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Planning. Design. Economics.

A Tangled Web?

Housing policy from a new government

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Competing priorities

Understanding the drivers of housing policy

It is well-trodden ground that the UK is suffering from decades of housing undersupply culminating in many organisations calling it a ‘crisis’¹ or a ‘national emergency’². As a result of the acuteness of this problem, the topic of housing was high on the list of priorities for the electorate in 2015³. This, in turn, generated a raft of policy ideas and proposals set out in all three government manifestos prior to the general election in May 2015.

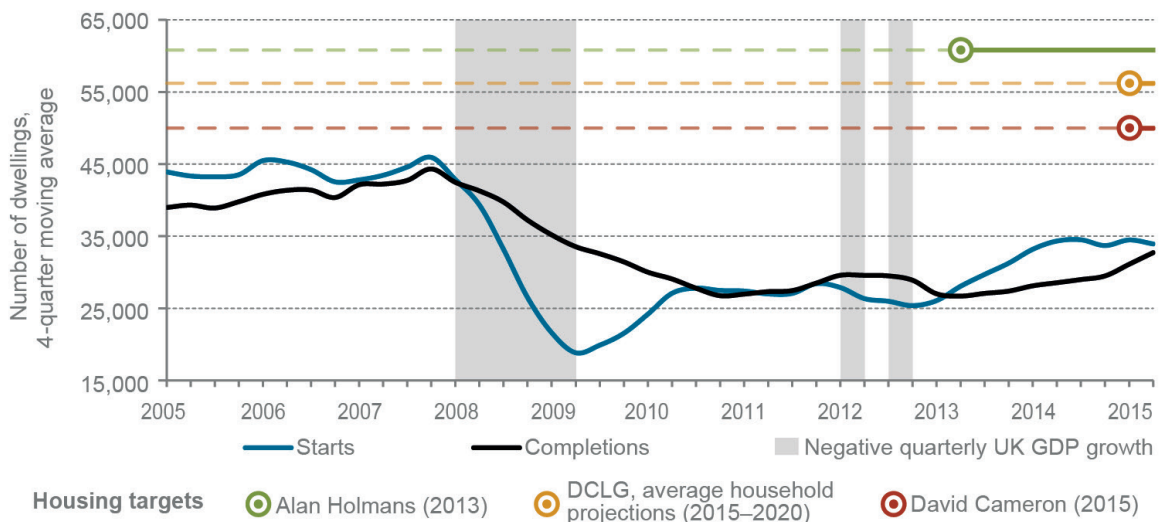
After receiving a mandate from the British public, the new Conservative Government set about implementing the package of policies they had proposed in the preceding months. **One of the keys areas of focus for the Government is to increase the supply of homes in the country** – an area that the prime minister and chancellor take seriously enough to create a target of one million homes over the course of the parliament⁴.

While this figure is not as high as other cited housing targets, it is still much above the number we are building – there is plenty of work to do in order to achieve this lofty goal (Figure 1).

However, the Government received its mandate from a broad selection of groups who all may want different things. For example, **how does the Government increase housebuilding, improve affordability and increase home ownership while maintaining the confidence of existing home owners that their property value will continue to prove a sound vehicle for capital growth, while also achieving big reductions in public expenditure?** These potentially competing interests and priorities help explain how the Government has created what might be seen as a ‘tangled web’ of emerging housing policy.

This NLP think piece explores four of the principle components of this emerging Government housing policy and identifies the potential opportunities and risks these may present for increasing housing supply.

Figure 1: Housing completions and starts against various targets



Source: CLG/NLP analysis

1: Notably, Shelter; National Housing Federation; Homes for Britain campaign

2: Royal Institution of Chartered Surveyors

3: For example - Ipsos MORI

4: DCLG - Press release online (<https://www.gov.uk/government/news/historic-housing-and-planning-bill-will-transform-generation-rent-into-generation-buy>)

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Do housing-related policies align?

