

Public Inquiry Response: “Capacity in the homebuilding industry”

To: Department for Communities and Local Government Select Committee

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:

The Intergenerational Foundation (IF) welcomes the opportunity to comment on government policy towards planning and housing delivery. The UK’s housing affordability crisis is one of the main focuses of IF’s research agenda, and since we were established in 2011 we have published a number of research papers on this issue, including *Why BTL (buy-to-let) equals “Big Tax Let-off”* (2013) – which made us the first organisation to campaign for the changes to the taxation of buy-to-let property which the government has implemented in recent years – and *Hoarding of Housing* (2011). IF is extremely pleased that the government is taking seriously the need to increase the supply of housing, and we would like to make the following points in response to this public inquiry:

1. The current housebuilding model doesn’t work

IF strongly believes that the UK’s model of housing delivery, the defining feature of which is the dominant role played by private developers, has proved profoundly inadequate at meeting the need for new housing over the past 25 years. This is demonstrated by Fig.1, which shows the UK’s output of new housing from different sources by year since 1969/70.

A variety of different targets has been proposed for how many new homes the UK should be building so that the supply of housing keeps pace with population growth and to make housing more affordable. Recently, the government has adopted an official target of building 1 million new homes between 2015 and 2020 (or 200,000 per year), while the House of Lords Economic Affairs select committee has officially recommended that we need to build 300,000 new homes per year.¹ Lines representing both of these targets have been added to Fig.1 to demonstrate how far away our current system is from delivering output that reaches either of these levels.

¹ House of Lords (2016) *Building more homes* London: House of Lords

New homes completed in the UK by source, 1969/70 - 2014/5, thousands

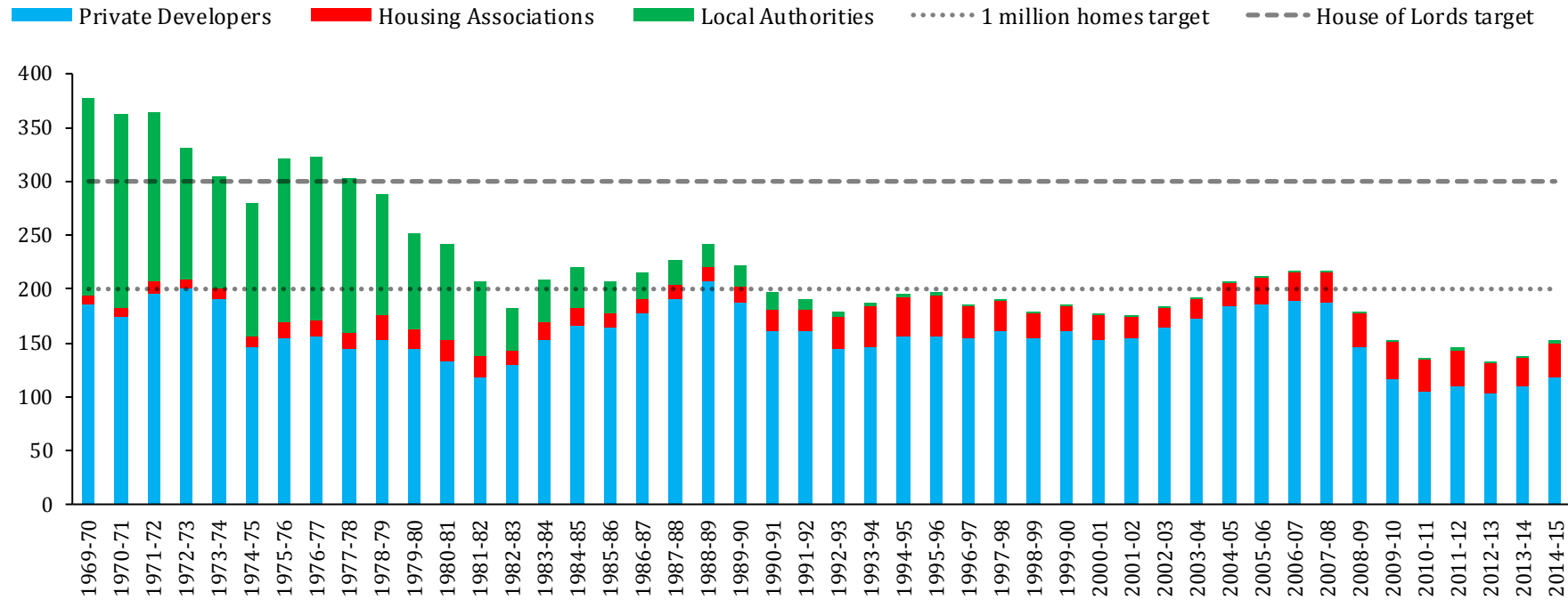


Fig. 1 UK housing delivery by source, 1969/70–2014/15²

² DCLG (2016) *Table 209: permanent dwellings completed, by tenure and country* London: DCLG

Fig.1 contains three important observations about the UK homebuilding industry. Firstly, since 1991, there have only been four years – the period covering the height of the pre-2008 economic boom – when it has achieved the government’s official target of completing 200,000 new homes per year. Moreover, the more ambitious delivery target proposed by the House of Lords of building 300,000 homes per year has not been seen since the late 1970s, when the public sector played a much larger role in delivering new homes than it does today. Secondly, there has clearly been a very significant slump in the completion of new dwellings since the 2008 recession, which means that our current output of new homes still hasn’t returned to levels that were common during the mid-1990s and early 2000s, which were still insufficient to prevent housing affordability from deteriorating. Thirdly, it is clear that private developers, who currently produce 75–80% of the UK’s new homes in any given year, have never in recent history delivered the level of new housing which would satisfy either of the targets shown in the chart.

