THE LUNAR SOCIETY
stimulating ideas broadening debate catalysing action

Lunar Society Housing Discussion with Lord Best, 15 April 2014

Introduction

Richard Best is President of the Local Government Association, chairs the Hannover Housing Association and the All-party Parliamentary Group on Housing and Care for Elderly people, and is a former Chief Executive of the Joseph Rowntree Foundation, one of the leading social research institutions in the UK. He led a discussion on housing, giving us the opportunity to explore the housing crisis with his expert input. Additional commentary from a range of perspectives was provided by three local experts:

- Angus Kennedy OBE: formerly Birmingham City Council implementation planner, Chief Executive of Castle Vale Housing Action Trust throughout its life, now running an urban regeneration consultancy;
- John Acres: Director of Residential Business, Turley Associates and RTPI Assembly member, with many years' experience representing house-builders;
- Glenn Harris, Finance Director of Midland Heart Housing Association.

The event was chaired for the Lunar Society by Alan Wenban-Smith, a member of the RTPI's Policy Committee, who also prepared this report and the appended 'crib sheet' distributed to attendees.

The event was sponsored by the Midland Heart Housing Association, and was held at their Birmingham HQ on Bath Row. The discussion session was attended by about 50 members and guests, and was followed by an invitation dinner for 15 guests, hosted by Midland Heart to continue the discussion. This report summarises the key points from both phases. Except for initial presentations, comments are not attributed.

Key points from initial presentations

Lord Best

- An indication of the depth of the housing crisis is that almost everyone in England under 40 faces a serious housing problem: whether in finding an acceptable home to buy or rent property, or keeping up rising mortgage interest rates rise and increasing rents ;
- The rise in the number of households over the next 10 years is projected to be 225-250,000 per year, while new building has fallen since the 2007 credit crunch to around half that level;
- Also shown in Figure 1 of the 'crib sheet' is how private sector provision has remained in the range 120-150,000 from the early 1970s to 2007. Total provision above 250,000 depended on roughly equal amounts of council housing. That almost ceased after 1980 and Housing Associations have not been able to fill the gap. Leaving housing provision to the market will deliver only half what is needed;
- Other kinds of market failure are illustrated by boom in apartment blocks along the Thames:
    - Many are being built and returning their profits to foreign owners (eg Qatar, Kuwait, Russia);
    - In spite of high local unemployment construction works is dominated by imported labour;
    - Much of the output is sold off-plan to overseas buyers and does not provide local homes.
- The government's proposal for a New Town at Ebbsfleet shows some recognition that he private sector cannot deliver on the scale required, but the major post-War programme took decades to start delivering [Note: over 50 years it averaged about 5% of national output, and peaked at about 10%].
- The New Town concentration of planning and implementation powers needs to be applied through Development Corporations for our existing cities. Housing should be regarded as economic infrastructure (in the same light as major transport schemes). There will be a return, justifying the public investment of resources and effort;
- Quicker-acting measures are also needed, in tandem. An example could be helping 'extended middle agers' (55-75) to downsize from our huge stock of 3-bed semis much of it occupied by one or two people. The necessary incentive is good quality, local housing more suited to their needs (and with outgoings more commensurate with their pensions).

Angus Kennedy

- Housing finance has taken the biggest hit from austerity. Capital grant has reduced significantly thus making new build costlier for Housing Associations. Increased Government emphasis on value for money and return on assets. How safe are Housing Association assets in future?
- Forced downsizing through the bedroom tax does not solve the problem of suitable stock to downsize to, and is destabilising communities for no good purpose;
- Although neighbourhood planning shows promise (eg linking local budgeting and planning in Balsall Heath), there is no wider planning policy for where new housing should go. Nor are there the more broadly-based area improvement initiatives that were crucial to urban regeneration in Birmingham in the 1980s and 1990s.

