

**Housing Policy and Delivery: Maintaining Momentum through the Recession**  
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In my Planning Review I mentioned Cambridgeshire Horizons as the largest and most established delivery vehicle. I'm glad to come back five years later and find that it has prospered, you never know whether these things will survive!

It is now five years since the Review of Housing Supply was published, and since then there has been a roller-coaster in the housing market, as well as many significant policy developments. Yet the key issues the review sought to tackle: better affordability of market housing, a more stable housing market, housing supply which supports economic development and an adequate supply of social housing; all seem just as relevant today and you wouldn't expect them not to be. So in these remarks I want to reflect on the policy response to the review itself, how policy is responding to the immediate challenges of the credit crunch and to what extent a fresh approach will be needed over the medium-term.

Tackling these issues is not very attractive to politicians, of course, for the following obvious reasons:

- Inadequate housing supply is a slow burn issue, where problems only became acute after several years, and where solutions are likely to have equally gradual beneficial effects. Actions and decisions by one national or local regime are likely to yield their full results, for better or worse, under a different set of politicians.
- There are many more winners, at least in the early stages of house price rises, than there are losers who are priced out. It is only over time that concern about accessibility to housing for the young, or for locals, tends to increase.

Despite these potential disincentives to action, the Government showed considerable resolve in responding to the Review and introducing policy change – I'm particularly pleased by the changes to PPS3, the boost to the supply of social housing and the creation of the National Housing and Planning Advice Unit as a source of continual independent commentary on the wider supply issues. Public support for these changes was probably bolstered by the further rise in the house price/earnings ratio. On the lower quartile prices to lower quartile income basis, this series peaked at 7.39

in the third quarter of 2007<sup>1</sup>. Coincidentally perhaps, this was the same quarter in which the Green Paper, 'Homes for the Future' was published, and of course the quarter in which the current financial crisis started. Of course, one of my themes today is how far this crisis requires a re-assessment of the previous policy approach – in which context worth noting that the latest data, for the fourth quarter of 2008, suggest that this ratio, at 6.56, is still higher than when my housing supply review was published in 2004<sup>2</sup>.

It's striking how different housing development is in the US, where the process is so much faster. The fact is we live on a crowded island, so decisions take more time. Looking back at the Review today (partly in the light of my subsequent stint on the board of the Housing Corporation, and now at the Homes and Communities Agency), I am also struck by a realisation that my concern over housing supply now is less to do with its (probably limited) role as a cause of economic volatility and more about the relationship between housing and longer term economic development. And, the social and inequality costs of an inadequate housing supply have become even more of a personal preoccupation. But other concerns are little changed from 2004, particularly the need for a properly-informed discussion of the environmental costs of new building, and the issues around financing good infrastructure provision. Indeed, the latter seems likely to become even more pressing.

It is noticeable that the Government's enthusiasm for independent reviews seems to have waned a little in recent years. Perhaps as a group of reviewers we just weren't very good at it! However, one advantage of being an independent reviewer is that the inherent tensions between Government objectives, and the uncomfortable truths about choices, can more easily be opened up and discussed. With regard to housing supply, the most evident tensions are:

- How to reconcile housing's role in meeting people's needs, including their reasonable aspirations for home ownership, when housing also functions as an investment asset.
- The conflicts between local costs of additional housing and the more widespread benefits from the right rate of new supply.
- The use of higher densities and urban containment to achieve environmental goals, when constrained supply almost inevitably leads to an undesirable distribution of housing space and amenity in which the less well-off lose out.

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<sup>1</sup> Source: CLG housing live tables, table 575.

<sup>2</sup> Lower quartile house price/lower quartile earnings ratio for England Q2 2004: 6.27.

- The inherent costs of working against the overall grain of the market in seeking to use housing as part of the regeneration package.
- The hidden 'tax' to the extent that high house prices provide the opportunity for funding social housing and amenities: this benefits Government, but at the same time politicians are arguing for market housing to be more affordable.

These tensions remain throughout the economic cycle, and as new policies emerge from all parties prior to the next election it will be vital to judging their robustness to see how far these issues are openly recognised and tackled.

One key success in recent years has been in changing perception, with increasing (although not universal!) public acceptance of the housing supply agenda as important to the goal of a more equitable housing market outcome. There is of course a risk that the recent falls in house prices (now around 19% below their October 2007 peak)<sup>3</sup> will erode some of this public support, particularly as it has happened at a time when the rate of new supply has fallen very sharply – with housing completions in England in the year to the first quarter of 2009 down 20% on the previous year (and 27% for private enterprise completions only).

Any such fall in support would of course be based on an inaccurate perception both of the impact of stocks versus flows in the housing market, and also a confusion of the impact of credit conditions and housing supply on house prices. Fortunately, so far, there is still general appreciation of the fact that the problems with credit supply have left many would-be first-time buyers as far away as ever from achieving from achieving their aspiration.

So recent market conditions do not invalidate the basic arguments set out in the Review. But I want today to reiterate that one of those arguments was an explicit call for more flexibility, especially at local level, as part of the monitoring of progress towards the net housing targets set out in regional plans. At national level, the key judgement here is a reconsideration of what housing supply should be in today's plans, in view of the Government's overall goal with regard to housing affordability. While the three million target for net additions to the dwellings stock by 2020 seemed right in 2007, clearly any such goal must be subject to periodic review in the light of changes in economic and demographic change.

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<sup>3</sup> On the basis of the average of the Halifax and Nationwide price indices

I am well aware that, at the beginning of July, the NHPAU will be holding their national conference, and their expert and considered view on this topic will emerge. Is there any reason to think that this will point to a shift in the target? Two points seem to me salient here. One is that the Office of National Statistics population projections, from which household projections are derived, are not pure forecasts, but to some extent extrapolations of recent trends, around which the ONS identify considerable uncertainty. This might suggest a downward risk to demand, if recent strong migration flows were to decline. The second is that one consequence of the recent severe financial disruption may be a lower sustainable rate of economic growth, at least over the next few years, and this would tend to push down on demand.