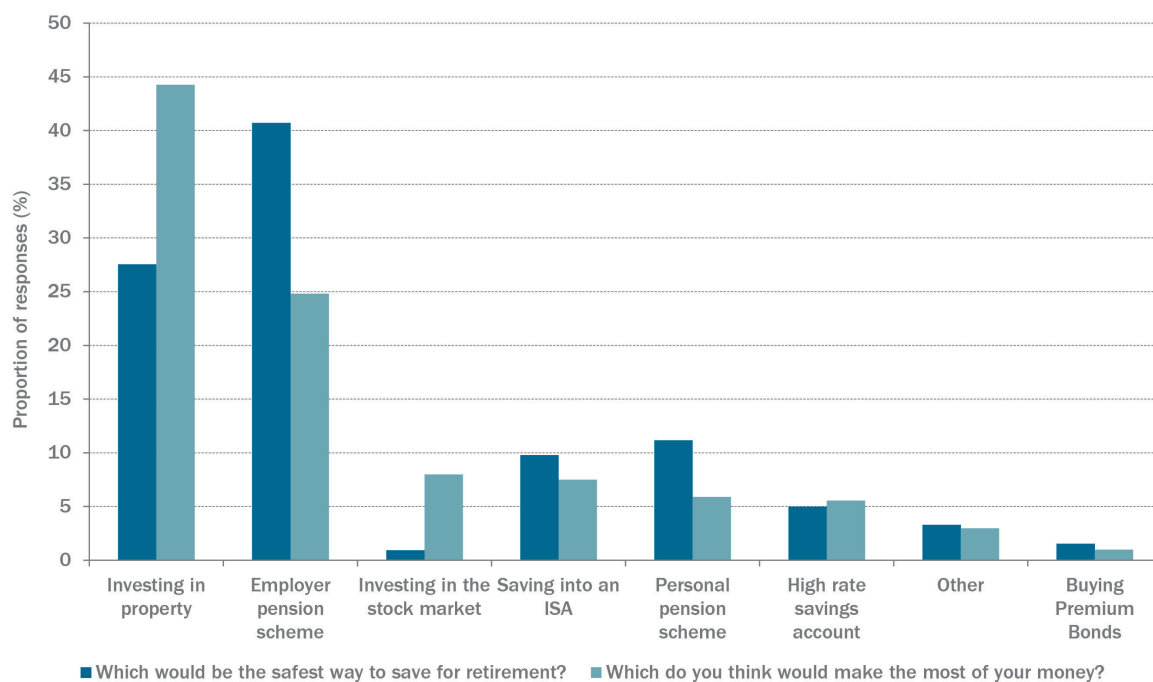
The complexity of housing-related policy is unsurprising. Shelter is a basic need and historically has involved careful public investment to ensure everyone has access. However, **since the 1970s, housing in the UK became increasingly viewed by households as an asset – something to invest in, plough savings into and save for the future.** And as this view prevailed (Figure 2), governments have wanted to assist, for perceived electoral gain – hence, mortgage and financial liberalisation since the 1980s – and banks saw an opportunity to make money.

The shortfall in housing supply and viewing housing as an asset almost more than as a home already represented a Gordian Knot for government policy, but this has been compounded with the added complexity of the fiscal target the Government has set itself, to bring the Government budget into surplus by the end of the Parliament.

In response, the Government has created a package of policies to help boost supply and ownership at the same time as deficit reduction.

This think piece focuses upon four policies – Right to Buy (extension); Starter Homes; welfare reform and the affordable rent reduction – and then explores how these combine within a policy web.

Figure 2: What do people feel is the safest way to save for retirement and what do they think will bring them the greatest return?



Source: ONS (Wealth and Assets survey; July 2014 – June 2015), NLP analysis

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Key housing policies

1. Right to Buy (extension)

One of the flagship policies set out by the Government prior to the general election was the extension of Right to Buy to include housing association ('Registered Provider') properties.

The original policy created in the early 1980s that applied to council homes is to be extended to housing association properties – if you have lived in that home for a certain period of time, you could receive a (increasing) discount from its market value. In order to fund this discount, the Government proposed to sell off high value council properties when they become vacant in order to ensure housing associations would receive the full market value.

Under this policy, the replacement of this housing association property need not be in the same area nor of the same type, meaning there could be significant shifts in where homes are built (see Figure 3).

2. Starter Homes

Starter Homes are properties that are sold at a 20% discount to a first-time buyer aged under 40 years old. The discount is funded by removing the s106 and CIL planning obligations on exception sites (or in lieu of affordable housing) as well as using any funding from the sale of high value council homes. Originally intended for brownfield land that was not allocated for housing in local plans, the intention is for it to be extended to any 'reasonably-sized' site.

The rationale for this policy is 1) encourage home ownership; 2) increase viability of sites; and 3) increase the supply of housing to own (as all major housing sites are expected to have Starter Homes on them). The first is likely to happen – although there is a question over what proportion of people eligible for this scheme may have bought a full market sale home at some point anyway – but the second and third goals depend on land values and whether these homes are displacing other homes that would have been built anyway – i.e. is there additionality resulting from government intervention?

3. Welfare Reform

There are various cuts to the benefit bill with the goal of reducing public spending. Moreover, the benefits are to be rolled into one single benefit known as 'Universal Credit'.