John Acres

- In spite of consensus between parties on land needs for 200-250,000 new houses pa, output is at half this level – according to Money Supermarket the average age of first time buyers is now 37!
- Regional housing targets in RSS were imperfect, but better than the uncertainty created by their removal. This has set up a continuing battle between builders and NIMBYs-influenced Councils;
- The private sector now produces the lion's share of new housing and should enjoy the rewards for the risks they take. However, need to shift the balance from focus on major sites, leading to present excessive dependence on a few major builders, disadvantaging smaller, more local builders. Planning process needs to provide a broad portfolio of sites – large/small, greenfield/brownfield, etc;
- Does not agree with mooted Labour policy for 'use it or lose it' approach to permissions, or penalties for land-banking. Problems lie with landowners, not builders, who are keen to build and sell asap.

Glenn Harris

- Housing Association output has been circa 25% of total completions over past 5 years , but could be greater. Larger, developing organisations can't borrow a lot more against their assets with the current low grant regime (subsidy has been switched to revenue via Affordable Rents).
- A key problem lies with the long term affordability of this to tenants. Rents can't continue to rise above inflation if Housing Benefit is to be capped below these levels: rents will simply become unaffordable to many facing cost of living pressures;
- Resolving these problems requires a long-term strategy: there is some £43bn of Government grant on Housing Association balance sheets. Those that can't / aren't developing need incentives to make better use of this grant. Working more in partnership with Local Authorities is also something that needs to increase – particularly looking at ways to unlock HRA. Whilst building new affordable homes is key, ensuring we can sustain the tenancies of those already in them should not be ignored.

Points arising from Question & Answer

- Relatively simple tax variations would incentivise 'extended middle-aged' to sell: tackle stamp duty 'cliffs'; revalue and extend top end Council Tax bands. Similarly changes to benefits system: loss of Council Tax benefit has serious impact on poorest – but this cut could be restored by cutting the single person rebate from 25 to 20%;
- Retired tenants face housing costs that will rise faster than pensions, while private renting has overtaken LA/HA renting. Buy-to-let by small amateur landlords (70% with 1-2 properties) risks raising prices and lowering quality at market entry level – regulation via letting agents does not tackle this.
- Development Corporations are not liked by LAs, but may be the only way of overcoming the democratic pressures that favour short-term/narrow responses to housing crisis;
- Birmingham (Terry Brunt) was a leader in urban renewal during 1980s – 'enveloping' rescued swathes of pre-1919 housing (still desirable 30-40 years on. Shared equity was also a Birmingham innovation;
- More new housing seems unlikely to lower prices – but if it does, negative equity will increase;
- Fiscal measures may help housing market liquidity, but not supply. Scope is limited by further cuts of £80bn yet to come. More creative approaches to housing finance, taking advantage of the huge housing assets on HA and LA balance sheets; more collaboration between HAs and new forms of tenure.

Lord Best closed the discussion by emphasising that an effective response to the housing crisis required it to have a higher position on the national political agenda. The example of HS2 demonstrates that investments regarded as 'economic infrastructure' continue to get Government support. The constraints on growth caused by inadequate and over-priced housing should attract more attention, plus the fact that housing is a good investment, producing continuing returns.

Dinner discussion

Each guest was asked to put forward their policy suggestions in the light of the earlier discussion. These are grouped under topic headings below, rather than attributed.

