
A Right to Build

Local homes for local people

Alex Morton



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Contents

	About the Author	2
	Contents	3
	Introduction	4
	Executive Summary	6
1	Reform to Build More Homes in a Politically Feasible Way is Necessary	14
2	A New Self-Build Mechanism to Raise Housing Quality and Numbers	24
3	This Proposal is Politically Astute and Deals with the Issues Holding Back Housing	36

Introduction

Last chance on housing

The desire for home ownership has deep roots in the British psyche. Yet there is a current and looming housing crisis. Current, because construction began on just 100,000 homes last year despite a clear and worsening housing shortage and declining home ownership. Looming, because by the end of March, councils must have up to date local plans to govern housing policies, and many do not. Savills, an unbiased observer, thinks that because of incomplete, inadequate or out of date local plans, a wave of unplanned new housing decisions could be imposed on local communities by planning inspectors. This could allow speculative development proposals to arise on many sites. As we predicted in 2011, this is likely to mean a rerun of the 1980s 'Planning by Appeal' system; councils and planning inspectors fighting protracted and largely pointless rows. Yet despite these potentially toxic disputes, housing numbers are unlikely to rise substantially. It would be maximum political pain for minimal practical gain; NIMBYs versus the developers, while young families dreaming of home ownership awaken to disappointment.

Our system is broken. But there is a potential solution, both neat and astute, which could help to satisfy housing needs while minimising controversy. Councils that fail to hit their own housing targets should be required to release land for self-build housing to local people. This would encourage speed and realism; realistic targets, based on politically acceptable self-build homes. In return the government must ensure that planning inspectors give leeway to councils which do not have a complete plan and land allocations in place, as long as a core housing target has been published.

Self-build must make a crucial contribution. In most countries self-build housing is a majority or near-majority of new housing supply. In the UK it is just 10% of new homes: even less in England. The figures show just 12,000 self-build homes built in the 12 months to September 2012. This is even more surprising as we build fewer homes than most other countries. In the UK, self-build is a small share of a comparatively smaller total. The evidence shows that our planning system is to blame. The little land it releases is largely captured by entrenched large developers, who are land speculators as much as builders. Yet there is a vast potential public interest. Despite the current lack of a self-build in the UK, six million people plan to investigate it each year and 400,000 search RightMove for a plot every month. There is a huge aspiration for attractive, custom made homes.

Once councils know their housing shortfall and so the total of new self-build homes required to hit housing targets is known, councils should use land auctions to procure cheap land for self-builders. From the Chancellor downwards, the Coalition is already committed to land auctions. Instead of selling development land in large blocks, it should be broken up into plot-

sized units for self-builders. These new homes should be developed according to local people's neighbourhood plans, in order to ensure that new homes are attractive and desirable. A lot of people object to new development because they assume that the outcome will be buildings that are at best characterless, cheap in everything except price. This would be avoided for new self-build homes by using a neighbourhood plan style mechanism. Local people could insist on design codes or rule out or require certain features, such as use of local materials. In addition, the average self-builder has a much greater interest in their own home than a large house builder who just sees it as another unit on another estate. Other obstructive government rules should be stripped away. To summarise: lower land values, neighbourhood plans/ design codes controlling quality, and the tailoring of new homes for a specific owner would mean attractive buildings. This higher quality will also increase support for new homes.

This policy would supply around 110,000 new self-build homes in its first full year. It would create a new broad base of support for housing. Each local authority should create a new waiting list for those who want a self-build plot. Households could register on it and transfer plots they obtained to immediate family members; siblings, parents, children and step-relatives. Whole families would support more homes because it could benefit a close family member. This new approach is easy to summarise: popular homes. This scheme ensures voters who become home owners connect it with government action on their behalf.

This proposal represents a last chance to turn around housing before 2015. It should facilitate the building of more than 210,000 homes a year in 2014. But that is only the beginning. Over time, it could help millions of families to build the decent family home they need and want. It would do so while making building more homes into a politically winning move. This self-build policy could be as big and popular as Rights-to-Buy. It could be the next phase in this country's story of home ownership. It could be a major boost to growth while actually gaining votes.

Executive Summary

Part one – Reform to build more homes in a politically feasible way is necessary

Current housing policy is not working

Policy Exchange has argued since 2010's *Making Housing Affordable* that our way of providing housing and development is broken and politically toxic. In 2012, construction rates for new housing fell to fewer than 100,000 homes a year. Any rise must be large and politically sustainable.

There must be political consent at the right level to build new homes

New housing is opposed because in many cases it is not attractive enough. This is for three reasons.

- Building regulations and planning requirements ban most popular homes. Victorian villas or thatched cottages are too low density. In London, Georgian terraces fail rules on public transport accessibility. Central London's five storey townhouses would need their own lifts.
- Developers' profits largely rely on capturing the limited land released by the planning system. So they focus on pleasing planners and land speculation, not on good design.
- Land costs and large levels of 'planning gain' squeeze out quality. Buying a home requires land with planning permission. Of a £220,000 home in the south only £80,000 is spent on build costs.

There are further issues about incentives and infrastructure. 25% of the Community Infrastructure Levy for local neighbourhoods is good, but not good enough to overcome all the negatives.

There must be land available for new homes

Councils are meant to respond and plan for housing need. In reality, planning is a political process masquerading as a technical one. Councils respond to political pressure, avoid allocating land for homes, and oppose specific proposals one by one. They can depress housing need projections and so the amount of land needed for new homes, or delay progress after allocating land for homes.

Even with an up to date local plan which identifies land for housing, the current system can never deliver its targets. After the local housing target is set (e.g. 5,000 homes in the next five years), land is allocated on broad sites, (e.g. 500 homes on the west end of the High Road, 300 homes to a brownfield site at Lancaster Street). This creates a quasi-monopoly, not a free market in land. It is a process that encourages land speculation, often invisible, as sites are flipped but nothing is built.

Even if allocated land for homes is owned by someone wanting to build or where developers come forward with schemes in areas where local council plans are not complete, councils can drown applications in hundreds of pages of local planning documents or national guidance, multiple pre-commencement conditions, rows about affordable housing requirements and building regulations. Even after this developers can have to engage with stakeholders called statutory consultees, who can delay new homes.

In 2007, credit was readily available yet we built just 176,000 homes in England. Half were small flats. Individual councils failed to hit their targets (e.g. Mid-Sussex District Council in 2006/7 delivered just half its 855 homes a year target). Land delivery is inadequate due to low initial targets and further delays because of planning bureaucracy and speculation. This suits councils. Fewer homes mean less controversy.

The construction sector must be structurally capable of delivering new homes

As our past reports note, our development sector is dysfunctional. Landowners' quasi-monopoly position allows them to demand high upfront payments. Desperate to procure the limited land available, developers comply. They take on debt and purchase or 'option' land upfront, which involves the risk of land or house price falling. Due to this model's riskiness, developers can only build at high volumes if land and house prices rise. So a housing shortage and high prices can coincide with few new homes.

A plan-led system needs sanctions that are politically feasible and actually work

Councils should only be sanctioned by planning inspectors where they are being clearly irresponsible in terms of housing numbers. In order to hit councils' existing housing targets for 2013, it would be necessary to double the number of homes built in England to just over 200,000, as opposed to 2012's 100,000 starts. This feat would be easier to achieve if there were no prolonged struggles over small changes to housing targets where councils reduce their target.

After all a much bigger problem is that once the target is set, councils can simply miss it. So sanctions should focus on hitting targets not raising them. The problem is that sanctions are hard to

enforce. To work any sanction must be centrally enforced. The last Tory government tried to push development from the centre in a system called 'Planning by Appeal'. This used planning inspectors to push new homes on councils which were not building enough. It was politically toxic and failed to achieve a major increase in housing numbers despite a housing price boom.

Politically, the 2010 Conservative Manifesto pledged to abolish central imposition of new homes by regional planning and planning inspectors, pledges many Tory MPs campaigned on. Given this, any proposed sanctions must tread very carefully and should limit intervention by planning inspectors.

“Councils should only be sanctioned by planning inspectors where they are being clearly irresponsible in terms of housing numbers”

A series of toxic and futile political rows are likely to erupt in the planning system. After regional planning was revoked, many assumed that councils would have full control over housing. In fact planning inspectors' powers remained. We predicted that this would mean major conflict between local councils and planning inspectors. After 1st April 2013, this is likely to come to pass as transitional protections are removed. Savills predict many councils will face adverse rulings on housing as their plans are incomplete, not pro-development enough, or are not up-to-date.

Across England and particularly in the high-growth South there will be a series of painful rows about speculative development and housing numbers. Planning inspectors are likely to start trying to push development forward by striking down inadequate local plans or overturning council planning decisions where big developers push more profitable sites forward. As in the 1980s, this is likely to mean a lot of pain for little gain – and councillors and MPs will be in a very difficult position.

The plan-led system as it stands is slowly collapsing under its own structural failures

Housing is now in voters' top 10 issues. But imposing homes in the plan-led system ignores local views. As a result, planning is only popular if used to block homes, not deliver them. Further, building in boom years is constrained by planning but in downturns housing output falls due to developer models. Each peak is smaller and the new low deeper. Housing output is steadily failing over time.

Part two – A new self-build mechanism to raise housing quality and numbers

What do we mean by self-build?

We need to avert a major political crisis and build more homes. This report proposes a self-build mechanism to do that. Self-build is where an individual or family has serious input into the design and construction of a home. It is also termed 'custom build', a discrete project for a specific owner.

Self-build is a much smaller section of a much smaller market in the UK than in other countries

The UK's self-build sector is only 10% of new homes. In the USA it is around 45%. In most European countries it is over 50%. UK self-build is even smaller in absolute terms as we build few new homes.

There is strong desire for self-build housing in the UK

53% in the UK want to self-build their home. MORI found that six million people wanted to research self-build in the next twelve months. RightMove see 400,000 people a month search for a self-build plot. Our love of home improvement is, if anything, stronger than in most other countries.

Very low levels of self-build housing in the UK are due to the failures of our planning system

The key issue holding back self-build in the UK is land, as the quotes from a National Self-Build Association report state, "more people want to build their own

homes.... The biggest barrier that stops them from doing this is the availability of land” and “The one real hurdle that is holding back the expansion of the self-build sector is the availability of land”. Other findings and evidence such as work by the Joseph Rowntree Foundation, DCLG Select Committee and others support this.

Mortgage finance is not the key issue and is not a problem elsewhere

Mortgage finance is not key. The current self-build market is actually less risky than most lending as self-builders are usually high income and high equity individuals. Abroad, finance is available for self-build. The Council for Mortgage Lenders has argued that the limited volume of self-build has stunted the development of the UK market.