The key here is whether an affordable housing provider is absorbing these decreases to their tenants' income. If they do, their appetite for development may be reduced. If they do not, the tenant has to find the savings themselves and then the provider has concerns about tenant arrears or even voids hitting their balance sheets. Both of these outcomes could reduce the number of affordable homes⁵ built.

4. Affordable rent cut

Despite a rent settlement set under the previous Government – which provided above-inflation linked rent increases for the next 10 years that brought greater certainty, allowed more borrowing and increased the supply of homes – this Government has cut the rent housing associations can charge by 1% per year, in this term.

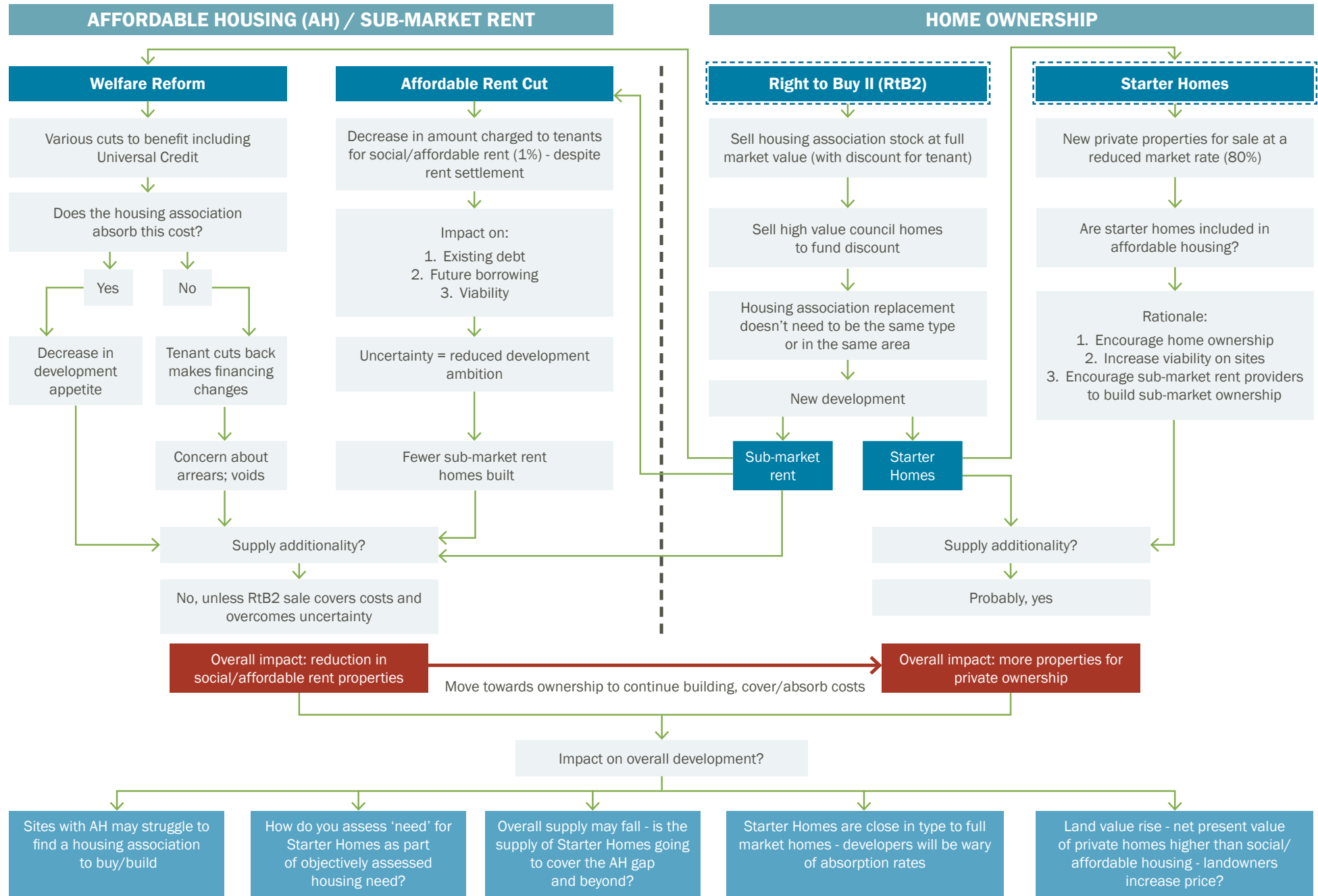
This impacts on the associations' existing debt levels – many have borrowed from banks given a previous 'certainty' over revenue – and will hurt future borrowing costs and viability of sites. Moreover, the mere nature of change and uncertainty could decrease their ambition to develop affordable homes.

What does it mean in combination?

