

Highbury Group

A new model for housing supply

Paper by Bob Colenutt

This paper argues that to achieve a significant increase in affordable and social housing, a new model of housing supply is needed. The existing model which I describe as a 'cross-subsidy' model has a very limited opportunity to deliver housing of the right quantity or the range of tenures which the Labour manifesto is committed to.

An alternative model which gives primacy to direct land development by public bodies (of all kinds) without reliance on cross-subsidy from private sales is the only way of building sufficient social and affordable housing. This is not a new idea; indeed it was the dominant model for social and council housing until the 1980s. The main reason for resurrecting this is that the current delivery model for housing has failed.

Labour says it wants to build 1.5 million new houses over a five year period (up from 1 million over the last five years) including a major increase in social rented homes. Widely accepted research by Crisis has concluded that the country needs 90,000 new social homes per annum. Right to Buy has severely reduced the existing social and affordable housing stock. Crisis reports that in 2022/23, 22,023 social homes were sold or demolished. Net new output is approximately 10,000 social homes per annum.

The existing supply model has been mainstream practice for the last 40 years. It relies upon private market homes, plus government subsidy in various forms, to cross-subsidise affordable/social housing on a site by site basis. Despite public subsidies, this planning gain model has not produced the desired amount of market homes, or the required level of social and affordable homes. Being market dependent it is rarely able to achieve the affordability or the social and supported units that communities need. The model is highly contested and bogged down in disputes over viability and land value.

As public subsidy for the social and affordable housing sectors has decreased, cross-subsidy is also the prevailing model for housing associations and charitable builders who are often unable to build social and affordable housing without private sales.

The existing model represents a huge transfer of public funds via Help to Buy, the Affordable Homes Programme, infrastructure grants, and Housing Benefit, most of which ends up as developers' profit, landlords income, or the capital gains of land and housing owners; very little is captured through Planning Gain as permanent additions to the housing stock. Viewed from the Treasury's perspective, massive taxpayer funds are being channeled into private hands. The great advantage of the proposed alternative is that it would permanently build the public estate, capturing inflationary growth and eating away at the costs of Housing Benefit.

A central principle of the new approach is to take development land wholly or partly out of the market to be held in common by local authorities, public bodies or communities. This is fundamental to the model. It will reduce land costs which currently make up almost 50% of the price of homes in some places. Public authorities will have more control over the pricing, design and tenure of new development and, through public partnerships far more land value is captured for society.

Although there are important regional differences in housing markets in the UK, there are universal problems that a model will need to recognize:

- An acute shortage of social and supported housing throughout the country in almost every town, village and city. This condition applies both North and South. In all areas of the country the cross subsidy model has failed to deliver the range of housing supply that is needed
- An almost universal shortage of affordable housing for those who cannot afford to buy a home but are not able to receive an offer of social housing and are stuck in the highly unstable and unaffordable private rented sector
- A widespread concern that many new housing developments do not provide adequate basic services including health, transport, social services and retail, and fall down on standards of good estate management.

Can the existing model produce more?

Before we look at what an alternative model would look like we should consider whether the current model has any capacity to be modified or stimulated so that it delivers more of what is needed. Is there a new deal with the housebuilders waiting to be activated?

The house building sector routinely asks for support from Government: more land zoned for housing, more funding for infrastructure; a more flexible planning regime; lower demands for planning gain; continuation of Help to Buy; and a more favourable tax regime. In making these demands the sector has been extremely successful. A succession of measures over the last 14 years have been introduced; they include changes to the NPPF, viability assessment, 5 year land supply, speed up of consents, Help to Buy; and infrastructure grants. Yet not only has the level of new private housing supply barely changed – averaging 150,000 per annum since the 2010s, but at the same time, affordability has worsened, and the supply of social housing has dramatically fallen.

It is difficult to think of further incentives to the current system that would change this state of affairs, short of pouring in much more short term subsidy. We argue that if there is public funding for house building available it would be better spent on a new model where outcomes would meet Government objectives and where investment produces long term public benefits.

