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New housing for England

What the recent APPG inquiry means in practice



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IN THIS ISSUE

We have a range of articles discussing the APPG inquiry into the quality and workmanship of new housing in England, in addition to our extensive BIM and Building Control sections examining the latest challenges for the industry.

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Richard Ogden
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Introduction

Since our Summer edition went live, the political landscape has changed beyond imagination. We voted for Brexit, and our political parties descended into chaos resulting in a change of the guard for the Tories. What all these changes will mean for our built environment will only be realised in time, but at the recent Conservative Party conference, under our new PM Teresa May, Secretary of State for Communities and Local Government Sajid Javid and Chancellor Philip Hammond set out plans for the Home Building Fund and the Accelerated Construction Scheme.

The [Home Building Fund](#) is set to use £3bn of previously announced funding to provide loans that will stimulate building projects. However, the loans will only be provided if there is 'a clear route to obtaining a planning consent'. This means that the planning system, which can be the greatest obstacle, will still need to be negotiated.

This edition opens with a look at the planning system and possible reforms. In the final instalment of a two-part article from Dr Christian Hilber, Associate Professor of Economic Geography at the London School of Economics, he discusses the UK's serious housing affordability crisis. [His first article](#) presented an argument saying that the UK planning system has serious flaws and delivers benefits only at excessively high costs, mainly hurting the young. In this final part, however, he offers three proposals for reform and a glimmer of hope for the planning system.

Continuing on the theme of housing challenges, Gwyn Roberts, Homes and

Communities Leader at BRE Global examines what can be done to meet the government's aim of building a million homes during the current Parliament. Richard Ogden, Chairman of Buildoffsite, writes in this edition highlighting the fact that the UK is still failing to build anything like the number of homes we need. He argues for a modern, innovative approach to delivering the homes that the UK needs, and reflecting on the recent APPG inquiry into the quality and workmanship of new housing in England, Rico Wojtulewicz, Policy Advisor at the House Builders Association argues that more regulation won't solve the housing crisis.

Turning to our digital future, our Smart Cities and BIM sections offer a vision of what could be, if we can grasp the opportunities available to us. John Fox, Managing Director of Lucy Zodion, discusses the research they commissioned on smart cities. It looks at the attitudes, progress and priorities of local government and their involvement in smart city ideas. Financing, unsurprisingly, was cited as a major barrier to delivery.

This edition also covers many other built environment topics, so please do check out our Building Control and Health and Safety sections for important messages.

As ever, putting this edition together has been a joy and I wish to thank all our contributors for their time and expertise. ■

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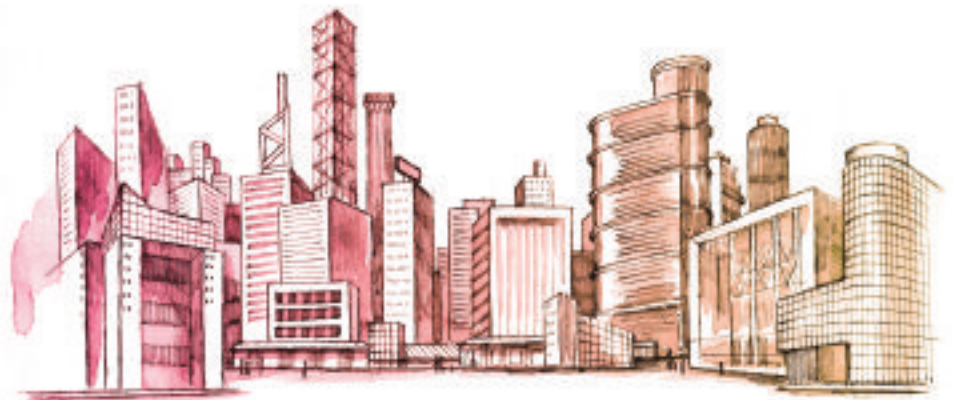
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The UK planning system – Proposals for reform

In the final instalment of a two-part article discussing the British planning system, Christian Hilber, Professor of Economic Geography at the London School of Economics, offers three proposals for reform and provides a glimmer of hope for those interested in more affordable housing...

