

Public Inquiry Response: “Fixing our broken housing market”

To: Department for Communities and Local Government

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 consultation:

1. The private sector can’t solve the housing crisis on its own

The housing white paper correctly identifies the UK’s current model of housebuilding, which is characterised by the dominance of a small number of very large private sector corporations, as one of the chief obstacles to solving Britain’s housing crisis. This model has proved profoundly inadequate at meeting the need for new housing over the past 25 years, as is demonstrated by Fig.1, which shows the UK’s output of new housing from different sources by year since 1969/70.

Although the white paper includes a number of (somewhat vague) ideas which are designed to encourage the housebuilding industry to produce more homes, it is fundamentally important to recognise two facts: firstly, private housebuilders have no incentive to build more housing units at a faster rate if this could endanger their profit margins (especially if the price they’ve paid for land, their most expensive input, assumed that the houses built on it would eventually be sold at prevailing market values); and secondly, private housebuilders have never delivered the level of housebuilding which would be necessary to achieve the government’s current housebuilding target on their own, as Fig.1 also illustrates. Indeed, it is generally reckoned that the level of housing delivery by the private sector has only risen above 200,000 units per year for a sustained period of time during the 1920s and 30s, before the advent of the modern planning

system.

Despite the government's welcome commitment to increasing the level of housebuilding, [the recent report](#) by the Public Accounts select committee into Britain's housing crisis concluded that the ambitious target of building 1 million new homes between 2015 and 2020 was unlikely to be achieved because the government still intended to rely upon the private sector to deliver the vast majority of this new housing, despite the problems with this approach that were outlined above. As is illustrated by Fig.1, housebuilding has only been consistently above the government's current target when the public sector has played a significant role in housing delivery, and although the white paper says that one of the government's objectives for solving the housing crisis is "*supporting housing associations and local authorities to build more homes*", witnesses from DCLG told the Public Accounts select committee's inquiry that the Treasury remains hostile to loosening the borrowing restrictions on local authorities in order to let them build more homes.

Therefore, while IF strongly agrees with the government's conclusion that the UK needs a more diverse range of housing suppliers to increase housing output, we are not convinced that the government is willing to genuinely empower public sector developers to go back to playing a major role in housebuilding - which is the only form of diversification that has produced significant results in the past.

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

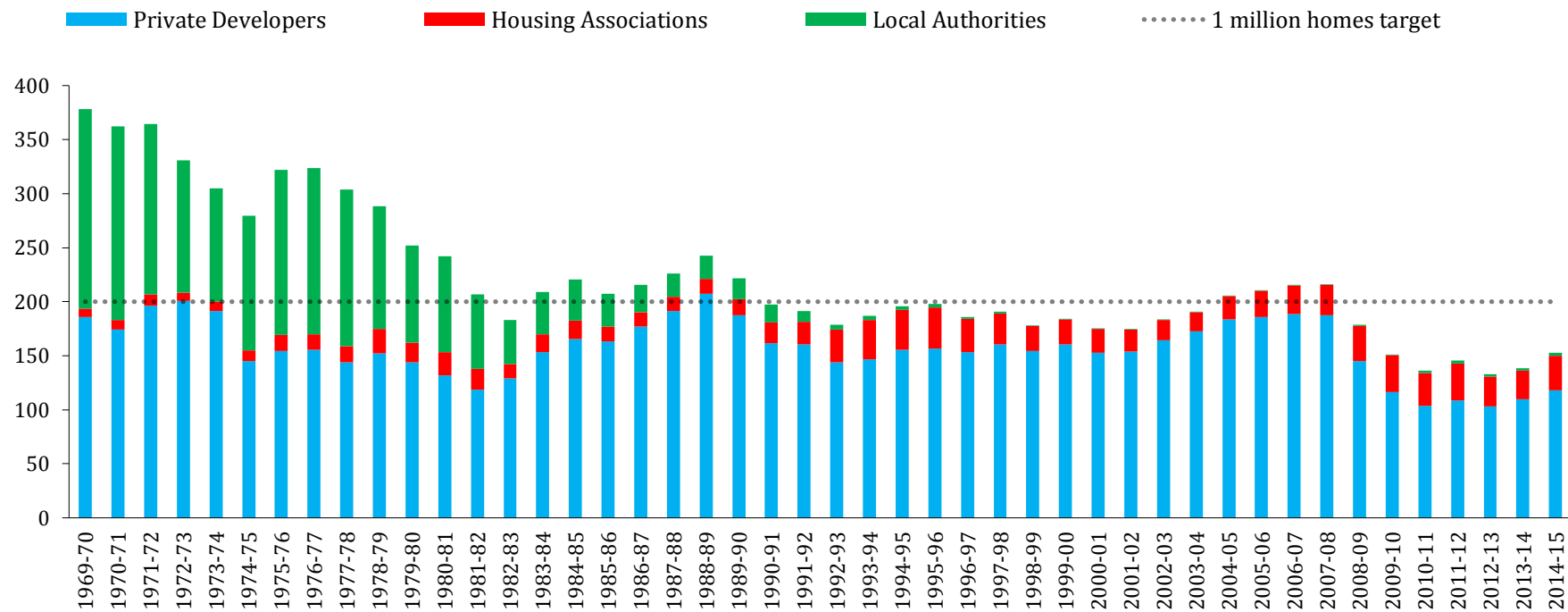


Fig. 1 UK housing delivery by source (000s) 1969/70–2014/15¹

¹ DCLG (2016) *Table 209: permanent dwellings completed, by tenure and country* London: DCLG

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

IF is pleased that in addition to encouraging a more diverse housebuilding sector, the housing white paper also envisions using planning reforms to empower more individuals to take on their own self-build and custom-build development projects and also talks about “*making better use of land for housing by encouraging higher densities, where appropriate, such as in urban locations where there is high housing demand*”, because IF has previously advocated a new method of housing delivery which would be in tune with both of these objectives. If we are going to solve the housing crisis then we need innovative solutions to the problem of building more housing, one of which 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 (i.e. the threat to their profits from bringing too many units onto the market at once) 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 DCLG 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.

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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