Councils that fail to achieve their housing targets should have to release land for self-build

In order to deliver their targets councils should have to release land for self-build in proportion to any failure to hit their housing targets over the preceding year, hugely boosting self-build.

Table ES1: Illustrative land release in a hypothetical council

Annual household projection housing ‘need’	Built under normal mechanisms last year	Land release required for self-build homes this year
850 homes	300 homes	550 homes. (850 - 300) = 550

Land for self-build homes should be procured by a Community Land Auction

Once a council has announced the level of new homes required, a Community Land Auction would occur in the local authority area. The principles of this are set out in work by the CentreForum think tank. Land owners would bid for their land to go forward, with, in general, the cheapest land being chosen. This breaks the quasi-monopoly on land and ensures low land prices for self-build homes.

The Coalition are already committed to land auctions

The Chancellor and the Liberal Democrats are committed to land auctions, but they appear to have stalled. As yet plans only apply to limited public land sites. This undermines the original proposal’s purpose to liberalise land models

Not including conversions but including demolitions in the local authority housing total

Some housing comes from conversions from other uses (e.g. offices), currently roughly balanced by demolitions (12,000 a year). The government is about to liberalise changes of function from commercial to residential use. If councils use this to deliver homes while limiting other building, such liberalisation loses its purpose. Conversions that do not require planning permission should not count against the target.

Neighbourhood plan style mechanisms not national or local rules should govern self-build homes

The government would provide a small sum of money, either loans or grants, to create a neighbourhood plan type document to govern self-build sites. This neighbourhood plan would replace all non-safety building regulations and planning guidance on new homes. It could not be a formal neighbourhood plan but fulfil the same function. People know what is best for their home.

A local-authority-wide waiting list for self-build plots with up to 50% reserved for those in the neighbourhood

Each local authority would register households that want a self-build plot. To select those who obtain a plot from this waiting list, a lottery would operate, weighted by how long the household had been on the waiting list. Up to 50% of plots would go to those in the neighbourhood plan area.

The plot could go to the household or to a close family member

Each household, renting or owning, could only apply for a single plot and this could not be a second home. The ultimate beneficiary of each plot could be someone in the household or a close relative; siblings, children, parents, and step-relatives. They would have to demonstrate that they had access to the necessary funds to be able to build.

Rules ensuring this system could not be ‘gamed’

Those obtaining plots could initially ‘swap’ them for another plot. But households must live in their homes for five years bar certain circumstances (e.g. death of the main earner, divorce).

Sites earmarked in a neighbourhood plan for self-build would have to be developed as self-build

People should be able to earmark allocated sites in the local plan for self-build construction by adopting a neighbourhood plan over it. If landowners rejected this, the site would drop out of the local plan’s allocated sites with a long term moratorium placed on its development.

If additional neighbourhood plans came forward these sites too could be developed

If a proposed new site was not chosen for the auction process, the land owner could try to get it included into a neighbourhood plan and developed as a self-build site. This housing would be additional to the five years’ land supply required in order to hit the housing target.

A timeline beginning in mid-2013 based on 12 month shortfalls

These proposals could be introduced from the middle of this year via a short bill after the 2013 Queen’s Speech. Further guidance and regulation could follow as is necessary. This scheme could increase housing numbers in its first full year by over 110,000 and provide a new popular way to build many more homes.

Utility connections, infrastructure and time limits on construction

Councils should connect self-build homes with local utilities for a small fee as done on the continent. Each neighbourhood plan should explain how infrastructure will be organised with a government template provided online to help. There should be a limit (e.g. 18 months) on construction times.

Removing planning gain for self-build sites except the Community Infrastructure Levy

Planning gain levies apart from CIL should be dropped. As this is about housing local people, affordable housing and Section 106 payments should not be required. CIL should remain for infrastructure and for local people through the 25% allocated to the neighbourhood. Local people gain amenities and homes for their children while controlling the design quality of what is built – a triple win. CIL should be feasible and set at a maximum of £10,000 per house. Recent unreasonably high planning gains of up to £35,000 per self-build home would cripple self-build development.

Reducing risk for lenders and those building

As land would be cheap, with no developer profit, and limited planning gain, there would be a substantial buffer between the final value of the property and the build cost. Assuming land at half cost and no planning gain bar CIL in the South, this gap could be around £90,000. A self-build home would cost £130,000 versus its £220,000 market value. This buffer reduces builder and lender risk.

Supporting self-build through government assistance and ensuring any other obstacles are removed

Although government initiatives such as NewBuy may have been helpful in the aftermath of the 2008 crash, they no longer provide value for money. Funds should move from these schemes to self-build provision. Government should monitor self-build as it rolls out to see if there are other ways to help or remove obstacles.

This scheme should assist councils which have yet to announce complete local plans

This proposal would help councils yet to announce housing targets by setting out a more politically attractive model of development. The Government should protect councils that produce at least a reasonable housing target from the threat of speculative development as it could enforce this target via the mechanisms outlined here. It would not need to use Planning by Appeal.

Part three – This proposal is politically astute and deals with issues holding back housing

The semantics of self-build: Bath Royal Crescent versus ‘exciting’ design

How this rapid self-build expansion is presented is crucial. Most people remember the last innovation - the concrete tower block. As a result, they instinctively fear the new. But the idea that self-build is alien to the UK’s architectural tradition is nonsense. Bath’s Royal Crescent was custom-built. A single architect designed the front while each owner commissioned different architects to build the rest of the house. Many Georgian and Victorian villas were self-built. So were most of the thatched cottages which we all romanticise. Where local people want radicalism, it should be allowed. But local people would be in control over what was allowed nearby.

Reform would create a huge new waiting list for self-build to maximise political support for homes

A new visible group of people will emerge strongly in favour of more homes. Since six million are interested in building their own home, thousands or tens of thousands could well join the self-build waiting list in each local authority. Using family ties widens support as most families have someone they want to help: children who need a home, parents who need to downsize etc. The lottery system ensures higher waiting lists as the sooner you join, the better your odds of obtaining a plot.

This policy is very hard to oppose at a national level and much better than alternate sanctions

On the national stage, this policy will help the push for more homes. To oppose it would mean denying families and individuals the homes they need. Self-build would show support for the little guy. It would not force most councils to amend their targets, but it would help them to hit the ones that they set for themselves. It provides a sanction yet avoids politically damaging rows about big developers imposing housing estates. It would help councils with incomplete plans to publish a housing total.

This scheme will build high quality new homes and deliver infrastructure and amenities

This policy removes the three issues around housing quality. Lower land and planning-gain costs plus no developer profits mean that people can afford a quality build. Unhelpful rules from the centre are replaced by local rules. The homes are being built by those who will live in them. This will reduce opposition to new homes – as will the fact that CIL for infrastructure and amenities will remain.

This will hugely increase the flow of land for homes and reduce political incentives to delay homes

This will hugely increase the flow of land to the market and break the quasi-monopoly on land. Even if all 100,000 homes were built on green field sites, at 20

homes a hectare just 0.004% of England would be developed a year. As only 8.9% of England is currently developed, this would have a marginal impact. Delays on sites will reduce as there will be strong local support for self-build homes.

This reform would shake up the entire housing delivery system

By undermining the quasi-monopoly method of land delivery, this reform would shake up the entire system. By allowing neighbourhood plans to designate sites as self-build it would force developers to increase support for new housing amongst local people or see sites go to self-build. It will reshape the balance between developers and land owners and let developers build better models.

This policy would mean more than 210,000 private homes in 2014/15 delivered in a popular way

This proposal means that by 2014/15 we would build more than 210,000 private homes in a popular way. The alternative is trying to force more homes through a broken and politically toxic system.

This proposal is politically astute and avoids futile yet damaging rows

The policy above requires careful steering but is a politically astute way to build more homes. It will improve housing quality. It reshapes the housing crisis narrative. By implementing this policy instead of repeating Planning by Appeal it avoids dog-fights between planning inspectors and councils. Such a policy will have small practical impact for maximum political pain. As long as councils have a basic housing target in place, they should be protected from speculative development. The Coalition must recognise that tackling the housing crisis needs a change of direction. This policy provides just that.

1

Reform to Build More Homes in a Politically Feasible Way is Necessary

The Coalition must go further by 2015 if it wants to build more homes

Since 2010, from *Making Housing Affordable* onward, Policy Exchange reports have argued that our systems of providing new housing and development are fundamentally broken. The Coalition has undertaken positive moves, such as the abolition of some national targets or neighbourhood plans. But housing starts fell to less than 100,000 homes a year in 2012 despite a major housing crisis.¹

Time is short. In housing, planning is not everything, but everything relates to the planning system. Much political capital has been spent on planning reform. But the key structural failures are still embedded. Long term reform to make planning fit for the 21st century is necessary. But this has to wait until after 2015. This report focuses on how to build homes between now and 2015.

To achieve that between now and 2015 any policy or set of policies to increase the numbers of new homes within the current system must address the following points:

- a. There must be political consent to build new homes.
- b. There must be land available for new homes.
- c. The construction sector must be capable of delivering new homes.
- d. A plan-led system needs sanctions that are politically feasible and actually work

They must also defuse a series of toxic and futile political rows building in the planning system.

A. There must be political consent at the right level to build new homes

The current system delivered sufficient housing numbers (albeit often low-quality) from the 1950s to the 1970s due to political incentives at a local authority level. This was discussed in our *Cities for Growth* report.² Home ownership was much lower. The folk memory was of slums and housing shortages. People were prepared to be told by officials to accept new homes.

All three factors have now changed, as *Cities for Growth* discusses. If people are to accept new housing nearby, they have to benefit from allowing these new

1 Table 213 House building: permanent dwellings started and completed, by tenure, England (quarterly), DCLG

2 *Cities for Growth*, Policy Exchange, 2011

homes to go through, or at the very least, they must not lose out. There must be an element of political consent for new housing. This is not to say that everyone must support all new homes, but changes cannot be imposed against the majority.

The first major problem is that new housing is not attractive enough. We need beautiful homes, most of them with gardens and attractive green spaces, (as discussed in other work, the evidence shows that this is what most people want to live in; this is how they want their neighbourhoods to look). Better homes reduce opposition to new housing. As much Policy Exchange work has discussed, the key reasons that we build unattractive homes are:

- Planning and building regulations make it impossible to build what people want.
- There is a lack of incentive for developers to build quality homes.
- High land values squeeze out quality design.

