Stimulating the housing market

Association for Consultancy and Engineering

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Association for Consultancy and Engineering Alliance House 12 Caxton Street London SW1H 0QL
T: 020 7222 6557 F: 020 7990 9202 consult@acenet.co.uk www.acenet.co.uk

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Summary

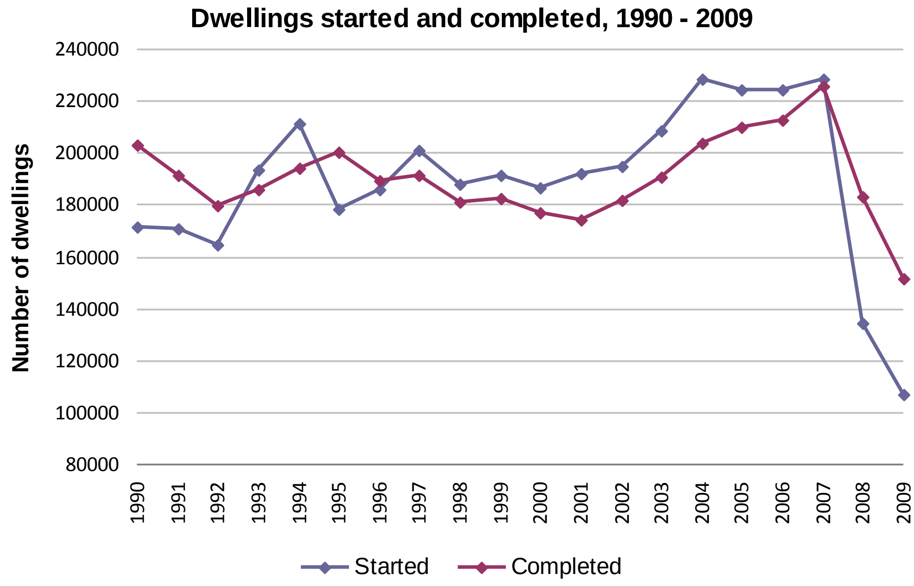
The slowdown in the housing construction market has potential to hamper the UK's economic growth and social mobility. Particular barriers to housing growth include a lack of investor confidence, a cumbersome and ineffective development consents system, and difficulty in obtaining mortgage finance.

There are a number of potential interventions that could help to restore confidence in the housing market and encourage a new generation of lower-carbon homes. These include incentives for communities to encourage development, reforms to financial services to allow for greater and more responsible lending, the reform of strategic planning (for example via Local Enterprise Partnerships), and measures to ensure that supporting infrastructure is always delivered alongside new developments.

Housing starts and completions have fallen

The recession and global banking crisis have contributed to a significant slowdown in the UK housing market.

New housing starts and completions are at their lowest levels since the early 1990s. Furthermore, in 2008 and 2009 the number of dwellings started was significantly lower than the number completed. This suggests the potential for a lag in new housing provision that will result in shortages and, potentially, upward pressure on prices in the coming years.