The fundamental reason for the current impasse is that the cross-subsidy system is limited by a business model that maximises land value for land owners and profit margins for developers. In essence, there is little prospect that landowners will ask for significantly less for their land nor will developers drop their profit margins however hard planners negotiate the terms of planning agreements-or however much Government exhorts them to do so. Since social and affordable housing reduces land value for

landowners, there is little prospect that cross-subsidy can be increased on new developments to create a step change in supply of social or affordable housing.

A new model of housing supply

A new model must have the clear objective of improving affordability, and delivering more social housing- in the right places with a coherent link to communities and environmental sustainability. How can this be achieved?

At the heart of a new approach is proactive Government at national, regional and local levels with the aim of securing long term benefit of better housing and public land value capture. If implemented nationally, it will constitute a coordinated economic renewal programme across the country, driven by a national drive to meet housing needs.

The elements of this programme are based in part on the successful Dutch VINEX model (see example below) and on best practice in UK stretching back to the New Towns and currently evident in some active local authorities (see Falk and Simmons, 'Harnessing Towns and Cities for Better Growth', Town and Country Planning Vol 3 , No. 3, May- June 2024, pp 149-156.)

How would it work?

- Local authorities and other public bodies enter into housing development contracts with central government based upon areas or sites designated for development or renewal in Local Plans
- Development land is assembled by public bodies or public/private sector partnerships using (improved) CPOs powers, New Town powers, or market purchase. A crucial factor will be the ability for public bodies to acquire much of this designated development land at less than market value.
- Local authorities and private/public partnerships draw up Master Plans to guide layouts, size mix, price ranges, and social infrastructure requirements
- Local authorities or public development partnerships put in the necessary infrastructure and then lease serviced plots out to a wide range of developers including local authorities, private housebuilders, and community housing groups.
- Local government will be empowered to take the lead on site designation, land assembly and master planning working closely with business groups and community organizations.
- To meet ambitious new targets for social rented homes, a major programme of council house building on development land acquired in this way will take place (as a first priority) going well beyond current cross-subsidy commitments. Other housing providers such as housing associations and community land trusts also have an important role to play.

A new housing supply model must also recognize that supply is not only about new build but also the important task of the renovation of existing properties. It should be possible to reintroduce the concept of General Improvement Areas (GIAs) where private rented properties are taken into public and community ownership to boost local social housing supply. Since the housing crisis is not only

one of supply but also of quality, bringing back the model of GIAs would be a big step forward where whole streets and neighbourhoods have become degenerated by poor landlords.

Finance

Central Government investment is at the root of the model. Presently, Government subsidies of many billions already flow into Help to Buy, Homes England programmes, and Housing Benefit.

The new model works on the 'Invest to Save' principle where public capital funds are invested in land and property for the long term. The investment is recouped over time directly from rents, and indirectly by reduction in health inequalities, and reduced Housing Benefit bills. Moreover, land and housing developed in this way remain as (increasingly valuable) assets on the national balance sheet.

Shelter and the National Housing Federation have estimated that a massive council new building programme will add £50bn plus to the economy in reduced health and welfare costs.

The application of the model will vary from place to place and region to region to reflect differences in land markets, local capacity and planning perspectives, but all larger local authorities (assisted by Homes England or similar agencies) in all parts of the country will be given this task of housing renewal. Instead of being largely bystanders in the supply of housing, they will take the lead in supply linking this to their own planning, economic and public services role.

Example: The Dutch VINEX Programme

Between 1995-2005 the Dutch VINEX programme was responsible for the creation of 97 new suburbs. Local authorities entered into funding contracts with central Government. They assembled areas of development land sometimes on their own, sometimes working with a consortium of land owners. A Master Plan was prepared for each large site including a range of price categories and % affordable housing. The partnership puts in the infrastructure. The site is split into smaller parcels each with a different architectural team. The incentives for developers were cheaper finance, more certainty of planning and more trust in political and project leadership.

With many thanks to Nicholas Falk, Tim Marshall, and Michael Edwards