Financial/fiscal measures

- Borrowing against LA assets at present adds to PSBR. A public/private vehicle would allow borrowing against rental revenue stream, providing ~£25bn capital for new housing;
- A municipal bank would provide pensioners with a longer-term investment for saving, and capital for local housing, schools and infrastructure;
- Stabilising/reducing house prices is economically desirable. Because supply is so inelastic, this requires action on demand: a maximum Loan-to-Value ratio of say 80% would have that effect;
- Need to support capability of smaller HAs to collaborate to utilise capital assets (or government likely to seize them);
- Downsizing by older households should be supported by providing attractive alternative housing very locally, maintaining community linkages;
- Lyons Review must produce a radical agenda for action: eg tax on developable land, levied on landowner s when land is allocated, with revenues earmarked for housing, local services and infrastructure;
- ‘Compact liveable cities’ help realise the inherent capacity to innovate, as Birmingham showed in the time of Boulton and Watt, and Chamberlain. Closing the £100bn pa productivity gap between UK provincial cities and their continental equivalents requires renewal of governance and planning;
- Current housing land policy is effectively ‘greenfield first’, but ‘brownfield first’ is needed to renew the ‘body cells’ of the city. Delivering enough brownfield land will require dedicated machinery;
- Manchester offers examples of assisting communities to participate in their own development;
- Areas differ at a ward by ward scale: therefore need top-down strategies to be complemented by planning and action tuned to needs at neighbourhood level;
- Need a strategic view at regional and national scales as a context for urban renaissance, complemented by a roving Development Corporation with resources, powers and expertise to deliver;
- Regional Spatial Strategies were not perfect, but their loss has set back our ability to supply housing. We also need a national spatial planning to provide the context for economic infrastructure;
- We must regard <u>cities as a whole</u> to be critical elements of national economic infrastructure (not just their individual components like housing or transport).

Conclusions

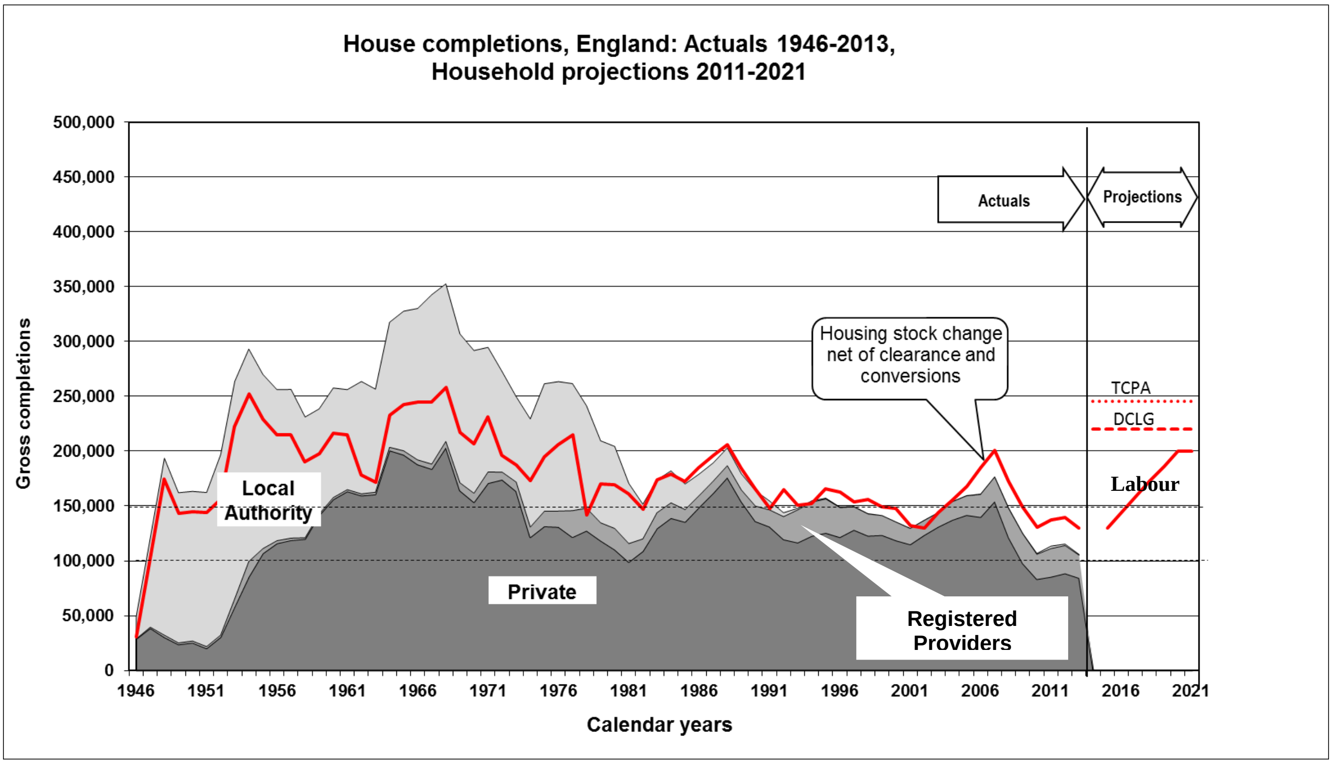
Lord Best responded to the suggestions put forward, with specific points included in summaries above. He emphasised that in considering proposals to borrow against assets, it is crucial to ensure a sustainable revenue stream for repayment. Similarly in using pensioners’ funds (whether via banks or bonds), they need to have a decent return. Cross-subsidy from build-for-sale to rental properties depends on quality planning and management.

