Five things government can do to solve the housing crisis

Paul Markovitz, Director, Argyll Property Partners presents five things that the Brexit government can do to solve the housing crisis, irregardless of the outcome of Brexit

Let's start by agreeing that there is a housing crisis. Government figures published in October showed that construction began on 37,220 homes in the three months to June 2019, the lowest quarterly figures since 2016. In the year to June 2019, new build starts fell to 160,640, a 1% decrease compared to the previous year. This is despite the government pledging to boost housebuilding in a bid to reach its target of 300,000 new homes a year by 2020.

A recent survey by the National Housing Federation makes even grimmer reading. It estimates that 2.5 million people are unable to afford their rent or mortgage and a further 2.5 million are in "hidden households" that they cannot afford to move out of. These include house shares, adults living with parents or people living with an ex-partner. It also estimates that around 3.6 million people could only afford to live decently if they were in social housing, double the number on the government's official social housing waiting list.

Every government promises to help solve the housing crisis and there is no doubt the next one (whichever form it takes) will do the same. Politics aside, what practical steps can the next government take to solve this crisis?

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1. Improve the planning system

There are "inherent problems at the heart of the planning system", according to a recent report by the Public Accounts Committee. Needless to say, the three main parties have plans to resolve these. The Conservatives promise to "free up more land", Labour to extend the power of councils to build social housing and the Lib Dems to build directly through a "government commissioning programme".

These plans sound all well and good but none will have any effect unless the chronic flaw in the planning system is fixed first. This is the staffing crisis that exists in most local authority planning departments, which causes delays in processing applications and poor planning decisions. There are simply too few planning officers, many of whom are burdened by a large and unmanageable caseload. Added to this, local authorities are unable to attract and retain the quality of people they require. Why would a skilled, experienced planner choose to be overworked and underpaid by a local authority, when they can work under less stress in better conditions in the private sector?

Unless this problem is solved, all the grand plans in the world are doomed more or less to failure.

2. Extend permitted development (PD)

Supporters of PD claim that more than 100,000 much-needed new homes have been created from unviable office buildings and shops in the past six years.

Critics say it has led to the creation of "slum housing and rabbit hutch flats". A RICS study claims that office-to-residential permitted

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development "has been a fiscal giveaway from the state to private real estate interests" resulting in more "poorer quality housing than is seen with schemes governed through full planning permission".

Labour has promised to scrap PD if it gains power. The simple solution is to retain it but introduce minimum standards to ensure homes of sufficient quality in terms of size, build and amenities.

3. Reform s106 of the Town and Country Planning Act 1990

Building enough homes is only part of the challenge. What's vital is that the right homes are built in the areas with the greatest need.

The government's new £600m Housing Infrastructure Fund (HIF) recognises that unlocking development in some areas depends on having roads, transport links, schools and other amenities in place. But the HIF does not go far enough as it will support just five projects, all in the south of England.

In 2018, the House of Commons Housing, Communities and Local Government Select Committee recommended that a significant proportion of the uplift in land values after planning permission should be made available to the state to invest in new infrastructure and public services. It recommended that "a Local Infrastructure Tariff should be introduced, with a minimum level of developer contributions that cannot be negotiated away through the viability process, while ensuring local market conditions are recognised".

The next government should get behind this idea.

4. Offer tax breaks for developers using modular methods of construction (MMCs)

A recent report by Savills claims that changing attitudes towards modular methods of construction means "we could be on the cusp of a revolution in how we deliver housing".

The benefits of MMC are well known. Build times on site are shorter, the homes are more cost-efficient, the build is less dependent on manual labour, and they're more environmentally friendly.

There are downsides for developers too though. The design has to be completed and agreed before construction starts and once it begins there is little scope to make changes. More significantly for developers, using modular methods of construction can increase upfront costs dramatically. Advance payments need to be paid to the manufacturer before construction of the units starts.

Apart from the need to pay more money earlier in the build process, there are knock on effects on funding, as I know from my experience as a mezzanine funder. When you lend on a development, you are lending money to enhance the value of the land, over which you have security. With modular constructions, money is advanced to pay for work being carried out off-site. This means lenders need to take additional security in the form of bonds and guarantees.

Another concern is whether mortgage lenders will provide homebuyers with finance to buy a new build using modular methods of construction.

All these issues increase developer costs and result in MMCs being less attractive to developers, certainly smaller ones.

One solution may be to offer developers who build using modular methods of construction tax breaks that will help offset their additional funding expenses and incentivise them to use MMCs despite their downsides.

5. Extend Help to Buy (HTB)

Help to Buy has been a boon for developers since its introduction in 2013. To the end of 2018, it is said to have helped 211,000 people buy homes and supported around two-fifth of new homes sales.

But it has not been without criticism. A study by the National Audit Office (NAO) earlier this year claimed that HTB has inflated property prices and boosted the profits of developers. In addition, it found that only 37% of those who used the scheme would not otherwise have been able to afford a home.

Many negative press reports have focused on how HTB has benefited the larger housebuilders and boosted their profits. Yet according to The Home Builders Federation (HBF), the "vast majority" of the developers registered with HTB are SME developers.

HTB is due to end in 2023 and from 2021 will be restricted to first-time buyers. Plus, from 2021 there will be regional caps reducing the maximum value of homes that can be bought under the scheme.

These restrictions are likely to prove challenging for smaller developers. Savills estimates that in the year to June 2018, 34% of HTB sales would have been prevented by the new restrictions.

I would encourage the next government to retain these restriction but extend the scheme for another two years for smaller schemes so as to support SME developers during these challenging times.