In the [first part](#) of this article (published in July), I presented an argument saying that the UK planning system has serious flaws and delivers benefits only at excessively high costs, mainly hurting the young. In this second and final part, I outline what I believe make viable proposals for reform.

Three proposals for reform

When I gave evidence to the Treasury Committee back in April of 2016, I was asked by the Chairman what I would realistically do to tackle the affordability crisis if I were in charge of government policy. My response was the sketch of a three-pronged policy.

My first recommendation was to transition from the current development control system towards a rule-based zoning system. This transition could be piloted in a 'Special Planning Zone' and later introduced country-wide. The aim would be to rationalise and simplify the allocation of land use and dramatically reduce planning uncertainty, thereby also removing the valuable 'real option' to hoard land and delay development. The basic idea would be that instead of requiring development control permission for any change of 'use' of any parcel of land, certain areas would be zoned for residential purposes and within those zones, there would be an automatic presumption of development as long as the owner of land can convey that building regulations are obeyed. Neighbours could object only if they can substantiate that rules are clearly violated. This could replace the current process that involves a lengthy public consultation and often complicated Section 106 negotiations. Simplifying the planning process would have the additional benefit that it would make it easier for smaller scale developers to enter the market, thus generating more competition among developers, reducing possible cohesive 'oligopolistic' behaviour among large-scale

developers and ultimately leading to more production of housing and smaller 'abnormal' profits.

Of course just changing to a rule-based zoning system does not in itself alter the incentives of local authorities to allocate land for residential purposes. My second recommendation was thus that any reform of the planning system should be accompanied by additional fiscal incentives at local level to allocate land for residential purposes (either via granting planning permission under the current system or, preferably, via designating land areas for future residential development under the proposed rule-based zoning system). As a general principle, local property taxes should be given significantly more weight in the tax system. This could be achieved in a revenue-neutral way via replacing the national Stamp Duty Land Tax (SDLT) – a terribly inefficient tax that significantly hampers housing-related and short distance moves¹. Moreover, development induced increases in the tax revenue base should not be equalised away through the central government grant system.

The current council tax, which bears little relation to underlying property values, ought to be transformed into a proper annual local property tax – or better, even a local land value tax – with automatic annual revaluation based on location-specific price changes. The key advantages of a sizeable annual local property tax are threefold:

- It would generate a permanent revenue stream that would incentivise local authorities to make more land available for residential development;
- It would reduce the occurrence of underused or vacant housing and would generally ensure the optimal use of the scarce resource land; and lastly

- Such a tax would impose a far smaller economic ‘deadweight loss’ compared to the SDLT.

On a related note, local authorities should also be allowed to introduce impact fees. Such fees are imposed on proposed development projects to pay for all or a share of the costs of providing additional local public infrastructure and services.

My final recommendation was that the central government ought to require the various enacting bodies – typically local authorities – to critically review major existing planning constraints such as green belts, height restriction areas, protected view corridors or conservation areas. They would need to justify for each such constraint that a market failure exists and that the benefits associated with correcting this market failure can reasonably be argued to exceed the opportunity costs. For the case of green belt land, for example, a guiding principle could be that the enacting body needs to justify preservation for the various sub-sections of the belt one-by-one on grounds of significant environmental or amenity value. If no such values can be established for particular sub-sections, especially if such land is nearby already developed high-demand areas with pre-existing transport infrastructure, a presumption for development ought to be enacted.

Vested interests and a glimmer of hope

After I outlined my proposals to the Chairman of the Treasury Committee back in April, his comment was: “I wish you well at the polls with your three-pronged policy”. Clearly, his concern was that it would be difficult to gather majority support for my proposals. He certainly has a point, although in some sense that is surprising: If policymakers were to implement a variant of the above outlined proposals, they would be bound to make the society as a whole better-off. So, why is it so difficult to gather support for such reforms?

One reason is that the benefits of certain policies or settings are concentrated among a small group of individuals with strong vested interests (e.g. homeowners benefiting from a protected vista or living adjacent to a green belt), whereas the costs are diffused throughout the whole society (all residents facing higher housing costs). While the former group

has strong incentives to influence policy makers to protect the status quo, the latter group is not capable of organising their interests in a cohesive way.