The first and main problem is planning permission. Supporters of the current system are backing a system that rejects most beautiful homes due to:

- Building regulations. From energy use to disabled access, attractive homes are largely illegal under current building regulations. Even where these do not require unattractive features they add unnecessary costs (e.g. it is now illegal to build a house without a downstairs lavatory – but this may be completely redundant for many people).
- Planning requirements. For example, local plans tend to have density targets, limits on car spaces, a preference for flats not houses, and various other features. They are either often counter-productive or prioritise features that most people view as irrelevant or of minor importance. Both national and local rules and guidance push unhelpful requirements.

The Guardian recently published an article which lauded a row of terraced neo-Georgian houses. They were built as part of a housing estate redevelopment. It neglected to mention that the residents wanted the entire estate to be redeveloped as houses.³ But planners' Public Transport Accessibility Levels (PTALs) require very high densities within most of London for new developments. This means at least some multi-storey apartment blocks. Terraced houses with five storeys would require a lift in London, rendering much of areas like Belgravia, Pimlico, or Notting Hill illegal or uneconomic to build. The thatched cottage or Victorian villas people love are far too low-density to be allowed in our current system. Most mews would fall foul of regulations that govern sight lines, overlooking distances, and regulations on carrying distances for rubbish. But most people would be happy for such housing to be built nearby. It looks, and is, attractive and desirable.

The goals of local people must take final precedence over planning rules. There is not always an overlap between what local people want and what the rules and planners tell them to want. If people want to allow nearby thatched

“The thatched cottage or Victorian villas people love are far too low density to be allowed in our current system”

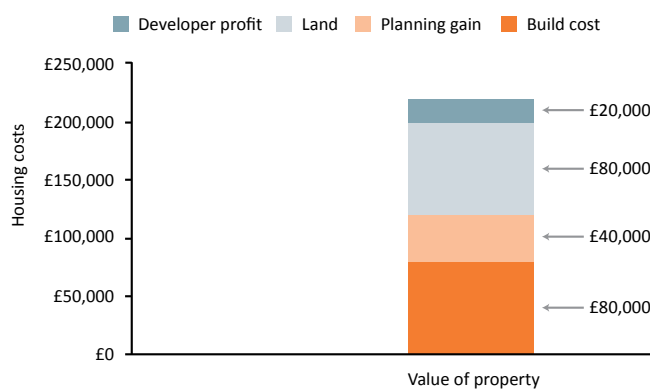
³ *New London homes bridge the divide between rich and poor communities*, The Guardian, 4th December 2012, with local people's views on this available from *Packington Estate Planning brief, Appendix 4* (2005), available at www.islington.gov.uk and accessed in December 2011.

cottages with two car spaces each and no downstairs loos. this should be allowed. Planners should be able to force their views through. They should be obliged to win popular support. We need a Churchillian approach to planning: “Trust the people.”

In addition, under the current planning system, developer profits are not particularly dependent on the quality of what is built. Developers are largely land speculators whose profits rely on identifying, capturing, and guiding sites through the planning system. Developers argue that people who buy their homes like them. This is true. But it is true because of selection bias – and because people are desperate for a home. Consumer pressure has dissipated. Stifling planning rules ensure mediocrity. All this has fuelled distrust of new homes.

Finally, the the high cost of land created by the planning system acts as a barrier to attractive housing. Figures from the House Builders’ Federation show that only around a third of the cost of new housing is actually build costs.⁴ The graph below is based on private discussions with various developers and industry analysts. It shows that the cost of a new £220,000 house mostly comes from land and ‘planning gain’, with developer profit contributing another small chunk. This planning gain comes from land values and takes the form of obligations placed on development by councils in return for planning permission (e.g. section 106 payments to councils, often affordable housing). In the past, such planning gain has failed to increase support for new homes, because it often funded projects opposed by local people, as discussed in *Cities for Growth*.

Figure 1: What makes up the cost of a new £220,000 home?



The fact so little goes into the build cost means corners are cut, design is squeezed, and new homes are pushed up against existing settlements with small gardens and therefore no green buffers between new and existing homes.

Not only must housing be of better quality, it must come with amenities and infrastructure. Incentives must shift toward rewarding people who actually live by new development, not councils, as set out in repeated Policy Exchange reports since 2010. The policy recently outlined by the Planning Minister Nick Boles where local communities that develop neighbourhood plans receive 25% of the Community Infrastructure Levy is to be welcomed. As ever the devil is in the detail, but it is a step in the right direction. New homes must also come with better infrastructure planning. *Cities for Growth* discussed how the New Homes

⁴ The HBF figures are used in *Community Land Auctions: Moving towards implementation*, CentreForum, 2011.

Bonus should pay for infrastructure with new homes, based on local plans which emphasised reactive infrastructure planning, rather than trying to micromanage their local area.

As Policy Exchange reports since 2010 have argued, new homes must benefit those who live nearby. The idea that the vast majority of people are unreasonable is nonsense. Polls show a majority in favour of housing if the homes are of the right type and if they come with amenities and infrastructure (i.e. add to the value of an area). 73% of people supported new homes which they are well designed and in keeping with the area, and other polls have repeatedly shown that more people supported new homes than opposed them. The current problem arises because what is on offer is not appealing and far from being incentivised is actually a disincentive in terms of infrastructure and other pressures.

B. There must be land available for new homes

The current plan-led system inevitably cannot develop enough sites to hit its (inadequate) targets

Councils can respond to political pressure to reduce the housing built in their area in various ways:

- Do not produce an up to date local plan and deny applications as they are made.
- Massage down the housing targets that their local plan sets.
- Delay progress on specific individual sites once a plan has been set in place.

Councils can simply not produce an up to date local plan and rely on outdated guidance, which makes it easier to not provide land for housing and to reject specific applications. Even where councils do set a housing target using household projections, this often underestimates housing requirements, because as *Cities for Growth* sets out, as it ignores demand rather than need.

Even supposedly up-to-date and accurate local housing targets, which have in fact usually been massaged down, can fall short of implementation. Once each local housing target is set, councils set out sites on which housing can be built to hit the target for five years plus an extra 'buffer' of between 5–20%. Thus if housing need is calculated at 1,000 homes a year, land for 5,000 or so homes and a small buffer on top of this must be identified. 500 homes are allocated to "the west end of High Road", another 300 to "Lancaster Street on the disused brownfield site" and so on until it appears that the target has been broadly hit. Councils can also assume the existence of 'windfall' or 'hidden' sites in as yet unidentified areas, e.g. a brownfield site plugged into the transport network. But it is hard to find many such sites that would fit with local planning requirements. Where they do exist they are usually easy for large developers and speculators to identify and capture.

This process creates a quasi-monopoly in the land market. There are only a limited number of sites where development would be allowed by planners, either 'windfall' sites or those allocated in the plan. So there is no market in the traditional sense. The majority of those holding land where development is earmarked or likely can demand a very high price. They know they will not be undercut by land coming forward elsewhere because the system is so tight.

This process has created a complex industry of land procurement which aims to capture sites. Sites can be held by speculating land owners and intermediaries.

Landowners and speculators wait for the most profitable moment to apply for full planning permission. There is a great deal of informal and invisible land banking. Councils are often happy about such delays since it means that sites are held up. Slower development on current allocated sites means that difficult allocation of further sites are kicked into the long grass.

Even once land is in the hands of someone who wants to develop the site, councils can overload sites with bureaucracy or find ways to block specific planning applications. They can do the same on specific applications in areas where the local plan has not allocated sites.

To do this, councils can use hundreds of pages of local development documents and building regulation. National guidance is still long, contradictory and sometimes vague.⁵ This can lead to the imposition of

“Slower development on current allocated sites means that difficult allocation of further sites are kicked into the long grass”

innumerable pre-commencement conditions and requirements. A row about affordable housing on site usually occurs. Bureaucratic requirements can make a site so unprofitable the original developer moves on. A new developer takes over, causing more delay. Local people will fight the proposal in most

cases, possibly leading to new legal challenges.

Even where councils are not deliberately holding up sites, councils can direct developers to engage with up to 28 statutory consultees. It can take a long time to provide legally required opinion or assistance. Other planning authorities can become involved (e.g. county councils). For such bodies, there is no cost in holding up sites. They can hold up development for prolonged periods.

So delays proliferate. Is the development of the type that the local authority stipulates? Do proposals have sufficient bike racks of the right type as set out in local planning document 14? Has a summer (and winter) bat survey been completed? Do new homes comply with rules on overlooking? And so on.

Thus councils fail to hit their housing targets. Even in the last housing boom housing figures were low. In 2007 we built just 176,000 homes in England.⁶ Moreover, around half of these were flats when we needed a major expansion of family housing.⁷ To take a more detailed example, the graph below shows Mid-Sussex District council's housing target and its completion rate between 2006 and 2008.⁸ As can be seen, the housing target of 855 homes was never achieved. Instead there was a consistent under-delivery of homes, during a house price and credit boom.

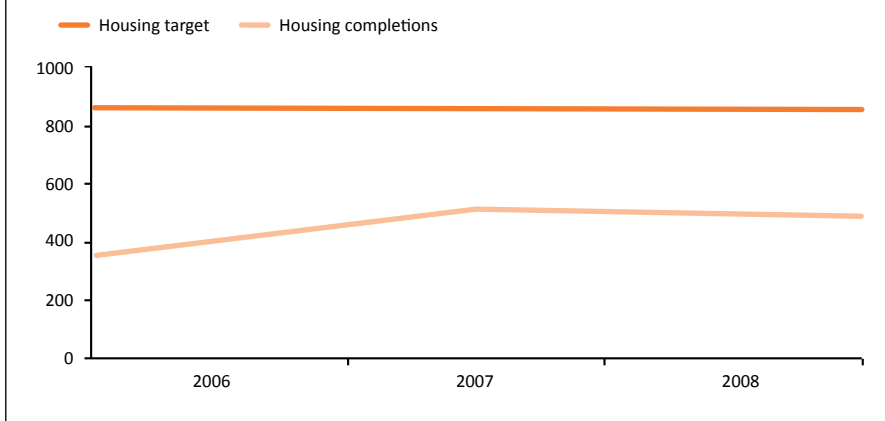
5 Not just the NPPF, which is far clearer than what preceded it but still quite vague in how it might apply, but also extra guidance currently being reviewed by Lord Taylor and building regulations.

