the economic incentives for participants who are acting rationally to maximise profit with an inevitably scarce resource. Not enough land is released, raising costs. Land prices are highly volatile, creating risk for developers, making them reduce supply and raising the cost of new homes. *There are several options for reform which could provide land at lower and more stable costs, including investing public land, Community Land Auctions, and increased use of compulsory purchase.*

3. Attracting more private and public investment

Building more homes must be partly about greater levels of private and public investment. If we want to increase our level of house building we have to spend more money. Uniquely, public investment in new homes pays for itself in the medium term through providing an economic boost. *Increased investment could come in a variety of guises, from direct central government spending, new settlements for council borrowing and investment, use of new government guarantees for private investment, or from a robust new approach to securing cheaper land.*

Here are the interventions that we know would work, based on recent analysis of the latest thinking by leading academics and organisations such as the CBI, IPPR, Policy Exchange, FTI Consulting and KPMG.

Action now

Short-term measures could give an immediate boost to housing supply to start addressing the backlog and stimulating economic growth.

Option	Homes/year
Boost direct central government investment	51,072
Green belt swaps	33,000
Raise the local authority borrowing caps	12,000
Commercial property conversions	10,000
Extending rural exception sites	1,500

Longer-term reform

Policy makers also have to confront the systemic problems that pre-date both the credit crunch and current pressures on government spending.

Option	Homes/year
Garden cities and new towns	43,000
Supporting self-build	19,000
Local authority development management	
Restructuring local borrowing	17,000

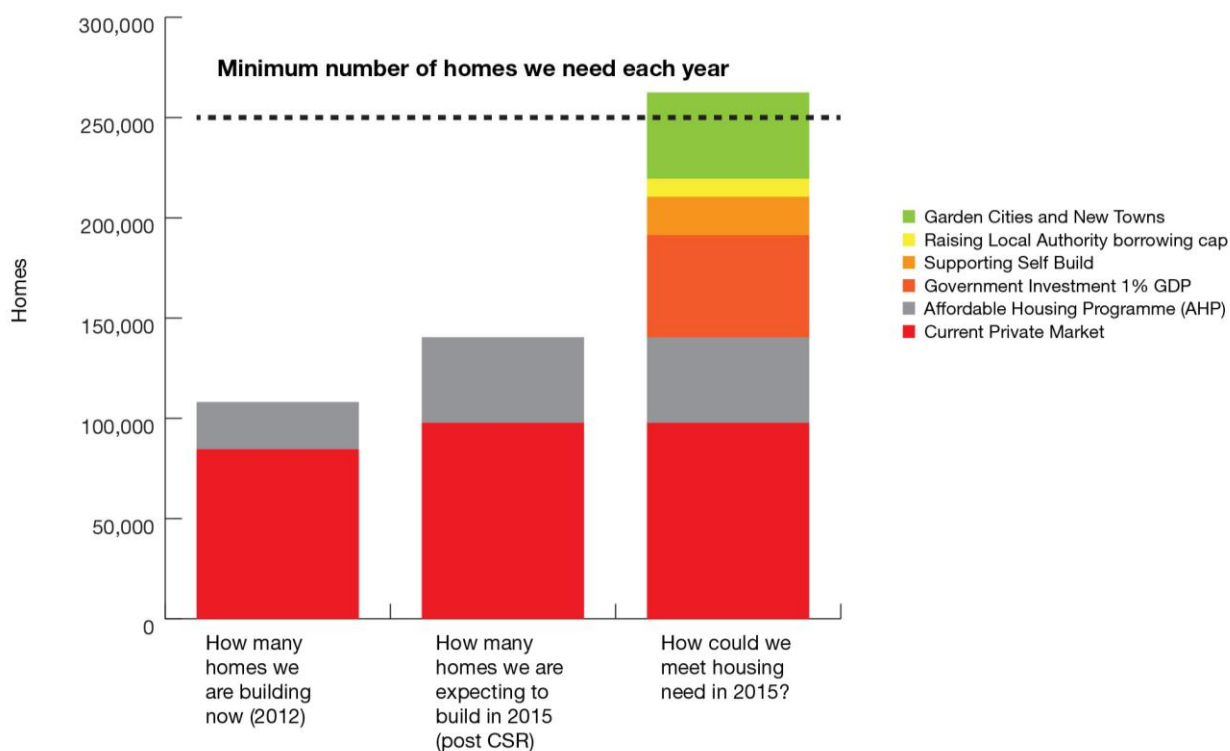
In addition, government guarantees of private sector investment would reduce the cost of any scheme. And measures such as investing public land, introducing Community Land Auctions, and increased use of compulsory purchase would be vital for sustained long term delivery, in support of other policies. See the annex for more details on these options and how they will deliver.

The decision to make

Political leaders will need to decide on the precise package of options, taking into account the relative benefits and costs. The mix of options needs to deliver at least 250,000 homes per year, and there are many potential combinations – but to be successful the winning formula must include both real investment and real reform.

Building more homes must be partly about greater levels of investment. But improving England’s housing performance goes beyond money – indeed many possible and useful interventions will have little overall cost to the exchequer. This is a challenge that demands hard choices, challenges to conventional wisdom, and political leadership.

Here is one indicative example of a mix of short and long term options that could help us hit the level of house building required.



To find out more

The annex contains more detail on the various options and their benefits and limitations.

This short briefing is based a detailed new report available at shelter.org.uk/policylibrary. Please email public_affairs@shelter.org.uk or call 0344 515 1170 for more information.

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