The Crisis of Housing Supply: the Role of Urban Extensions

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Introduction

Building a lot more new housing as fast as possible is now the call of many commentators across the political spectrum. It is seen as both a critical economic stimulus and the culmination of frustration that over the last 20 years housing supply by the private sector has failed to keep up with demand and funding for affordable housing has fallen back; and therefore radical intervention of some kind is needed.

The Coalition's own strategies to stimulate private sector supply have had only limited impact so far, and opinion in other political parties and in think tanks appears divided or vague on the way forward for both market housing and affordable housing. There no clear strategy on who would deliver substantially increased housing supply, where the funding would come from, and what type of housing would be built, and where. The debate appears to be muddy over whether the critical issue is the huge shortage of affordable housing or whether it is a shortage of market housing. In the current economic climate, housebuilders are unwilling to provide significant amounts of affordable housing as planning contributions.

There is paralysis in Government about funding an increase in affordable housing by other providers notably local authorities or the RSL sector, though there is small scale support for selfbuild and co-ops. The increase in private housing for rent is not solving the problem of affordability; on the contrary it is making it worse.

On top of this, there is concern that while supply remains weak, and real demand relatively low, prices for housing both old and new houses remain high. The contention made by the influential Barker Review in 2004 that by building substantially more housing prices will come down, does not now seem credible.

Similarly, the argument that there is no land available for new housing is negated by the historically high level of land with planning permissions or optioned off, or in housebuilders strategic land banks.

According to their Annual Report and Accounts 2012, the top 5 UK housebuilders held 252,200 plots with planning consents, plus 231,359 plots in their strategic land banks (mainly optioned land). Assuming each plot can accommodate conservatively approx 6 homes as the housebuilders suggest, this amounts to a supply of land for 2.9 million homes from just the top 5 house builders).

Urban Extensions

In the 2000s one of the planning vehicles to substantially increase supply ("a step change" as it was called) was to identify large sites for urban extensions on the edges of growth towns in the South East. Labelled "Sustainable Urban Extensions" or SUEs, they were seen as the principal means by which sustainable development or sustainable communities would be delivered. Much depended upon them.

Despite Coalition planning reforms they remain as potential housing land in many Local Plans. At public examinations of local plans the principle of large urban extensions is generally supported by the private sector (though less so the "sustainable" part of the label), even if some communities are apprehensive about their impact.

Professional bodies such as the TCPA and the RTPI are in favour of urban extensions as a planning response to the housing crisis*. In view of the wide endorsement of the urban extension model it is important to put them under the spotlight.*

The aim of this paper, using the findings of an ESRC project in Milton Keynes and Northamptonshire, is to ask whether (a) the prioritisation of SUEs as a planning strategy can generate a step change in supply (b) whether delivery of SUEs will ensure as the name suggests the new housing development will be sustainable and (c) to suggest under what conditions can SUEs be a model for substantial new housing development

(ref ESRC study, Tensions and Future Prospects for Sustainable Housing Growth; a case study of Northamptonshire and Milton Keynes: Open University and the University of Northampton).

National supply and demand

The Barker study concluded that to secure 1.1% house price inflation in England, 140,000 additional houses per annum would need to be built i.e. approx 331,000 per annum. Last year annual completions for all tenures was 108,840 (DCLG, House Building March 2013).

One of the aims of the Sustainable Communities Plan 2003 which called for a "step change" in housing supply was to address the problem that "homes are unaffordable to people on moderate incomes" (p.6). The theory was that by building substantially more housing, prices would become more realistic for moderate wage earners.

This objective is a central tenet of a recent report sponsored by the Local Government Association by the Centre for Cities think tank (2013). This report suggests house price growth in some cities is driven by a “structural under-supply of housing” so that affordability will worsen “unless the supply of housing is greatly increased” (p.20). Milton Keynes is cited as an example of a setting that has managed to achieve relative affordability in its local market area by building new houses roughly in line with local demand.

It is in this context that identifying and delivering major urban extensions becomes is an attractive proposition for public authorities. In the four Growth areas in the South East identifies in the Sustainable Communities Plan 2003, approximately over half of all planned growth was to be in extensions of 1000 plus homes.