6 Table 244 House building: permanent dwellings completed, by tenure, DCLG

7 Recent Developments in the UK Housing Market, ONS, August 2009

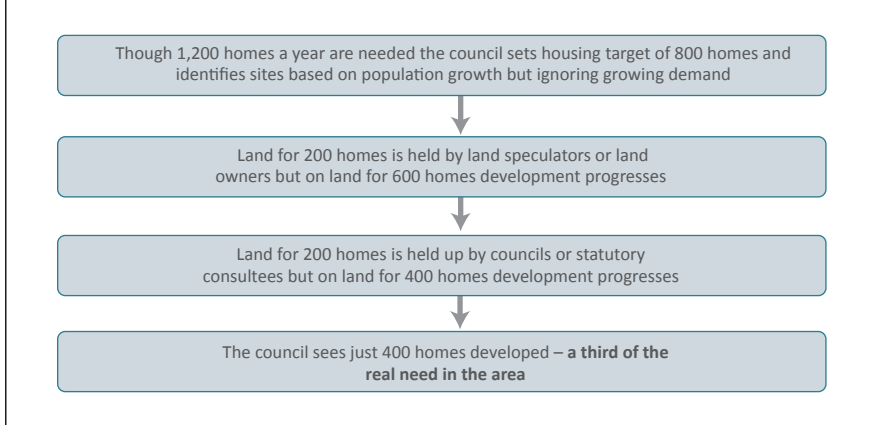
8 Updated research on the impact of the impending revocation of regional strategies on proposed and adopted local housing targets across England, Tetlow King, 2012

Figure 2: Housing targets & completions in Mid-Sussex District Council 2006–2008



At every stage land is either under-provided or fails to progress towards development. The flow diagram below shows how even with a plan in place, the system delivers a fraction of what we need.

Figure 3: How the system fails to build the homes we need



C. The construction sector must be structurally capable of delivering new homes

The flow diagram above sets out how even in good economic circumstances and with a plan in place housing is under-delivered. But in economic downturns, under-delivery is even worse. This is related to the model that developers use in the UK. The developer model is shown below in three stages.

- Borrow to buy or option the limited existing sites for housing.
- Build out once this is possible.
- Sell at high mark up.

This means land risk is taken on by developers. Unfortunately the system only works for developers if between A) and C) land prices rise or at least remain stable. If between A) and C) land falls in price, developers are financially crippled. Thus if house prices fall and so land prices fall (which they do at a faster rate

as they are more elastic), this adds an extra level to the dysfunctional system set out above. Even with high house prices, any fall will lead developers to reduce construction. So falling and low levels of housing output can go along with a housing crisis.

Again this is an inevitable outcome of our current planning system. Developers are desperate to procure the relatively limited number of sites that are allocated for housing or are likely to be open for development. A developer who tried to ask a landowner to accept an uncertain and possibly lower payment at the end of the process rather than an agreed higher payment at the start of the process would not obtain land. Land owners push some of the risk onto developers. Like most people, they will prefer upfront payment. The current system also boosts land prices as the dynamic encourages developers to leverage to obtain land, meaning an extra level of risk.

This explains how we build so little housing in the UK despite build costs so far below house prices. As the credit crunch got underway, housing completions fell to just 200 homes in Mid-Sussex, versus a 'need' of 855.⁹ Yet at their lowest point, median house prices in Mid-Sussex stood at £258,185, well above construction costs.¹⁰ But this was totally irrelevant. Developers will not build large numbers of homes, even if prices are high, unless this is in areas where land/ house prices will rise.

D. A plan-led system needs sanctions that are politically feasible and actually work

It should be clear that the first goal of the system must be to hit the targets to which councils are signed up. Planning consultancy Tetlow King assessed English councils' announced housing targets. It found on existing numbers that council targets would mean building around 204,000 homes a year,¹¹ roughly double the 100,000 or so homes that will emerge from 2012.¹² As our recent Planning for Less report notes, councils have cut housing targets since regional planning's abolition.¹³ This is unfortunate, but unless councils are being clearly irresponsible the main goal should be hitting the targets. Hitting the targets would mean a huge increase in construction – at minimal political cost.

Unfortunately the housing targets set in the plan-led system have a double defect. They are politically controversial, yet they may not be hit. Councils which fail to ensure that enough homes are built are not penalised. So councils have every incentive not to hit their targets. Given the political incentives facing most councils, only some kind of sanction could work in a plan-led system.

The problem with any such sanctions is they would be very hard to enforce. Under the plan-led system there may be legitimate delays. With politically unpopular sanctions, trying to distinguish if councils were genuinely trying to hit their targets or if they were deliberately under-delivering is likelier to lead to political or legal wrangling than to a benign outcome.

More fundamentally, such sanctions would have to be pushed from the centre. Attempts to do this in the past have been politically toxic while barely increasing the levels of new homes being built.

The UK has followed a failed local-central cycle of trying to impose housing, as discussed in Cities for Growth. 'Planning by Appeal' in the 1980s was the first reaction to the failure of local authority control and took place under the

9 Updated research on the impact of the impending revocation of regional strategies on proposed and adopted local housing targets across England, Tetlow King, 2012.

10 Table 581 Housing market: mean house prices based on Land Registry data, by district, from 1996, DCLG

11 Updated research on the impact of the impending revocation of regional strategies on proposed and adopted local housing targets across England, Tetlow King, 2012. This figure is based on local authorities targets across the 8 regions where regional targets are no longer in operation, and what this national figure would be if existing trends continued. It is also then an additional 32,000 homes a year from the current London Plan.

12 Table 213 Housing Completions in England, DCLG, available online

13 Planning for Less, Policy Exchange, 2012

last Conservative government. It sought to impose new homes via the planning inspectorate. Under Planning by Appeal, two government circulars, 22/80 and 14/85, issued in 1980 and 1985, required local authorities to approve a development if there were no good reasons to prevent it. Local authorities, unwilling to support more development, often rejected proposals anyway using local plans or figures showing no “need” for housing. On appeal, they were sometimes overruled by planning inspectors citing the circulars and rising land prices to indicate that supply was not keeping up with demand and that local planning was inadequate.

Planning by Appeal had little effect, with the supply of private housing increasing by 50,000 homes a year or around 33% to their peak in of the boom.¹⁴ This was despite a 140% increase in house prices from the last quarter of 1982 to the middle of 1989.¹⁵ Given the difficulty of forcing councils to release land through the courts, only large house builders could attempt this. They did not always succeed, and it was slow and expensive. Planning by Appeal also failed politically. Undemocratic inspectors overruling often Conservative councils led to a growing backlash. The 1990 Town and Country Planning Act, the 1991 Planning and Compensation Act, and Principal Planning Guidance 1 all put the local plan as pre-eminent and the circulars were scrapped. Since then both council led approaches and regional planning have failed.

Moving to the present day, the 2010 Conservative Manifesto promised to “abolish the entire bureaucratic and undemocratic tier of regional planning, including the Regional Spatial Strategies and building targets”. It was also promised that “to give communities greater control over planning, we will abolish the power of planning inspectors to rewrite local plans”¹⁶ These commitments were picked up by many Tory MPs and emphasised in political campaigns across the South of England. Given this, any sanctions have to be politically feasible, make housing acceptable to local people and actually deliver homes. Otherwise they risk both a major backlash in political terms for a minimal increase in new housing levels – an increase that is unlikely to be sustainable.

A series of toxic and futile political rows are likely to erupt in the planning system

After the Coalition revoked regional spatial strategies in 2010, it was assumed by many that the control over housing targets would go to local councils in line with the Conservative Manifesto. This was not what emerged from the 2010–2011 planning reforms. The idea of removing planning inspectors’ powers was abandoned. So councils were free to plan, but within limits set by the centre.

This shift was not widely picked up. But it was fundamental. As we discussed in *Cities for Growth* what it meant was that “The planning inspectorate will be in charge of assessing levels of development... conflict between local authorities and planning inspectors is possible, with planning inspectors pushing for more development than local authorities want if they follow the instructions coming from central government...”¹⁷

As the following quote from Savills’ research notes, this is likely to happen. “We expect a lot of planning decisions to be made either contrary to the development plan (for example in Horsham and Chichester Districts where the Councils have established interim housing guidance) or through the appeal system owing to the ongoing need for development and the policy provisions of the NPPF.”¹⁸

Such conflict will also occur where local authorities do not have a plan or where it is out of date after April 1st 2013. In such cases councils may be open

14 House building: permanent dwellings completed, by tenure, Table 241, DCLG

15 UK House Prices Since 1952, Nationwide, available online

16 Invitation to Join The Government of Great Britain; Conservative 2010 General Election Manifesto

17 *Cities for Growth*, Policy Exchange, 2011

18 *Savills Planning Update*; February 2013, Savills, 2013

to speculative building applications if they cannot demonstrate that they are planning for enough homes. Despite having a long grace period, many local authorities are unprepared. Savills have noted that “the majority of local authorities have plans which are at least outdated in respect of the NPPE, and, in many cases, even the 2004 Act.”¹⁹

This means that across England, particularly in the high growth South, there will be a series of toxic rows throughout the planning system about speculative development and housing numbers. These will last until the next election. As in the 1980s, it is very unlikely that this will lead to a major and sustainable increase in the number of new homes being built in the private sector.

Despite the fact that these rows are unlikely to be of much practical use, they are likely to cause considerable political pain. Members of Parliament and councillors will come under strong pressure to block the current system, particularly as the homes will be imposed by planning inspectors – the exact mechanism that the 2010 Conservative Manifesto promised to abolish. It is highly unlikely those who opposed homes in regional plans will welcome the planning inspectorate imposing them.

The plan-led system is slowly collapsing under its own structural failures

The plan-led system instigated in 1947 is collapsing. Firstly, the political failures are getting steadily worse. A system meant to deliver sufficient high-quality homes is only popular because it allows people to think that they can block unattractive homes nearby—unattractive homes that the system creates and tries to impose on them. Most NIMBYs are not pro-planning but anti-development. When the

system is used to impose large numbers of homes, it breaks down. Yet polls show housing is now in the top 10 political issues exercising the country. Those who need new homes and those who fear them are increasingly in conflict. The incentives for the local councils are to under-deliver homes.