It was suggested, and agreed that the report of this meeting should be submitted to the Lyons Review.

Alan Wenban-Smith
18 April 2014

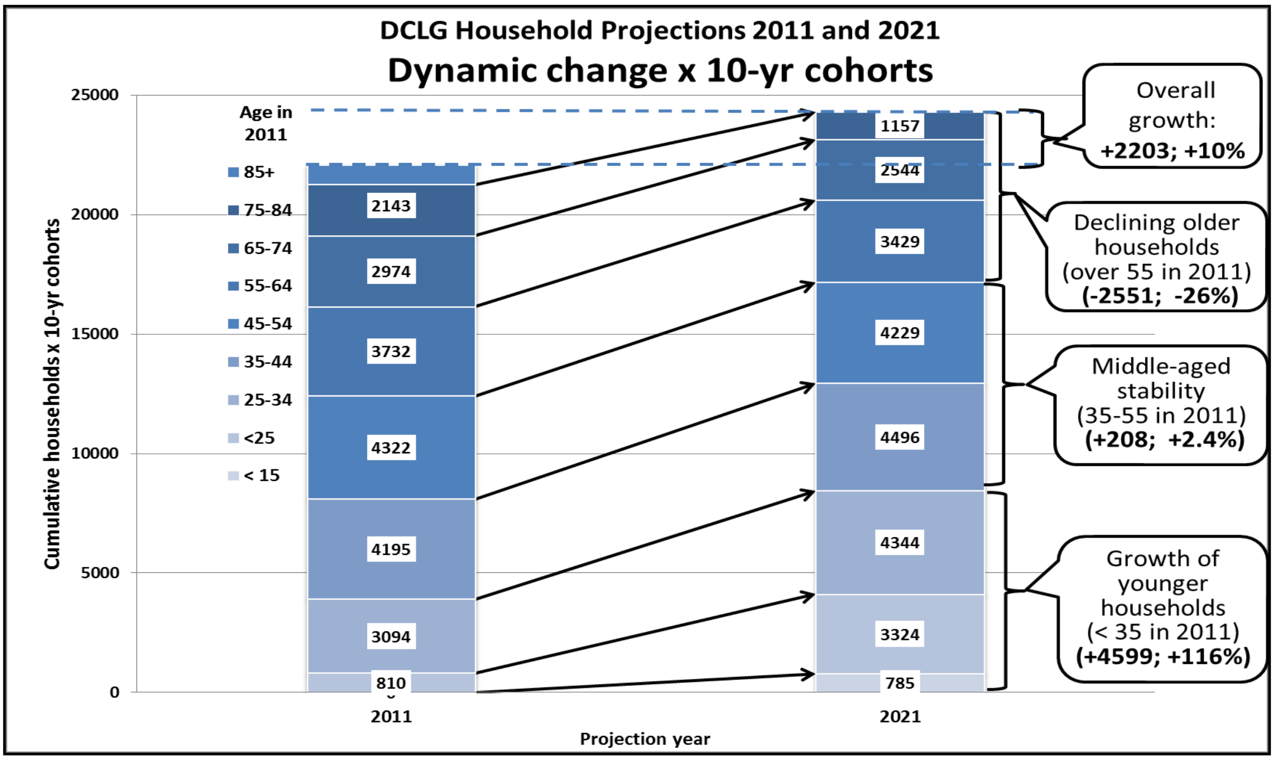
Lunar Society meeting 15 April 2014: some background numbers