The Milton Keynes South Midlands Strategy (MKSM) 2005 called for 150,700 new housing units between 2001-2021: 61,500 in Milton Keynes and 99,500 in Northamptonshire. Of these 50% or 75,000 would be in 26 SUEs.

In the event, between 2001-2010, 47,000 new housing units were completed. Yet of the 26 SUEs in the study area only 7 got started (5 of these in Milton Keynes) by 2013 and none has reached full capacity. Thus, almost all the growth in housing numbers has actually came from smaller sites which did not require extensive planning or infrastructure and invariably utilise standardised designs previously developed by the housebuilders.

The designation of SUEs was part of a wider package of incentives to build new houses. There was a strategic planning framework which amongst other things identified Growth Areas and included housing targets; established enabling agencies (Special Delivery Vehicles) to take a lead in coordinating and driving new development; and a Growth Areas Fund which provided a limited amount of pump priming.

Given these more favourable economic and strategic planning conditions (i.e. when compared with today) the question is why has there been so little movement on the SUEs?

The Reality of Delivering SUEs

Many of the factors delaying the delivery of SUEs are unrelated to the recession (though it has exacerbated them), nor are they due to NIMBYism, or to “the planners”. They were evident before the recession hit and relate to a complex web of landownership, infrastructure provision, development industry, and agency factors.

Most of the SUEs in Northamptonshire were designated on privately owned land (with the full support of private owners). In contrast, in Milton Keynes nearly all SUEs were owned by public bodies, and public ownership was itself a key factor in bringing land forward more quickly. Of the two sites in Northampton (formerly in the ownership of English Partnership, and then with the HCA) one has made significant progress, the other has stalled.

Securing the appropriate funding, and then bringing delivery of infrastructure on-line, was consistently one the most important reasons for delay cited by ESRC interviewees. The larger the development the more strategic infrastructure (land reclamation, roads, utilities) is required and the greater the amount of social and community infrastructure (schools, open space, public transport options) that has to be paid for. This means a longer planning timescale with master planning and extensive consultation.

In addition, they require exceptional collaboration between a wide range of public authorities who will need to provide services to make the development liveable and sustainable (education, police, transport, social services, health, community development etc). On top of this are further local policy requirements for sustainable development measures such as Code for Sustainable Homes, sustainable construction, green energy measures, it is evident there is far more complexity in organising delivery of an urban extension than smaller sites of 50-200 houses.

Much of the additional provision and the negotiation required is regarded simply as "a cost" by the house building sector that will not be redeemed by additional future receipts. It is not estimated or accounted for as a longer term benefit. (Exceptionally for a housing development body, the large social housing group Places for People ~~formerly a Housing Association~~ say they practice a "patient capital model").

Disagreements between public authorities and developers take a long time to resolve. The underlying adversarial relationship (evident in our interviews) between developers and local authorities prolongs negotiation. The new focus on "development management" to "de-risk" development by earlier engagement over major schemes will make some difference but the reality is that for most SUEs, any notion of delivery or start on site in short time scales, is simply not feasible.

The funding of infrastructure – in effect channelling a cocktail of funding streams into a single development - is a huge challenge. Even innovations for forward funding such as the Milton Keynes Tariff (at £18,500 per house) are able to generate only 50% of the estimated cost of infrastructure needed for an SUE. The Tariff does not for example include affordable housing contributions (MK Partnership 2012).

In the absence of any such tariff scheme to secure infrastructure funds, most local authorities are stuck with lobbying Government for strategic infrastructure funding, or pursuing section 106 contributions or future contributions from the new Community Infrastructure Levy.

In relation to Government spending in the 2004-2010 period, our interviews identified that the capital funding streams of crucial central Departments such as Dept of Transport were not aligned with the Growth Areas programme, and that respondents believed the Growth Areas funding stream was subsequently too small to pay for the amount of infrastructure identified in Sub-regional Strategies such as Milton Keynes South Midlands.

