Housing Market Recovery & Institutional Transitions in UK Speculative Housebuilding

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Research Focus

• Very different ‘institutional’ characteristics of this housing market recovery
• Facilitating demand assumes housebuilders will respond to price signals & increase supply

✦ Unpacks inherent assumptions around housebuilder behaviour
✦ Asks what limits or stimulates supply as recovery phase takes hold
✦ Questions whether price signals alone are likely to stimulate supply behaviours
Aim

“To investigate what changes housebuilders have made to their business behaviours since the onset of the recovery; and, evaluate whether they have the institutional flexibility to increase housing output as the recovery phase takes hold”

- Are institutionally-constituted behaviours constraining new housing output?
- What policy measures might be necessary to achieve UK Government’s building ambitions
Context: UK Housebuilding

- Government **outsources** housebuilding to the market
- Volume/super housebuilder dominance: Top 15 = c.50%
- Business success contingent on land acquisition & construction efficiency; not product design
- Policy **intervenes** but it’s contested; exhibits bias; can be unresponsive; takes a site/house focus:
  - local/site-based externalities (compensated via plan system)
  - quality & minimum standards (through building regulations)
- **Emerging tension** over form / extent of intervention to increase supply & facilitate economic recovery & growth
Context: UK Housing Market

- In ‘crisis’ (Stephens 2011; Sarling 2013)
- Long standing supply / demand imbalance
- GFC exacerbated long established tensions:
  - shortfall in quantity when set against pop growth
  - high house price / income ratio; affordability issues
- Lowered ‘effective’ demand for owner occupation
- Shifting tenures; increase in private renting
  - Presents turbulent context for housebuilders’ speculative activity
Context: Impact on Housebuilding

- GFC & reduced sales (growth) has undermined financial health of housebuilders
- Hangover from debt & financial shock to system
- Stalled / mothballed sites
- Consented sites (c.350K units) may not be delivered; based on dense ‘boom’ schemes (flats)
- Strategic focus on growing profits not volume
- Output focused on healthy markets (SE)
- Worsening imbalance between supply & demand

(Whitehead & Williams 2011)
Framing: Housing Analysis 1

- Common fundamentals that characterise UK housing system (Whitehead & Williams 2011)
  - Fiscal system favouring owner occupation
  - Highly deregulated finance market
  - Volatility in house price & market activity
  - Continuing inadequate supply response
- Often used to frame analysis & shape policy responses
Framing: Housing Analysis 2

- Also, link between housing systems and macro economy emphasised (Brookes & Ward 2013 etc)
  - Puts fiscal measures centre stage in formulation of policy responses
  - Focus on ‘supply demand nexus’
  - Focus on fiscal instruments to improving housing supply & market stability
Solution?: Dealing with Volatility

Stephens (2011)

- Improve underlying balance between supply and demand to reduce volatility & underlying inflationary pressures
- Short term focus on fiscal measures
- Long term focus on supply increase

- Key delivery agents = market housebuilders
Solution?: Increasing Supply

• ‘Structural’ focus on planning system
• Fiscal focus on facilitating demand & supply
  • Help to buy, help to build, small scale finance initiatives
• But, the solution(s) still remains elusive
• Clearly, a step change in output (& business practices) of housebuilders is required…
  ➢ What do we know about their capacity?
  ➢ Will they respond to demand-led price signals?
Q: Housebuilder Capacity?

• Little reason to increase output whilst uncertainties remain (Whitehead & Williams 2011)

• Policy responses not yielded significantly increased output from builders (just profits…?)

- Ongoing under emphasis on role of housebuilder behaviour in ‘recovery supply’

- Gap in understanding of complex interplay between builders, policy & market
Research Proposition: Framing Capacity in Recovery

➢ Understanding impact of increased institutional & development risk in housing model:
  • Demand side constraints (access to mortgage finance; latent demand not expressed as effective demand)
  • Supply side constraints (land supply; plan sys; landowner expectations; building finance, skills gap, materials supply)
  • Organisational pressures to grow profits - refocusing activities in healthy markets to build profits not volume
  • Policy pressures around ZCH, ‘green growth’ & quality standards

➢ Brings into question:
  • Role & effectiveness of (only) demand-led market signals
  • What stimulates or limits builder development activity in recovery
Application: Framing Capacity in Recovery

- Policy makers & planners need a more nuanced understanding of housebuilder behaviour than current forms of policy and engagement are able to provide.

- Do housebuilders have institutional flexibility/capacity to increase output as recovery phase matures?
- Will price signals alone stimulate supply?
- What institutional challenges unrecognised by policy might be constraining output?
- What might prevent excessive impact on housebuilders from future market shocks?
Concept: Institutional Framework

- Housing provision does not exist in vacuum (Ball 1983)
- Market actors decisions embedded in & sensitive to change, esp. policy, economic & political change
- Influencing effect of broader social & economic forces (Cars et al 2002)
- Academic focus on new forms of governance capacity (Vigar et al 2000) & relations between actors (Healey, various)
- Approach emphasises social relations, networks, informal customs, conventions & relationships
- Focus on process, not theoretical end state (equilibrium)
- Impact of institutional ‘shocks’ & transition?
Summary Contribution: The Institutional Transition of Recovery in UK Housebuilding

- Recovery & transition imply change
- State’s housing supply aspirations currently contingent on delivery capacity of market
- Reframes relationship between state and market in provision of new homes
- Housebuilder capacity contingent on specific institutional arrangements
- Challenge assumption that price signals alone will stimulate supply
- ………..or have we been here before?
Any Questions?

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