When politicians in Westminster try to

“When politicians in Westminster try to push through more homes via the current failing planning system, (e.g. Planning by Appeal), it fails and is politically toxic”

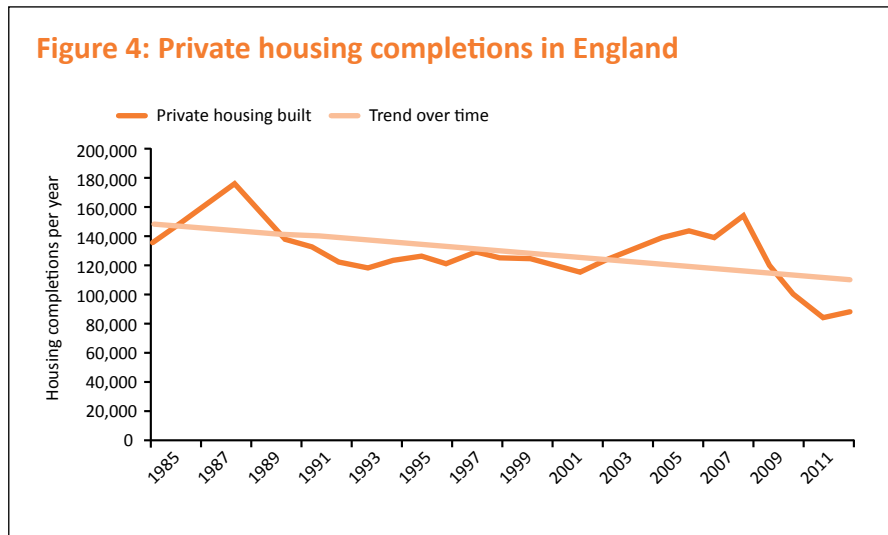
push through more homes via the current failing planning system, (e.g. Planning by Appeal), it fails and is politically toxic. Councils thwart large increases of housing on the ground, yet local people are angered by central government’s attempted imposition of unpopular homes on local communities.

There is also an economic paradox of ever falling numbers and ever higher prices. This is the inevitable result of the interaction of our restrictive planning system with a broken developer model. The Barker Review of housing noted a major econometric study that said “the elasticity of supply of housing during booms (0.58) is smaller than during slumps (1.03)... This means that housebuilders can be more responsive when prices are falling (and cut housebuilding levels), than when prices are rising (and increasing activity).” Because housing supply elasticity in the boom is determined by planning (slow to respond), but in the downturn by developers’ business model, (fast to respond), housing numbers rise more slowly in booms than they fall during slumps. Housing construction is thus stuck on a downward trend as the graph below shows.²⁰ Adjusting for the fact we

¹⁹ Savills Planning Update; February 2013, Savills, 2013

²⁰ Table 244 House building: permanent dwellings completed by tenure England historical calendar year, DCLG

built more flats over 2000–2007, there was no real increase in housing in the last boom, but there was a bust post 2008.²¹ Our plan-led system fails to respond to higher prices. Between 1991–2002 prices shot up but output was totally stagnant. Under regional planning and Planning by Appeal, the small increases that were achieved by pushing from the centre were completely inadequate to the levels of housing required, whilst in both cases being politically unsustainable. Overall, private housing is on an inexorable trend down due to our broken housing delivery mechanisms, while the system is increasingly unpopular.



21 *Recent Developments in the UK Housing Market*, ONS, August 2009

2

A New Self-Build Mechanism to Raise Housing Quality and Numbers

What is needed is a way to avert a political crisis and build more homes. We propose a self-build mechanism below to do just that.

Box 1: What do we mean by self-build?

The notion of self-build used in this report does not mean that the entire process is handled by a single individual from start to end. It means that an individual or family has had serious input in the design and construction of a house, a house they then live in for a prolonged period of time.

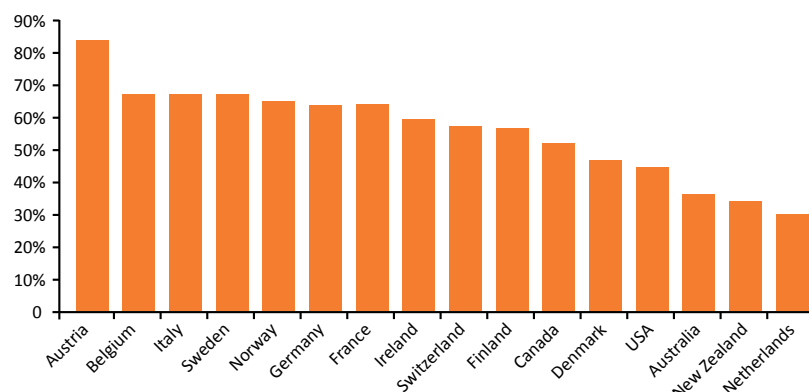
The self-build market at the moment is seen as a 'Grand Designs' sub-sector of housing. Many who participate are often themselves involved in housing or planning. They can find land through contacts and navigate our complicated planning system. By contrast, in other countries, many people who have limited expertise in the housing and planning systems commission the construction of their own home. This report uses the term 'self-build' to include what might also be termed 'custom-build' where individuals or families commission a new home. The difference between self-build and a large developer are really about the scale and direction of construction. A single home designed or modified from a standard design by a specific individual to live in, and built as a separate discrete project, is quite different from the identikit mass estate home. This is what we mean by self-build. It is a bespoke product tailored to the need of a specific owner.

Self-build is a much smaller section of a much smaller market in the UK than other countries

As a major study of self-build by the Joseph Rowntree Foundation noted in 2001, "Britain's house building is distinctive in two ways – there is very little new house construction per capita compared to most developed countries and speculative development for the owner-occupier market is overwhelmingly dominant."²² This has not changed. We are still delivering very low numbers of new homes and self-build is still a very small share of housing compared to the large developers.

22 *Homes to DIY for: The UK's self-build housing market in the 21st Century*, Joseph Rowntree Foundation, 2001

Figure 5: Share of housing delivered by the self-build sector in different countries²³



Most other countries see a much higher level of self-build. Most countries see a majority or else close to a majority of new homes delivered by self-builders.²⁴ In the year up to September 2012, the self-build sector in the UK delivered just 11,870 homes,²⁵ out of a total of 117,620 homes.²⁶ So the proportion was 10% which compared to a majority of new homes in most countries.

This low share is even more remarkable since the UK builds far fewer homes per person than most other countries. The 2010 EU statistics on house-building only had UK 2000 data, but the 2000 figure of 2.4 homes built per 1,000 people was way below France or Germany, which both built over 5 homes per 1,000 people, and well below similarly dense countries such as Belgium (3.8) and the Netherlands (4.7).²⁷ As housing construction in the UK is still low, self-build in the UK is a smaller share of a lower total. In absolute terms the UK's failure to allow self-build homes is even starker.

There is strong desire for self-build housing in the UK

This lack of self-build development is not due to low demand for self-build options. People in the UK are very keen on such options. One poll even found that 53% of people expressed an interest in building such a home at some stage.²⁸ This represents a huge potential pool of people who support and would like to self-build their home.

Polling by MORI for the National Self Build Association (NASBA) found that in the next twelve months, one-in-eight planned to research how to build their own home, which equates to six million people across the UK.²⁹ One million hoped to be able to develop their own self build home within the next twelve months. The polling found that there was no significant class difference between those who wanted to build their own home, indicating this was a policy that appealed across society. RightMove found that in a single month, 400,000 searches were made for a self-build plot, showing again that people are very keen on building their own home.³⁰

This level of interest is way in excess of the tiny number of self-build homes that we manage to build. However, this level of interest is not that unusual. It would be odd if every country in the world saw large numbers of people who want to be involved in building their home with the sole exception of Britain, especially given our long standing culture of home improvement.

²³ *Laying the Foundations; A Housing Strategy for England*, DCLG, 2011

²⁴ *Planning for custom build housing: a practice guide*, National Self Build Association, 1st Edition; Nov 2012

²⁵ *UK Self-build Market Report*, Homebuilding & Renovating Market Research; Quarter 3 2012

²⁶ *Table 253 Housebuilding: permanent dwellings started and completed, by tenure and district*, DCLG

²⁷ *Housing Statistics in the European Union*, Delft University of Technology, 2010

²⁸ *Laying the Foundations; A Housing Strategy for England*, DCLG, 2011

²⁹ *One in eight Brits expect to research or plan building their own home in the next 12 months*, NASBA Press Release, March 2013

³⁰ *Written Evidence from National Self-Build Association, Financing of new housing supply; Communities and Local Government Committee Eleventh Report*, Her Majesty's Stationary Office, 2012

Very low levels of self-build housing in the UK are due to the failures of our planning system

Our people's self-build aspirations are thwarted – by our broken planning system. It makes it very difficult to build self-build homes. A National Self-Build Association report in 2008 noted “more people want to build their own homes.... The biggest barrier that stops them from doing this is the availability of land” and “The one real hurdle that is holding back the expansion of the self-build sector is the availability of land”.³¹

This finding has been backed up by other reports and investigations. A Joseph Rowntree Foundation study in the early 2000s noted that “Self-build is not easy... two problems stand out: finding and buying a site, and the planning process”.³² A recent Department for Communities and Local Government Select Committee report found that those giving evidence on self-build “agreed that finding land was a major problem”.³³

That land is at the heart of the issue is no surprise. Our local plan-led system is much more restrictive than other countries. The current planning system created by the 1940s Labour Government assumed that councils should build housing, not private individuals. So planning has never been able to support self-builders' aspirations. Indeed, the 10% of homes delivered at present is actually a large increase on the past. One 1978 estimate was that just 2% of new homes were self-build.³⁴

Our failure on self-build has an important impact on housing quality. High levels of self-build housing increase housing quality in most countries. Large developers know if they do not deliver housing of sufficient quality, people can turn to self-build. In the UK, this is not possible. Developers capture the land available for construction. Self-build is not a viable option.

The Government's task force on self-build did not really address this critical issue. The 2011 National Planning Policy Framework created a new requirement that “local planning authorities should: plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community (such as, but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes”. (Our emphasis).³⁵ However, there is no evidence that this has been followed up.

Mortgage finance is not the key issue and is not a problem elsewhere

As noted clearly above, our self-build sector is primarily held back by issues related to land. Because our self-build sector is so small, it is quite unrepresentative, with one report in the mid-90s finding that 24% of self-builders were directly related to the wider construction sector.³⁶ This means that the demographic of self-builders is quite skewed. So the Joseph Rowntree Foundation reported that self-builders tend to be quite affluent with high levels of housing equity. In part perhaps because of this, UK self-build mortgages tended to be low risk.³⁷ This was repeated by the recent House of Commons report that touched upon self-build. It found an “Average repossession rate of 0.46% since 1998, and the average percentage of mortgages in arrears between 2002 and 2008 had been 0.41%, compared to the CML average of 1.11%”.³⁸

Apropos of finance, the main risk that the JRF study identified was “a lender being left with a half-built property, which could be completed and sold.”³⁹ This report proposes a system below which would ensure that under these circumstances the mortgage lender would be able to make a profit, because self-build properties would be cheaper than they could achieve on the open market.