This leaves a tangled web of policies with many unknowns (illustrated in Figure 3 below), with a particular impact on the scale and type of development – on which we speculate in the next section. **However, the key impact seems to be a move away from sub-market rent towards sub-market ownership.**

5: The term 'affordable home' refers to the existing definition of an affordable home which include social rent (at roughly 30% of market rental value) up to affordable rent (up to 80% market rental value)

Figure 3: The tangled web of housing policy



Source: NLP analysis

Implications of the policy web

What are the potential impacts on housing development?

As the Government's impact assessment⁵ of the policies in the Housing and Planning Bill sets out, there are so many unknowns that it is difficult to predict the potential impact.

However, there are some potentially serious issues for development as a whole as well as a few longer term benefits that we should explore.

Overall housing need

Could the overall supply of new homes fall?

Will there be enough Starter Homes built and sold to replace the shortfall in sub-market rental properties – in terms of sheer numbers, not as substitutes - as well as to plug the gap in the overall need for homes (as set out in Figure 1)?

However, there are obvious improvements to the margins of developers as they could sell a Starter Home for more than they would sell an affordable rental property would provide greater certainty and development.

Uncertainties for developers

'Reasonably-sized sites' are expected to include a proportion of Starter Homes on it (as part of the Starter Homes expansion in the Housing and Planning Bill) but there is **no clarity as to what constitutes a 'reasonably-sized site' nor what proportion of Starter Homes would be on it which is crucial to estimating viability.**

Moreover, this may impact on land value.

On a site that already is allocated (or on land that is currently not allocated but is in a strong market location), having affordable homes on this land reduces its value. This is because the value today of a number of years of low rental income (e.g. its net present value of 25 years of social rent) is much less than today's private sale value. If the landowner recognises that instead of a site having a certain proportion of social rental properties it will now have Starter Homes, they will raise the price of their land which could make some schemes unviable, unless the captured savings/margin of the developer can plug this gap.

There may be an issue for existing sites with affordable housing agreed. At the very best, these sites may have to be renegotiated as a new tenure mix and focus for subsidised housing shifts

(although Brandon Lewis' letter to Chief Planning Officers encourages flexibility from Local Planning Authorities and suggests that where the tenure mix is being altered but the affordable housing provision remains the same, no additional viability information should be required). However, given all of the financial uncertainty, housing associations may not be able to buy or build a property on the site. Either way, this could leave some sites potentially stalled.

Developers may be more cautious about the quantum of Starter Homes built because the product is close to what they were already building and selling. Indeed, some first-time buyers who would be willing and able to buy a home at the full market value may also be eligible for Starter Homes too. This may impact on the potential absorption rate on a site and so private developers may reduce the build rate of development.

However, on schemes where a developer can provide a clear distinction between housing products (i.e. between Starter Homes and mainstream market products) and continue to nurture those groups who are 'ineligible' for Starter Homes (for example, over 40s, non-first time buyers, foreign investors) the impact may be neutral. This may be more difficult on some schemes than others, for example flatted schemes.

Uncertainties for local government

Given the potential shifts in the tenure mix on site, do local authorities have the capacity and the drive to renegotiate s.106 agreements expeditiously while still hitting their housing need targets?

Also a method for assessing the 'need' for Starter Homes does not currently exist. The need for 'market' and 'affordable housing' (as well as the needs of different groups) is currently considered as part of an objectively assessed need (OAN) process, which informs the overall housing requirement in Local Plans, and in turn guides what types of homes to build in any given area. If tenure mixes are to shift, how does an area objectively assess the need for Starter Homes in order to allocate land and push through development?

6: Housing and Planning Bill 2015/16 Impact Assessment - <http://www.parliament.uk/documents/impact-assessments/IA15-010.pdf>

Conclusions

More known unknowns than known knowns

Unsurprisingly, politics and the complexity of UK housing has created a tangled web of policies. While it is extremely difficult to estimate the overall impact of the plethora of policies, some crucial lessons arise.

Firstly, **any policy change brings uncertainty** which, in turn creates a natural hiatus while the dust settles. Uncertainty always slows housing output. What can the Government do to reduce this hiatus?

Secondly, not only does a change in policy bring uncertainty, it also means that **existing agreements need to be renegotiated.** The degree to which all parties have the capacity to go through the process is a key question – one which could slow development as a whole. Is Brandon Lewis' recent letter about s.106 negotiation enough?

Thirdly, **policies driven by different goals across government departments can have serious and significant consequences in other areas.** This is epitomised by changes to welfare policies on housing provision.

Fourthly, and as a result of the above, **changes in this tangled and complex policy area may generate perverse and unintended results, opposite to government objectives.** It is not at all clear (from the Government's impact assessment, at any rate) that the aggregated impact is yet properly understood.

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