It is not my intention to suggest any conclusion here. But it seems useful to stress that, while recent policy has concentrated rightly on the importance of allowing for upward flexibility in planning for new dwellings, there may also be periods when targets need to be tweaked in the other direction.

There are other areas where there is a case for fresh thinking. It has become a commonplace over the past year or so to remark that 'the old development model is broken' though I must admit I'm often not entirely sure what this remark means. It was often said during the dot com revolution that the laws of economics had been broken, but it turned out that they were still very much in operation. Clearly the economic upheavals mean significant changes in flows of funds, and the emergence of new constraints, but the fundamentals of providing an adequate land supply, the need for a profitable development industry and the requirement to supply social housing are all pretty much unchanged. The question is how development is going to adjust to delivering at a lower level of house prices than previously expected, in at least the medium-term, due to a likely more constrained supply of mortgage finance.

In the short-term, much of the burden of adjustment may fall on land-owners, adjusting their expectations of receipts from housing land if a forward supply is to be maintained. In addition, developers are also making painful adjustments in terms of writing down the value of land banks; a useful reminder of the risks of the development business which contributes to the higher returns targeted in periods of strong markets. After a long period of good times, the bad times are now acute.

As all this works through, it is not surprising to see such an abrupt decline in the rate of private enterprise completions. To restore this to a more appropriate level, will probably need two changes. One will relate to the availability of mortgage finance on more normal conditions. The other is changes in policy following the recognition that the 'hidden tax' from high house prices flowing to infrastructure and affordable housing has dwindled from a broad river to something more like a narrow brook. In one way this may be no bad thing. The apparent availability of costless resources may have encouraged policy which did not have to think hard about choices and priorities, and may well have made bad choices.

The big question facing policy is clearly how to make new supply viable at what is likely to be the lower level of house prices, whilst still making the necessary progress on reducing carbon usage and providing the infrastructure needed if these are to be places where people want to live? In regeneration areas in particular, it is likely to be the case that this will require a higher level of public subsidy than over the recent past, at least at the development stage. But it is clear that public spending will also be constrained for the foreseeable future and this upfront investment may not be readily available, even if it is possible for public money to be put in on an investment basis, with the intention of sharing in longer-term value uplift.

Even outside regeneration areas, the proceeds of Section 106 agreements are likely to be lower. Against a background where the plans in the last Budget included a sharp reduction in capital spending, it increasingly feels as though we may look back on the past five years or so as a brief golden age of funding, even though it may not have felt so at the time. This suggests three challenges for planning authorities: firstly a tighter focus on the question of where to locate development to make best use of existing infrastructure, secondly how to tackle opposition to development when there are fewer community benefits that can be linked to it, and thirdly how far they themselves may be able to borrow to meet upfront infrastructure costs – repaid from the expected flow of future increased local taxes. There is a new need for Local Authorities to carefully consider risk.

Some of the apparent solutions being debated do not seem to recognise, or at least do not tackle adequately, this fundamental shift. For example:

- It would indeed be better if local authorities were incentivised to develop by permitting a stronger link between tax-raising potential and spending resources, as suggested in my review. But in the period of fiscal austerity this

may be more difficult to introduce, since it is may well result in losers, rather than winners. The question is whether the carrot can be made sufficiently juicy.

- It is also argued that it would be better to have new entrants to the housebuilding industry. This might indeed have merit in making the land market rather more competitive, and it may well be that there are cost savings to be had by shifting to other building techniques. But whether even together these could be sufficient to offset the plans for rising costs due to the proposed zero carbon target seems at best unproven and will be a challenge.
- There is an increased interest in the private rented market as a solution to housing those now unable to access homeownership due to the credit crunch. Personally I have always been sympathetic to the idea of a larger private rented sector, which could also support labour mobility. We may be at the margin where a greater level of owner occupation is not desirable. The push to foster wider home ownership only makes sense to the extent income levels rise to support it, and tends to encourage the view of continual house price inflation. But in the longer-term preferences toward homeownership may well switch again, as they did after the early 1990s recession.
- Finally, it may also be difficult to sustain the supply of social housing. The HCA's increased funding is helpful in the short-term, but from fiscal 2010/11 our level of funding is set to reduce, since we are presently benefiting from funds being pulled ahead to counter the recent market weakness. There will not be more jam tomorrow.

In conclusion, although I strongly believe that housing targets should be kept under review, it is not obvious today that the three million target is in broad terms any less desirable than when it was first set (though I look forward to the next update from the NHPAU, who will be able to be more definitive). But the challenge of getting there looks very different. Coming alongside planned cutbacks in public capital spending, this raises issues about how much the availability of infrastructure will have to be taken into account in decisions about the location of new housing. It may, however, not be entirely a bad thing that hard choices will need to be made among the different ways in which the public sector adds costs to development: zero carbon, lifetime homes, affordable housing – all highly desirable but now requiring scrutiny to decide how more limited resources are best allocated. We must consider, what are the priorities that we can afford?

Lastly, we seem to be entering a period in which the demand for private renting seems set to increase, partly as the falls in house prices is a sharp reminder of the risks of home ownership. While it lasts, this changed attitude to homeownership, with housing seen as a place to live, rather than an investment, seems welcome. In some ways it is as if the kind of housing market I hoped to arise over the longer-term as a result of the review has come about all at once. But if policy is not able to be flexible enough to engineer a quick recovery in the rate of new supply, I doubt this more rational market will prove long-lived and we will be back in the same position in five years time.