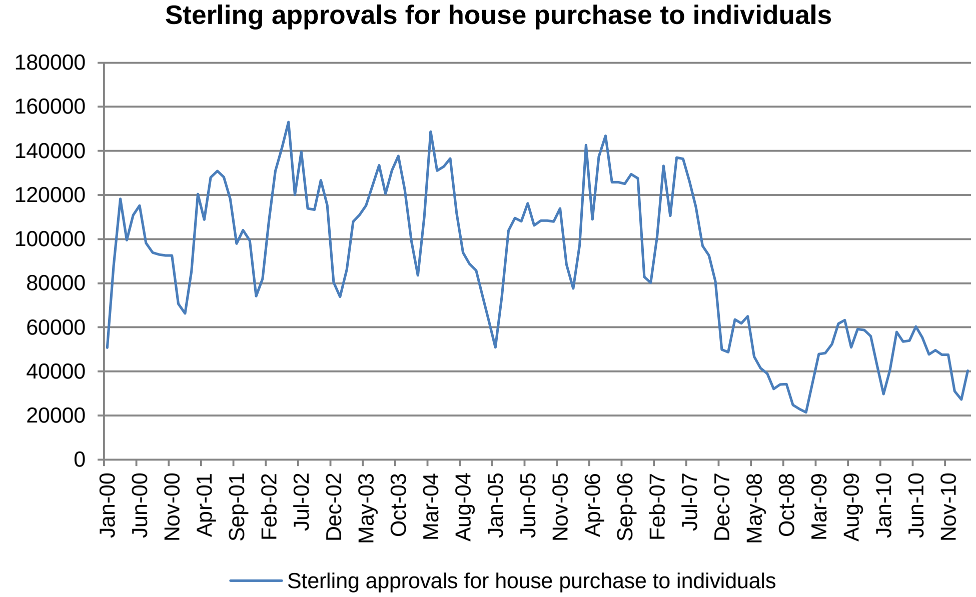


Source: ONS

This data also suggests that the medium-term outlook for housing construction is unlikely to be better than the trend since 1990, and has the potential to remain significantly lower. Lack of supply is likely to place upward pressure on house prices, thus limiting the ability of first-time buyers to enter the market.

Mortgage approvals have fallen

The impact of the "credit crunch" can be seen in the Bank of England's data on loan approvals for house purchase to individuals. The dramatic decline in total monthly approvals over the course of 2007 indicates the difficulty in securing mortgage finance. This is likely to be a main driver of the downturn in the housing market.



Source: Bank of England

Intervention is needed

The potential consequences of a slow housing market include:

- Fewer buyers entering the market – particularly first-time buyers. This could exacerbate social issues, such as the problem of 'hidden homelessness' and overcrowding as highlighted by Crisis[1] and Shelter[2];
- Downward pressure on house prices raising the risk of homeowners entering negative equity;
- Fewer new housing starts resulting in fewer business opportunities for the construction industry. This feast-to-famine situation creates difficulties in retaining a skilled and capable housing construction industry in the UK; and
- Reduced ability to drive private sector growth in areas that lack the prospect of suitable housing stock.

[1] http://www.crisis.org.uk/policywatch/pages/hidden_homeless.html
[2] http://england.shelter.org.uk/housing_issues/the_housing_crisis

There is, therefore, the need for intervention in the housing market to encourage new development (particularly properties with a lower carbon footprint) and to encourage more buyers into the market.

The barriers to housing development

In ACE's view, the most significant barriers to greater housing development are regulatory and financial issues:

Strategic planning and development consent

The coalition government is undertaking one of the most significant redevelopments of the strategic planning and development consents systems for many years. The removal of housing targets and the replacement of Regional Development Agencies with Local Enterprise Partnerships has shifted the responsibility for housing back to local authorities. Additionally, as part of the new proposals there will be a duty on local authorities to agree plans with neighbouring authorities, else a "permissive" development regime will apply.

For developers, the lack of certainty is a major issue. Concerns over resistance to housing developments at a local level may deter some developers from investing in what can be a long and costly process. This uncertainty may be a short-term phenomenon; however, delays in launching developments may have unfortunate knock-on effects.

Political leadership is needed

A lack of political will can also play a part in discouraging development. Without a firm steer from political leaders it can be more difficult to judge whether a proposed development is likely to succeed.

Housing targets in the Regional Spatial Strategies provided a degree of certainty. The drawback of this approach was the friction generated between local authorities and central government. For example, the housing components of the South East England Development Agency's regional plan were points of contention between the Agency and the Regional Assembly.

By contrast, a locally-focused development policy places power in local hands, thus reducing the sense of imposition that can be felt. However, the drawback is the potential for influence by local opposition groups that may not be entirely representative of the community at large.

Mortgages are difficult to obtain

Although residential mortgage rates are lower than in recent years, the willingness of banks to lend to individuals has decreased, particularly for first-time buyers. Reduced prospects for employment have encouraged lenders to take a lower-risk approach to assessing mortgage applications. High deposit requirements can be a barrier to those who have no other sources of financial support.

Potential solutions

There are a number of actions that the government and others could consider taking in order to improve prospects in the housing market.

The aims of interventions should be to:

- Give confidence to developers to invest in housing developments;
- Enable first-time buyers to more readily enter the market;
- Encourage the provision of the right types of housing stock in the right places; and
- Encourage the reduction of the carbon footprint of new and existing housing.

Implement reforms of the development consents system

The government should press ahead with reforms to development consents system to reduce delays and costs and increase local buy-in to developments. This could include: joint inquiries between authorities where a proposed housing development could impact on more than one authority; a general presumption in favour of developments demonstrate best practice in sustainable development; and more stringent requirements for developers to carry out meaningful community engagement before applying for development consent.