31 *Self-Build as a volume house building solution*, National Self-Build Association, October 2008,

32 *Homes to DIY for: The UK's self-build housing market in the 21st Century*, *ibid*

33 *National Planning Policy Framework*, DCLG, 2011

34 *Homes to DIY for: The UK's self-build housing market in the 21st Century*, *ibid*

35 *National Planning Policy Framework*, DCLG, 2011

36 *Homes to DIY for: The UK's self-build housing market in the 21st Century*, *ibid*

37 *Homes to DIY for: The UK's self-build housing market in the 21st Century*, *ibid*

38 *Financing of new housing supply*; Communities and Local Government Committee Eleventh Report, Her Majesty's Stationary Office, 2012

39 *Homes to DIY for: The UK's self-build housing market in the 21st Century*, *ibid*

Most other countries have a thriving self-build sector. The head of the Council for Mortgage Lenders has noted there was relatively low demand for self-build finance and that this had an impact upon the development of the sector and products within it.⁴⁰ So because we have never developed a self-build sector along the lines of other countries (due to planning) we have never developed the financial infrastructure to match. In this context, expanding self-build should prompt the market to deploy such products as are available elsewhere.

Councils should have to release land in proportion to their failure to hit their housing target

Our failure on self-build also represents an opportunity. Our main goal by 2015 must be to enable councils to achieve their housing targets. The best way to achieve this is to require councils to release land for self-build, and do so in proportion to their failure to achieve their target. So if a council's household projections are that 850 homes per year are needed but only 300 homes are built, this would trigger release of land for 550 self-build homes. This simple idea is key to delivering a real increase in housing while maximising political support for such an increase.

Table 1: Illustrative land release in a hypothetical council

Annual household projection 'need' for housing	Built under normal mechanisms last year	Land release required for self-build homes this year
850 homes	300 homes	550 homes. (850 - 300) = 550

Land for self-build homes should be procured via a Community Land Auction

Once a council has announced the level of new homes required (e.g. 550 homes), it should begin a Community Land Auction to obtain the land for these homes. The Community Land Auction (CLA) process involves the council stating that they want land for a set level of homes to be put forward for development. Landowners can come forward offering their land at a specific price in a 'sealed bid' auction. No one would know what others were offering. The lowest priced land is granted permission, and then the next lowest priced land, and then the next lowest, and so on, until enough land is released for development to hit the target. The principle is discussed extensively in CentreForum papers written by the LSE academic Tim Leunig, most recently *Community Land Auctions; Moving toward implementation*.⁴¹

In this case, the councils would ask for enough land to come forward to hit the target created by the undersupply of housing in an area. They would then grant planning permissions to supply enough land to rectify the undersupply. This process would take place over a set period, e.g. four months. The land so purchased would be passed on, broadly at cost, to those who would then develop it as self-build plots. There would need to be a way of ensuring that if land needed remedial action (e.g. decontamination) this would be factored into the price. In addition, sites near existing settlements would be preferred to those further away from them. However, the main determinant would be the price of the land offered.

⁴⁰ *Financing of new housing supply; Communities and Local Government Committee Eleventh Report*, ibid

⁴¹ *Community Land Auctions: Moving towards implementation*, CentreForum, 2011

This would generate the opposite dynamic to the current system. Under the current local plan system, a very limited number of sites are earmarked or would be allowed through the system as ‘windfall sites’. Even without land allocation, the complex requirements of most councils mean that most sites can be identified before applications are made. This sparks a bidding war for these sites, driving up land prices. A Community Land Auction breaks the existing quasi-monopoly system and allows multiple sites to come forward. It allows new land owners to seek planning permission. They have an incentive to do so because they have not been chosen already (and may not be in future).⁴²

Figure 6: How the current system bids up land prices

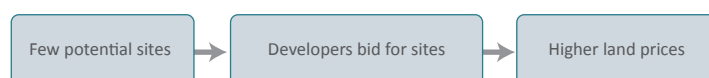
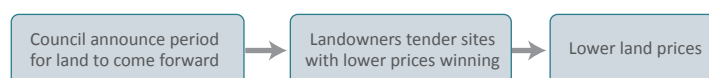


Figure 7: How the Community Land Auction system drives down land prices



The Coalition are already committed to Land Auctions

Land Auctions are already government policy. In the 2011 Budget the Chancellor said that “we will ... pilot for the first time ever auctions of planning permission on land”.⁴² In a show of cross-party unity the Secretary of State for Business and Innovation Vince Cable has also spoken in support of them, as have other senior Liberal Democrat figures such as Ed Davey.

Since then, progress on land auctions has been painfully slow and indeed seems to have stalled entirely. It appears that the proposed auctions will only apply to a few public land sites. This undermines the rationale for such auctions. They were designed to break the quasi-monopoly system. If they do not do this, they lose any real meaning. The self-build proposal set out in this paper would kick start the land auction process to help deliver new homes in a popular way.

Conversions should not be included in the local authority housing total but demolitions should

Not all new housing comes from new builds. A certain amount of housing is supplied by conversions from other uses (e.g. retail or commercial). Such conversions in 2011–12 constituted a relatively small addition to the housing total at 12,590 homes, roughly balanced by demolitions which stood at 12,200.⁴³

⁴² 2011 Budget statement by the Chancellor of the Exchequer, the Rt Hon George Osborne MP, HM Treasury, 23 March 2011

⁴³ Net Supply of Housing 2011–12, Office for National Statistics, 2013

This data is collected at local authority level, so it would be possible to examine how individual local authorities fare with respect to their target.⁴⁴

The Government is currently about to liberalise the process of turning commercial office property (use class B1) into residential property (use class C3). With the liberalisation proposed, conversions might become a major proportion of the number of new homes being made available. Given the major back-log of housing need in the UK, there is a question as to whether this ‘windfall’ of new homes should count against targets, rather than be seen as compensation for previous years’ failures.

A more serious concern is that since these homes would not come from the five years’ supply of land or from any action by the council, they sit outside the plan-led system. So councils could conceivably tighten their land release and delay particular sites and applications whilst relying on the boost from conversions to deliver a set level of housing.

In this case, there would be a limited boost to housing from liberalisation. This would defeat the purpose of such a change. There would be overall gains to society and the economy from a more efficient use of stock, but this would not bring the gains in housing numbers the Coalition hopes for.

The housing totals for 2012/13 will not be affected by this. But the total for 2013/14 could be. In order to ensure that such conversions represent a real addition to the housing stock rather than a displacement of other activity, it would be best if conversions were not taken into account when assessing whether councils have hit their housing targets for the year.

Neighbourhood plan style mechanisms not national or local rules should govern self-build homes

In Part One, there was a discussion of the way in which national and council regulations and planning requirements interfere in the creation of attractive housing. Trying to comply with our absurdly complex system will stretch the resources of most self-build builders and limit the popularity of these reforms. Such rules could reduce support for new self-build homes. There is a way to solve this. Instead of being subject to national and local rules, local communities should be able to create design requirements for the self-build sites that come forward. This would be done through a neighbourhood plan style mechanism controlled either by the area adjacent to the new self-build site and those building on it, or if the site was isolated, the self-builders themselves.

Building regulations that govern the health and safety aspect of new homes would remain. It would be dangerous for them to be removed. But all other aspects, from size to disability access to density, should be left to the local community and those building homes. Should the local community want to require local materials or other regulations this would be permitted. If local people wanted to insist that homes must have large windows or thatched roofs or big gardens, this would be approved. This would be done by a neighbourhood plan style mechanism. Unlike other neighbourhood plans, each part of the

“Local communities should be able to create design requirements for the self-build sites that come forward”

44 Net Supply of Housing 2011-12, Office for National Statistics, 2013

proposed requirements should be separately voted on, not the plan as a whole, so what emerged as the neighbourhood plan were those elements that had broad support, and where a majority of those endorsed the proposed restriction. It could go further and set out design codes – but only where there was majority support.

The neighbourhood plan style mechanism should create a simple and flexible document. Its requirements would need the support of 50% of the people involved. The costs of creating these self-build neighbourhood plans could be recouped at the end of the self-build programme by councils charging a small fee. Alternatively funds could be diverted from other schemes to stimulate development, as discussed later on.

A local authority waiting list for self-build plots with 50% of plots for those in the neighbourhood

Once the Community Land Auction was undertaken, there would be a series of plots on particular sites. The next issue is how to allocate these plots to potential self-builders. In order to do this, each local authority would be responsible for compiling a waiting list of households who want a self-build plot. This would publicly register all interested households. Households would have to be on the electoral roll of the local authority and at a permanent address in order to register.

To select those obtaining a plot from the waiting list, a lottery should operate. The chances of each household would be weighted by the number of years it had been waiting. So if you wait for two years, you have twice the chance of someone who has waited for one year. If you wait four years, you have four times the chance of someone who has waited for one year. This proposed system means that it would always be worth joining the waiting list. Even if there were 10,000 households and only land for 500 homes released a year you might be lucky. Further, the sooner you join, the faster your chance of obtaining a plot would rise, as your odds in the lottery shorten.

Sites proposed near or within existing settlements should be covered by a neighbourhood plan that includes the adjacent area. In such cases, 50% of all homes proposed should go to those living in that area. So if a site proposed 300 new homes at the edge of a village, up to 150 would be earmarked for those living in the neighbourhood plan area, (likely to be the local village parish council). The remaining 150 plots could go to households within the wider local authority. Alternatively, as discussed further below, a self-build neighbourhood plan could be adopted which proposed more plots in order to accommodate this higher demand.

The plot could go to the household or a close family member

This policy would be open for all households in the local authority, whether owners or renters.

The ultimate beneficiary of any plot could either be from the household itself or any close relative of the household – for example a brother, sister, son, daughter, parent and so on. It would include step-relatives, (e.g. step-son) or relationships involving a legal guardian. As long as they were able to undertake the build (e.g. obtain a mortgage or have existing equity), this would be permitted.

This policy would therefore have the broadest possible support. Some people do not want to build for themselves, but they may have concerns about a family member being able to afford a decent home. This policy would tie the generations together and encourage whole families to support this scheme, as it would remove the burden of helping family members from parents and siblings. It would increase the applications for plots as people would apply for other family members.

Rules ensuring that this system could not be ‘gamed’

Each household could only apply for a single plot. Households would be legally required to develop their plot rather than just sell it on. Once the homes were built, individuals would have to move into them. They would also have to remain in the property for a minimum time (e.g. five years). This should not be too long because of issues around mobility. People may need to move for jobs or so on. But they should have to live there for long enough to ensure that they are designing a home to live in, rather than seizing an opportunity for a quick profit. There should be guidance on exceptional circumstances where major changes in income might allow for this to be waived; divorce, the death of the main earner, etc.