What does this mean? Given that this public inquiry is focused on the homebuilding industry, it is likely to receive many submissions of evidence which will argue that private developers would deliver more housing if certain policy reforms were pursued. Government policy may or may not be capable of encouraging the private sector to deliver more homes than it does at present, but our observation is that there is absolutely no recent historical evidence to suggest that the private sector is capable of delivering the levels of new building which would be required to solve Britain’s housing crisis. Fundamentally, it appears to be an insurmountable problem that the private sector has too little incentive to deliver these levels of housebuilding when building more homes would endanger their profit margins.

Therefore, IF strongly believes that solving the housing affordability crisis requires the creation of a more heterogeneous homebuilding industry, which should include a greater role for the public sector (as it was only when the public sector was a large-scale homebuilder that sufficient quantities of new homes were being built), alongside a range of more innovative solutions to boost housing supply.

2. Unlock our “hidden homes” to boost housing delivery

One example of an innovative solution which IF has proposed would be to “unlock” new homes from within our existing housing stock.

This is explained in full in the attached research report, *Unlocking England’s Hidden Homes* (Appendix 1). In summary, our proposal is that **the government should create a new householder permitted development right, subject to prior approval, which would enable a homeowner to subdivide an existing dwelling house into multiple smaller ones.** Our report shows that there are 4.4 million owner-occupied households in England that have two or more spare bedrooms – potentially enough space to be divided into at least two flats that would comply with the new National Space Standards – and even if only 2.5% of these 4.4 million households subdivided their properties into two flats, it would produce more new housing than the entire private sector currently builds each year.

At present, homeowners have to submit a full planning application and get it approved in order to subdivide their properties, and the fact that fewer than 4,500 homes are being subdivided each year despite record house prices suggests that many people who may be interested in subdividing their homes are not doing so. Making it more straightforward for homeowners to subdivide would be beneficial for the following reasons:

- The government needs new approaches to reach its target of building a million new homes by 2020;
- The evidence shows that these homes would be in the “right” places: predominantly areas with the highest future demand for new housing, and surrounded by existing communities,

- jobs and infrastructure (including commuter hubs);
- Creating new homes in this way would reduce the development pressures on areas where the government is keen to prevent new housing from being built, such as the green belts on the edges of towns and cities;
- Homeowners would benefit from unlocking a proportion of their housing wealth, reduced household bills and lower Council Tax without having to leave their current addresses;
- We need to adapt our existing housing stock to match the trend towards a rapidly growing population where more people live in small households.

One particular area where this policy could create a “win-win” for the government would be its potential impact on the supply of housing for older people. There are now 4.26 million people over the age of 65 who live in homes with at least 3 bedrooms, and evidence suggests that 1 in 5 older homeowners would like to downsize (not to mention that there are 1.8 million homeowners aged over 65 living with health problems that could make larger homes unsuitable for them), but the vast majority either don’t want to leave their existing communities or can’t find suitable properties to downsize into. Therefore, making it easier for people to convert large homes could help older homeowners to “downsize-in-situ”, enabling adaptations such as converting the downstairs area of a large property into a smaller dwelling while creating a new flat upstairs for the owner to rent or sell. This could provide the benefits of helping them remain independent for longer and make them financially self-sufficient. Importantly, it is likely that these subdivisions would be undertaken by existing homeowners who would have the incentive of being able to unlock some of their existing housing equity, so the disincentives which prevent large homebuilders from developing more housing won’t apply to them.

The full report demonstrates that applications to subdivide larger properties are frequently rejected by local planning authorities under the current system because the resulting properties would be of a higher density than those in the surrounding area. However, recent planning reforms have supported the principle of building at higher densities to increase supply, so this proposal would be in keeping with wider planning objectives. The report also argues that the quality of the subdivided housing units which would result from the implementation of this policy could be assured using the prior approval process, in order to prevent the creation of excessively small homes, mitigate traffic and parking impacts, and so on.

We are not suggesting that this proposal could solve Britain’s housing crisis on its own, but we do believe it could be used to address some of the immediate need for new housing by creating new units more quickly than most alternative methods would be likely to achieve.

IF would strongly encourage members of the committee to study IF’s full report, as we believe that the policy we are proposing would be a useful additional tool in the struggle to increase Britain’s housing supply.

Conclusion

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:

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