A second reason is incomplete or distorted information about the benefits and costs associated with certain policies or settings. For example, consider expanding families in London that managed to get on the owner-occupied housing ladder some time ago. The staggering capital gains on their leveraged homes may well make them feel significantly better off. Yet, they are in fact likely losers of the broken planning system for three reasons:

- Compared to a ‘counterfactual scenario’ with more relaxed planning they live in artificially cramped housing;
- They are increasingly priced out from moving to larger more adequate housing; and
- They cannot realise their capital gains unless they move to a less desirable city with fewer planning constraints and lower house prices (or they leave the country altogether).

The only real winners of the planning system are wealthy land and property owners who possess more property than they consume, elderly homeowners who are prepared to sell their houses, pocket the proceeds and move to a country with cheaper housing, and the children of wealthy parents once they eventually inherit property. The planning system cements wealth inequality, and the beneficiaries of this rising inequality have incentives to keep the system as it is.

Yet, there are glimmers of hope. There are signs that attitudes of the British public towards building more homes are changing, and are changing rather rapidly. The British Social Attitudes survey has shown a remarkable decline in NIMBYism in recent years. Opposition in England to new homes being built in the local area has declined by more than half between 2010 and 2014 from 46 to 21 percent. Similarly, support for local house building has doubled from 28 to 56 percent. Policy makers ought to take notice.

In fact, it appears policymakers already do take notice: the pre-Brexit Conservative government

made some encouraging announcements (among less encouraging ones). The 2016 Budget explicitly mentions “moving to a more zonal planning system” as an objective and reducing planning related uncertainty appears to be a priority. The government also announced the full retention of the business rate by local authorities from 2020 thus providing fiscal incentives at the local level to permit commercial development. Sadly, this bold move may have the unintended consequence of discouraging local authorities from making scarce land available for private and social housing, thus potentially further worsening the housing crisis. However, it raises hope that the post-Brexit Conservative government will eventually follow with an even bolder move; to provide much stronger fiscal incentives to local authorities to permit residential development. That really could change the dynamics for the better – particularly for the young.

There are signs that the new Prime Minister Theresa May is serious about trying to tackle the housing crisis. In her last speech prior to taking on her new job, she stated the following: “Unless we deal with the housing [supply] deficit, we will see house prices keep on rising. Young people will find it even harder to afford their own home. The divide between those who inherit wealth and those who don’t will become more pronounced. And more and more of the country’s money will go into expensive housing instead of more productive investments that generate more economic growth.”

Theresa May appears to understand that lack of house building lays at the very heart of both, the country’s serious and worsening social divide and its economic crisis. She seems to understand that the stakes are high and bold action is required. This is encouraging from the point of view of those interested in affordable housing, especially the younger generation and the less wealthy. What is crucial, however, is that she and her ministers realise that demand-side policies such as Help to Buy won’t solve the housing crisis and the corresponding growing social and economic problems. In fact, more Help to Buy – notwithstanding its deceptive name – is likely to aggravate the country’s social divide and economic crisis. What is needed instead are bold reforms on the supply side – outlined in this article – that tackle the causes

of the problem. This would require bold leadership that puts social welfare and social justice above vested and narrow party interests.

There is no denial that – despite changing social attitudes – implementing supply-side reforms entails a political risk. Any potential reforms are further complicated by the fact that Brexit (apart from attracting much of the political attention) is likely to significantly adversely affect the real economy in the short-run and thus house prices. This may (further) reduce incentives of developers to build new homes. It may also, in the short-run, weaken political pressure to impose effective supply-side reforms, implying an even bleaker housing affordability crisis when the economy eventually recovers. If however Theresa May turns out to be a bold leader willing to take a political risk and enact meaningful supply-side reforms, then there is real hope. Real hope particularly for the young generation and those less wealthy. Real hope to move towards a ‘One Nation’ society that is less defined by social divide. If she also manages to limit the adverse long-run economic consequences of Brexit, then there is real hope for a more prosperous future for all.

This article builds on, and is in small parts, identical with my oral and written evidence to the Treasury Committee. ■

1 Hilber, C. and T. Lyytikäinen (2015) Transfer Taxes and Household Mobility: Distortion on the Housing or Labor Market? SERC Discussion Paper, No. 187, October.

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