This scheme’s benefits should be spread widely. Therefore these new dwellings would not be allowed to become second homes. In addition, once a household obtains a plot there should be a minimum period before it could apply for a plot again, (e.g. four years). Where a household commits fraud to obtain a plot, there should be heavy financial penalties.

Once land is allocated, households would have a set period to accept or reject their proposed plot, (e.g. two weeks). Individuals could however ‘trade’ plots within this period. If a household was allocated a larger plot than it could develop it could swap sites this with another household that had obtained a smaller plot than it would have preferred. At the end of this period, all households would have to accept or reject their proposed plot (or any plot they had traded), or lose it. If the plot was rejected by the initial proposed household it would go to the next in line in the lottery.

Local plan sites could be earmarked in a neighbourhood plan for self-build development

The plan-led system discussed earlier allocates land on specific sites for homes. Alongside reform to ensure that housing targets are hit as discussed above there should be provision for allocated sites to be turned over to self-build housing. If a local community wants to require that sites nearby must be self-build and so allocated to those within the neighbourhood plan, or else to the local authority area in the manner above, this would be allowed.

If landowners are unwilling to comply with a self-build neighbourhood plan that includes their land, they could reject this. But their site would no longer count as part of the councils’ five-year land supply. A moratorium for a long set period (e.g. 15 years) would apply to the site. Thus landowners could no longer game the existing system. The existence of an option on the land would not be enough to prevent a site being designated as a self-build site. Such options are not necessarily an indicator that the land will be developed soon and should not be allowed to prevent land reaching the hands of self-builders who would actually use the site.

If additional self-build neighbourhood plan sites come forward these sites too should be developed

A landowner might put his site forward in the Community Land Auction outlined earlier and just miss out on being granted planning permission. He should then be able to appeal to the local community to create a self-build neighbourhood plan. Theoretically this is already possible, but it is neither simple enough nor formally encouraged. The government should reform the system so that there is an easy framework to do this.

Should such a neighbourhood plan be granted, this should be extra housing over and above what is proposed in the local plan, unless is part of the existing five year supply of housing land. Since the annual housing target is about a set level of homes on a number of allocated sites, new homes proposed by neighbourhood plans which are outside this at present do not replace these sites but are additional to them. There is no reason for this to change.

A timeline beginning in mid-2013 based on 12 month shortfalls up to that point

Given the urgent nature of the housing crisis and current low construction levels, there is no reason why this scheme could not be introduced in the middle of this year. This would give adequate time to put in place changes to legislation via a short bill after the 2013 Queen's Speech, followed by more detailed regulations or guidance issued later. This would also help avert a crisis in April, when local authorities without up-to-date plans would risk speculative development. It would justify an easing of planning inspector decisions against local councils. Instead the government could use this self-build scheme to ensure councils will actually hit their targets.

In the last six months of 2012, housing was built in England at a rate of an annualised total of 108,000 homes and construction was started at an annualised rate of less than 100,000.⁴⁵ Adding replacements for demolitions gives a shortfall in the region of 110,000 homes. An indicative timeline for how this self-build work would proceed is given below. As can be seen, the construction should begin in 2014 onward, ensuring the first homes are completed by mid to late 2014.

- a. Shortfall announced (Mid-July)
- b. Land Auctions (three months from August to November)
- c. Planning permission granted on specific sites (November onward)
- d. Plots allocated and can be traded (two weeks in November/December)
- e. Neighbourhood plans for specific sites created and building starts (December 2013 onward)

Utility connections, infrastructure and time limits on construction

Utility connections for self-build homes should be made as easy as possible. In other countries, such as Germany, local authorities arrange utility connection. There is no reason this should not be the case in the United Kingdom. Through doing this on a large scale the cost of utility provision should be substantially reduced. The council can then recoup the cost by charging a fee. This would help deal with the concerns that some people may have over self-build.

⁴⁵ Table 213 House building: permanent dwellings started and completed, by tenure, England (quarterly), *ibid*

The Department for Communities and Local Government should set up a working group to consider how to do this. One issue it should consider is placing a reasonable minimum threshold below which the council does not have to connect people – e.g. 25 homes. This is to avoid placing too high a strain on councils having to deal with dozens of self-build schemes in their area.

There is also the need for some infrastructure to be implemented first – such as new roads. The neighbourhood plans for each self-build site should set out an indicative timetable and sequence for the construction project itself. The Government should provide an online template and support for those who want to create their own home as this reform is rolled out.

Development would have to be completed within a set period (e.g. eighteen months) so that local communities and those who moved onto the site were not plagued by loud works due to a few slow builders. Those who exceeded this limit would be subject to locally determined fines for each additional week. Laggard construction cannot be allowed to blight surrounding properties.

Removing planning gain for self-build sites except a limited Community Infrastructure Levy

We have argued consistently that incentives should go to those closest to development. We welcome the recent announcement by the Planning Minister Nick Boles that 25% of the Community Infrastructure Levy should go to neighbourhood plans.

For self-build sites, planning gain requirements apart from CIL should be dropped. Section 106 or any other affordable housing requirements should go. This scheme is already about housing local people. As discussed in Cities for Growth, the idea that local authority financial incentives are key to building more in the UK is false due to the comparatively large size of local authorities here compared to abroad. Section 106 requirements are designed to make development acceptable in planning terms, but the whole purpose of this self-build scheme is to make development more acceptable in all terms. In addition, the New Homes Bonus created by the Coalition pays councils for each new home built, and this can go toward infrastructure. The New Homes Bonus is not paid from planning gain but from rearranging the formula giving funding to councils. There are legitimate concerns that it is not enough. But this is best addressed by changing the formula governing the New Homes Bonus, not by keeping failed planning gain systems in place.

“The idea that local authority financial incentives are key to building more in the UK is false due to the comparatively large size of local authorities here compared to abroad”

However, the Community Infrastructure Levy (CIL) should remain. This would pay for infrastructure and enable local people to see amenity gains. A CIL of £100 per square metre for a 100 square metre house would cost £10,000 and deliver £2,500 to the local community for local amenities and £7,500 to the council for infrastructure associated with the new homes.

There is a problem with some councils setting an unreasonably high level of CIL. A survey by the National Self-Build Association found that the majority of self-builders faced levies between £10,000 and £15,000. But some reported

being hit by multiple planning gain requirements as high as £35,000.⁴⁶ Of those responding, 12% said they had to scrap their self-build aspirations due to unreasonable CIL and other charges. Comprehensive work by Planning Magazine shows that for a single metre² of floor space, some council CILs are as much as £650 in London and £250 outside.⁴⁷

While CIL should be retained, there should be a maximum placed on a self-build CIL of £10,000 per self-build home. This is still a substantial level that would provide for infrastructure and amenities, without crippling the ability of the self-build sector to deliver.

CIL should help increase support for self-build. 500 new homes and a parade of shops would give an overall CIL of £5 million. This could purchase 25 hectares at a valuation of £20,000 a hectare – although farmers may want more.⁴⁸ But even at £100,000 a hectare this would mean 5 hectares of open space, or five rugby pitches, or international athletic tracks – a serious amount of space.

For larger local authorities, this could mean new substantial parks. A new very large self-build site of 2,000 homes of the size outlined above at the edge of one of our major towns would raise some £5 million, which if used to buy agricultural land at £100,000 a hectare would mean 50 hectares of open space – St James' Park and Green Park combined. Of course it may be that the money goes toward other areas. The local shop or other community asset could be placed in trust. New school playing fields or a retirement home could be built for local people. The options are wide.

Reducing risk for lenders and those building self-build homes

As was discussed earlier in the chapter, the current self-build mortgage market involves a lower risk than the wider market, because it is much smaller and focused on the largely affluent and those with equity. However, there is no reason the UK's self-build mortgage market should not develop as it has in other countries.

The proposals in this report deliberately minimises the risk for lenders and for those building self-build homes. Lower land prices and limited planning gain would mean that the cost of a self-build house would be much lower than the market value. If we assume that in this system, the cost of land in the South East fell from £80,000 to £40,000 a home, the planning gain fell from £40,000 to £10,000, and there was no developer profit – around 10% or £20,000 on a £220,000 property – the cost of a home would fall by £90,000. So a house costing £220,000 on the open market could cost £130,000 under this scheme, excluding possible labour savings. Thus the project would be incredibly low risk, because even with major cost overruns or a repossession part of the way through, there would be a major cushion between the end value of the house and the mortgage required for it.

If necessary, there is the possibility that the land could be paid for at the end of the development process rather than at the start. The National Self-Build Housing Association believes that risk is likely to be assessed as higher at the start of the project than the end, so lenders may prefer only lending part of the cost at the beginning rather than the whole amount, (e.g. lending just the cost of construction alone). If so, the land could be purchased at the end of the process, once the house is completed and a full mortgage granted. While the price would

⁴⁶ New Community Infrastructure charges force self-builders to cut back on their homes, or scrap their self-build projects, National Self-Build Association Press Release, 2012

⁴⁷ CIL Watch: who's charging what?, Planning magazine, March 2013

⁴⁸ This is not unrealistic given recent land prices – see the Property Market Report (Jan, 2011), Valuation Office Agency (VOA). The VOA has now stopped publishing land prices – a deeply unhelpful move.

be agreed in advance, payment could be delayed. This reduces the risk for the lender, while the cheap land reduces the risk for the self-builder. It might however reduce landowners' desire to come forward (although they would still make large profits) so this would need to be piloted first rather than nationally adopted.

Supporting self-build through government assistance and ensuring any obstacles are removed

Governments keep supporting the existing models of development with funding through schemes such as NewBuy. These schemes do not increase the flow of land. They do not increase the overall levels of development. They mostly act as a signal that government considers the volume house builders as 'too big to fail', an unhealthy situation. It is no coincidence that even though there is no current increase in housing totals, large developers are reporting increases in profit. The government is merely supporting a certain portion of the sector, not increased housing volumes.

There was a possible justification in the immediate aftermath of the 2008 crash for such schemes. They allowed the completion of developments which had already started on land bought at inflated prices. Now they are merely incentivising dysfunctional developer behaviour. Schemes supporting existing flawed models of development and under-provision of housing should be ended, and the funds used to drive forward an increase in self-build housing.

For example, the government has committed £1 billion to the NewBuy scheme. This would alternatively pay £10,000 for every single one of the 100,000 self-build homes provided a year. Under this scheme and unlike NewBuy, these would actually be built, and provide a popular route to home ownership that increases construction. It would turn an unhealthy corporatist welfare scheme into a politically popular and practical measure. In recent years, both governments have shovelled money towards large developers and then been (depressingly) surprised when this failed.

In addition to assistance for self-build, the government should ensure that any other obstacles bar land provision are removed and monitor this reform over the next couple of years.