Bring empty properties back on to the market

It has been estimated that more than 600,000 homes in England are unoccupied[3]. While a proportion of these properties will be derelict, located in inconvenient locations or otherwise beyond reasonable use, it is likely that some of these homes could be brought onto the market with some degree of renovation. This would have benefits in terms of helping first-time buyers to get on the housing ladder, or could be used to rebuild social housing stock.

The government should consider using the tax system to encourage renovation of empty properties which can be brought to market relatively quickly. Incentives could be given to developers for implementing low-carbon renovation. This could take the form of a VAT rebate for each property brought to market that meets a recognised good practice standard (e.g. BREEAM).

Incentivise the linking of commercial and residential development

Developers could be incentivised to co-locate commercial and residential developments, for example as is occurring at the Green Park development in Reading, Berkshire. This could be done through the tax system or by making residential development a condition of planning permission for new commercial developments.

[3] http://www.emptyhomes.com/usefulresources/stats/2009breakdown.htm

Reform land usage decisions

Potential development land should not be kept on hold pending a decision to release for any longer than necessary. Local authorities could be required to release or reserve land within a maximum time period.

Where non-green belt land is under consideration, there should be a general presumption to release land for development unless there is a clear case not to do so.

Ensure supporting infrastructure is installed alongside new housing

An oft-quoted concern of opponents to new housing developments is the potential impact on transport, schools, hospitals and other local amenities. Such concerns could be allayed by ensuring that such supporting infrastructure is upgraded at the same time as the new development is constructed and not after it.

An example of this is the current (April 2011) opposition to the proposed White Lion development in Penyffordd, Flintshire. Objectors argue that the development would place too much strain on existing transport infrastructure and local amenities.

Where significant supporting developments are required, meeting the up-front costs may be the greatest barrier. This could be overcome by central government providing interest-free loans to local authorities for the new infrastructure; these would be repaid from the extra council tax generated on the development.

Alternatively, local authorities could be allowed to borrow commercially against future council tax revenue gains in order to fund new infrastructure. This could be achieved along the lines of the newly-proposed TIF arrangements. A current (April 2011) example of this is the Ravenscraig redevelopment, Lanarkshire, which is one of three pilot TIF schemes being developed in Scotland.

Where improvements to complex infrastructure by a regulated business are required – such as a new railway station – reform of the way these businesses are regulated may be necessary in order to deliver the upgrades quickly enough. For example, ACE has proposed allowing part of Network Rail's improvements budget to be competed for by private sector infrastructure promoters.

Whichever funding route is chosen, the principle should be that there is an irrevocable commitment to put in supporting infrastructure to be ready for the completion of the housing development. Such a commitment, coupled with meaningful community engagement, would help to reassure communities that their concerns will be addressed.

Reform financial services to encourage more buyers to enter the market

More buyers could be encouraged to enter the market through reform of the financial services available to them. Growing demand for private ownership could encourage developers to deliver more stock.

Reforms could include the following:

- Extend incentives used by vendors of new homes into the market for existing properties. These include part-rent, part-buy arrangements and schemes such as Homebuy. There is also the case for examining whether eligibility for such schemes should be widened beyond key public sector workers and social tenants;

- Encourage sharia-compliant mortgages and similar arrangements. These products have the potential to bring more people into home ownership, particularly those who are unsure about taking on the risk of a variable-rate mortgage.

  Sharia mortgages also have the potential to reduce the impact of bad debt on the financial sector – should an occupant fail to keep up with payments, the bank will be able to sell the asset on relatively easily since in many cases the lender will retain ownership of the property during the repayment period;

- Reform the mortgage application process to ensure a consistent experience for all buyers. Reforms by the Financial Services Authority in 2009 have attempted to address some common issues raised by borrowers. However, standards of service quality vary from lender to lender; and

- Legislate to ensure that offers of mortgages are valid for a minimum of six months. This is a particular issue in markets where demand for properties exceeds supply; buyers may require more time to secure a property, so an increase in the validity period would increase confidence.

Further details

To discuss these ideas in further detail, please contact:

Michael Hall
Head of Policy and External Affairs
Tel 020 7202 0256
Email mhall@acenet.co.uk