Figure 1: New housing 1946-2013; household projections 2011-21



Notes:
Completions: DCLG, historic series and live tables
Net clearance/conversion: difference between net annual stock change and completions (AWS)
Projections: DCLG provisional May 2013; Labour 200,000 pa by 2020 – ramping up 2015-2020; TCPA report by A Holmans, Sept 2013

Figure 2: Household projections, England 2011-2021 x age group



Notes: Source: Provisional household projections by 10-yeasr cohort (DCLG May 2013, Table 417); **Comparisons** follow each age group 2011-2021 (AWS, May 2013)

Figure 3: House prices, England 1975-2013

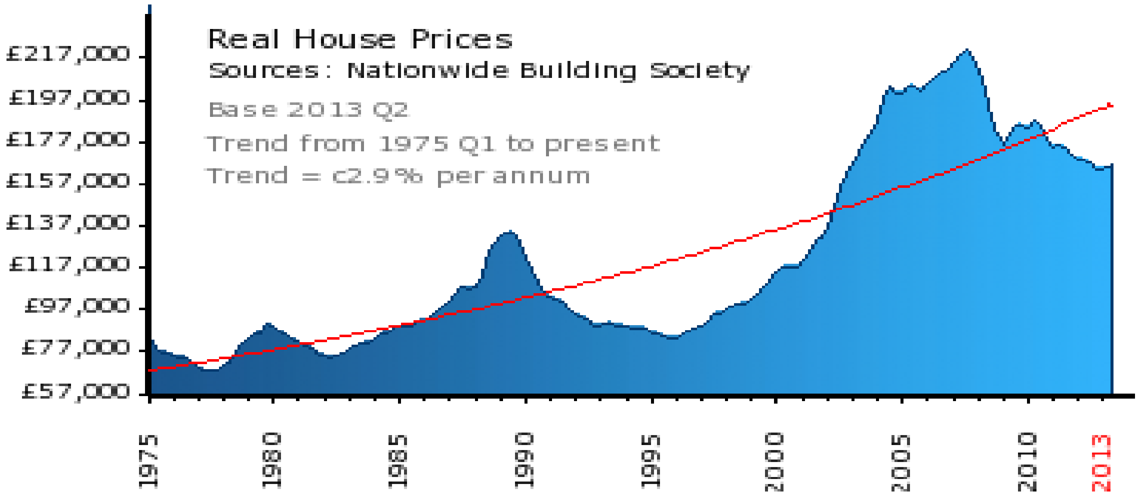


Figure 4: Land prices 1892-2009

Source: Data for 1892-1984 provided by Professor Paul Cheshire, LSE. 1984 to 2009 estimated from the VOA Property Market Report

Figure 5: Housing stocks and flows, England, 2006 and 2011

	2006	2011
1. Total, all tenures (m)	22.07	22.98
2. Private/owner-occupied (m)	15.05	14.82
3. Annual private sales (m)	1.22	0.625
4. Of which, new houses (m)	0.140	0.085
5. Annual sales as % of stock	8.11%	4.22%
6. New as % of all sales	11.5%	13.6%
7. Existing as % of all sales ('churn')	88.5%	86.4%

Sources: lines 1, 2 & 4: DCLG Housing Live Tables 104, 213, 244; line 3: Council of Mortgage Lenders; line 5: 3÷2; line 6: 4÷3; line 7: 100-6

Alan Wenban-Smith,
15 April 2014