This self-build scheme would assist councils yet to announce complete local plans

As noted earlier, many councils are relying on documents that will soon become obsolete, and from April then this is likely to mean planning inspectors striking down council decisions in courts. Those councils that do not have tested and approved plans will face potentially speculative development.

The Government should give interim protection to councils that produce at least a reasonable housing target, even if they do not have allocated land in place. Under this self-build scheme, central government would have a way to enforce councils hitting their targets through the mechanisms outlined here. They could avoid having to use Planning by Appeal to get homes built.

In addition, the government can offer councils concerned about announcing housing targets a more politically attractive model of development through self-build neighbourhood plans. This should be less difficult for councils than large sites for volume house builders. This should then help encourage laggard councils to publish a broadly acceptable housing target.

3

This Proposal is Politically Astute and Deals with the Issues Holding Back Housing

The self-build scheme set out in this report is the only realistic option to try to raise private housing provision over the next couple of years. It would deal with all the key issues around housing and do so in a popular manner. Wider reform over time is necessary, but this scheme would be a good start and actually deliver more homes.

The semantics of self-build: Bath Royal Crescent versus Almere

Self-build has sometimes been presented as an ‘alien’ tradition. We are now going to do things like the French, Dutch, or Germans. Self-build homes are described as ‘exciting’ or ‘innovative’. Grant Shapps launched his push for self-build citing the Almere project in Holland – a place where one of the most interesting properties is best described as a ‘house with no windows’. This is not the most obvious way to mobilise public support.

There is an alternate popular vocabulary and imagery that can be used to push forward self-build and custom-build. The greatest custom-build project in England is probably Bath’s Royal Crescent. While one architect set out the front curvature, individual owners were largely free to build the homes they wanted to the specifications they set out.

The large numbers of village cottages that people aspire to own are not the product of mass construction, but rather the efforts of individuals. Many of the larger Georgian and Victorian villas outside the large master-planned estates were also custom built. These are reassuring images and language for most people. They are reminders that the system set in place in the 1947 Town and Country Act has been an aesthetic as well as practical disaster. Not only do we build too little, we build too ugly.

There is a world of imagery that does not look anything like the ultra-modern and sometimes unsettling pictures of places such as Almere. The reliance on such examples for imagery and tone is a block rather than a boost to policy. When it comes to how housing should look, the British are a conservative people. They remember the last series of planning ‘innovations’ from the 1950s to the 1970s, when huge swathes of our country were ruined by ugly concrete multi-storey estates and created a backlash against development. The on-going political failure to always use the right imagery is important. Politicians must ensure that their language does not frighten people.

Yet if people in some areas want to allow a new settlement that looks like something from *The Hobbit*, or a modernist glass and steel housing estate, this is fine. If visionaries can persuade local people that houses in hillsides or Bauhaus in the shires looks beautiful, they should be free to do so. Indeed, in the long run, one of the purposes of this policy is to break from the uniform mediocrity that currently stifles us. It is likely that what will be approved in a village of ageing hippies in the West Country is different from the tastes of a retired community of London professionals in Surrey. Such natural variety is to be welcomed – we all have a different idea of ‘home’.

But change must come about through greater say for local people rather than self-appointed experts. It must come about through persuasion. Ministers must make it clear that local people will have control and that in most places they expect this to lead to the best of the past.

Reform would create a new huge waiting list for self-build to maximise political support for homes

This proposal would mobilise voters behind new development. To obtain a plot to build, voters would have to register on a self-build waiting list. A new and very visible group in favour of more homes would emerge in each local authority. As noted earlier, there are six million people actively looking into self-build housing.

The waiting list would be even larger as it would be possible to pass your plot to a family member. This means that people related to those who want to self-build would be on the list. Whole families would support this policy as it would benefit a loved one. For example, if a family wanted to help a struggling young couple in their twenties, they could do so. If an elderly couple wanted to downsize to an attractive home to give their house to their children or grandchildren, this would help them. It would be a way of tying the generations together in support of more homes.

Thousands or tens of thousands of households in every local authority will put pressure on elected officials to take a more pro-development stance. A council approving self-build to satisfy a large waiting list of local people rather than a large housing development for a major house builder would face a very different political environment.

In addition, the size of the waiting list will be maximised by various features set out in Part Two. The lottery system and the fact that the sooner you join the more your chances increase are both designed to ensure that large numbers of people will join the waiting list. There is always a chance of obtaining a plot, and there will always be plots being distributed. This in turn maximises political support for new self-build homes.

This policy is very hard to oppose at a national level and much better than alternate sanctions

On the national stage, this policy will help the push for more homes. Those opposing all development will be unable to hide behind nonsense about opposing greedy developers. Opposing these reforms would clearly mean denying an ordinary family the home they need. Supporting these reforms will show that politicians are in favour of ‘the little guy’ and squeezed ordinary working people trying to get on in life – exactly the group which all parties say that they are keen to support.

In addition, this reform will be hard to oppose on the national stage since it only helps to hit agreed local authority targets. Councils are not being forced to increase the level of development in their area. Unlike imposing more homes through the planning inspectorate, this proposal helps councils to achieve their own targets to meet projections on household growth.

This policy would manage to put pressure – and even impose sanctions – on councils without embroiling central government in a politically toxic and damaging series of rows. It pushes a popular method of building more homes. It means that councils merely have to produce a decent housing target in order to be protected against speculative development.

This scheme will build high quality new homes and deliver infrastructure and amenities

Not only will there be pressure for self-build homes due to the waiting list. This policy will deal with the three issues holding back housing quality and so reduce opposition to new homes.

The tendering process to obtain land and scrapping of most planning gain obligations means that those building their home can afford to build better quality housing. As discussed in Part Two the cost of a home will be £130,000 compared to the open market value of £220,000. This creates much more scope for attractive design, materials and features.

In addition, planning bureaucracy would no longer decree what new homes must look like. Pointless building regulations and the imposition of particular

densities or other rules will be removed.

New homes would fit with what the local community wanted. Any costs imposed by neighbourhood plan mechanism's requirements are likely to be balanced out by the removal of such other impositions, and be features and requirements that the majority of people would support.

“Any costs imposed by neighbourhood plan mechanism's requirements are likely to be balanced out by the removal of such other impositions”

Finally, those building their own homes would have strong incentives to make their new houses attractive. Rather than seeking to build them rapidly and sell on, those building these homes would have to live in them for a minimum of five years (or whichever period is chosen).

Thus this policy tackles all three main issues holding back housing quality in the UK. In addition, the planning gain with new houses would focus on local people's needs and desires. This scheme is a win-win-win for local communities. Self-build homes for local people, built to a high quality, and with amenities through the CIL payment chosen by the neighbourhood.

This will hugely increase the land coming forward and reduce political incentives to delay homes

In theory, this reform merely ensures that councils hit their housing targets. In reality it will mean a major increase in land availability. It reform would liberalise the land market through the auction process and land could come forward on areas outside the local plan if this had the support of local people and the neighbourhood plans adopted new self-build sites.

It is worth emphasising as ever that the levels of development in England are minimal, with only 2.3% ‘concreted over’⁴⁹ and 8.9% ‘developed’.⁵⁰ If all of these 100,000 extra homes were built on green field sites at a reasonably low density of 20 homes a hectare, this would result in a loss of 5,000 hectares a year. Given England consists of 13 million hectares,⁵¹ this is a loss of 0.004% of our green space each year. Those who oppose this reform would cripple our society and economy for the sake of a tiny sliver of ordinary farmland – since spaces like Areas of Outstanding Natural Beauty are protected in national legislation. This too needs emphasising alongside reform.

On top of land market liberalisation, councils will now have a major group of voters keen on development, both at neighbourhood plan level and on the local authority self-build waiting list. Delays would incur political consequences as people saw their aspirations thwarted by bureaucracy. Planning is a political process not a technical one, and this reform would lead to a substantial and irreversible shift in the political incentives.

This reform would shake up the entire housing delivery system

Changing the broken housing delivery system is difficult because as discussed in Part One, the current model is linked to the existing planning system. Severe rationing of land that is released on a few specific sites pushes developers toward leverage in order to buy or option land on these sites.

Developers need to push all land risk onto land owners. Land owners need to accept that they will not be paid until the end of the building process. The system above will begin to undermine the quasi-monopoly restrictions currently in place in land markets. As more land comes through for self-build, the level of land available for big developers may start to shrink. Land values may also begin to decline moderately as more land is available through Community Land Auctions or is earmarked by neighbourhood plans for self-build development.

This is an opportunity to reshape how development operates. The government should push developers to start using neighbourhood plans, not rely on the capture of sites earmarked in the local plan. As this is implemented, the entire sector will be reshaped rapidly, without the need for a basic reform of the planning system – and the conflicts which that would involve.

This policy would mean more than 210,000 private homes in 2014/15 in a popular way

The Government keeps relying on a broken development sector to build more homes, and keeps being disappointed. The current speculative house building sector cannot expand housing construction unless house prices are rising – even if house prices are already high and hugely above the cost of physical construction, as in the UK. Because of the way land flows through the system, we are trapped in a broken and dysfunctional model which cannot deliver either quantity or quality.

Under this reform there would be no benefit to individuals or companies who hold on to a land bank. The supply of housing would become more stable and less volatile. The current system concentrates losses on a handful of developers, who are financially crippled as a result of falling prices. They take a major aggregate hit when each plot falls in value. By contrast, with self-build even if land prices did

49 UK National Ecosystem Assessment – Synthesis report, UK NEA, June 2011,

50 Countryside Survey: Final Report—the new UK Land Cover Map, Centre for Ecology and Hydrology, July 2011.

51 Land Use Statistics, Generalised Land Use Database, DCLG, 2005

fall losses would be widely dispersed and be unlikely to lead to negative equity given the buffer effect described earlier. Given emotional involvement in the home, this is even more unlikely to prevent a home's completion.

This policy is politically astute and avoids futile yet damaging rows

The policies outlined above would require careful steering to succeed. But they represent a politically astute way to ensure that all councils will be able to hit their targets. Areas that approve neighbourhood plans on new sites will over-achieve them. The policy improves housing quality. It will help to entrench neighbourhood plans. It will push forward changes in the development sector. It would help to reshape the housing crisis narrative and remind people of why we need a solution – the millions who desperately need a decent home.

The Coalition is united in the need to tackle our housing crisis. It must recognise that this cannot mean continuing as things are. The policy advocated in these pages would ensure that we built over 210,000 homes a year and insulated most of that construction from any wider economic difficulties. It would be popular. It would build quality homes. It would provide a clear political gain. It should be enacted.