Section 106 contributions towards meeting local infrastructure needs were important in the boom years but have fallen off since and are now open to renegotiation.[BOB : I thought there was always debate over how much s106 £ was evr being routinely secured in actual cash…] CIL schemes are only now being prepared and there is already concern that they will be ~~wholly~~ insufficient to fund a full range of infrastructure particularly outside the highest priced development areas. A large infrastructure funding gap seems likely to persist with no strategy to fill it.

A related issue is one of agency i.e. who is leading the development process and responsible for planning and ensuring delivery. ~~It is apparent that~~ The Milton Keynes model of a local authority (and previously the Milton Keynes Partnership) that owns land and does plan making and development control enables greater coordination, focus and faster delivery than fragmented responsibility among smaller local authorities or LDVs with few powers. In our study area LDVs such the West Northants Development Corporation had limited influence over the direction and management of development. They owned no land, they did not have plan making powers, and the WNDC for example was instructed not to be involved in the SUEs once the Coalition Government came into power. This was to be left to the local authorities who arguably did not have the capacity to lead development and politically had mixed feelings about it.

A final point concerns the all-important sustainability measures, so critical for the SUE concept. Our study found that the policies and aspirations for sustainable development failed to make much impact (except on exemplar schemes such as the early English Partnership sponsorship of the Upton in Northampton). Many reports and environmental assessments were made and long lists of sustainability indicators drawn up but when applications came forward and design plans were drawn up, house builders resisted these measures on grounds of costs, and local authorities for their part had little sense of prioritisation of the measures they had identified.

Many of the obstacles to delivery of urban extensions are amply identified [Bob : what are we therefore saying hhere that is new or different?] in the interventions the HCA is making in a handful of prominent Urban Extensions. In these schemes the HCA is providing substantial additional funding to unlock infrastructure and is providing expertise in project management to drive forward delivery.

SUEs and prices

The long lead times for planning and building out SUEs means that any idea they can have a short or even medium term impact on house prices is implausible in most areas. But there is another reason for this. The house builders model of delivery which drip feeds houses onto the market in a fashion precisely intended to keep up prices means that the relationship between supply and prices is far more complex than the idea that if you simply plan to build substantial numbers of new houses it will reduce prices. (see Adams et al)

What would it take to increase supply

It would appear that the supply of market housing at a strategic level is impervious to levels of demand and therefore reforms to the supply side are critical in any alternative strategy for house building (even if mortgages become more easy to access). The linking of the supply of affordable housing to delivery of market housing via planning contributions remains at best extremely unreliable and quite uncertain as to how much might ever materialise.

The lesson from the Growth Areas is that although there was a sensible strategic planning framework in place and range of special initiatives to stimulate growth, there was overreliance on the housebuilding sector to deliver growth, and in particular sustainable growth. Special measures such as the LDVs and the Growth Areas Fund lacked teeth and were insufficient. There were no effective coordinating mechanisms in place (except in Milton Keynes) to deliver the SUEs.

There is little evidence that NIMYism played a part in slowing down growth - all of the local authorities eventually signed up to the growth programme, some more enthusiastically than others.

An alternative approach should consider the following measures;

1) Mechanisms to bring land forward for development beyond the granting of planning consents, i.e. taxing land banks, or CPOing land or optioned land, or using Possession Orders on designated housing land in Local Plans that it is not being brought forward.
2) Shifting the reliance of Government on the house builders sector and instead enabling and encouraging the expansion of other providers – RSLs, co-ops, smaller

house builders, non-profit housing companies and local authorities. A major intervention will be required by Government to increase substantially the contribution of these sectors if the demand for a full range of housing, types, tenures is to be delivered, in the right locations.

3) Using development agencies, or local authorities powers to acquire land, negotiate, and drive forward development (but placed within a credible Governance framework).
4) Forward funding of infrastructure is crucial. CIL and section 106 rely upon a healthy private market which is absent in many areas at the moment, and in any case cannot fund more than 50% of total infrastructure costs at a maximum. Government must step in to reconnect ~~with its capital funding programme to make~~ strategic land and infrastructure investments with its own strategic spatial growth ambitions. In principle the Sustainable Communities Plan identifying growth areas was a sound – it was delivery of infrastructure and the nature of large-scale UK house building is so problematical.
5) Sustainability measures must be prioritised in detail in plan policies and master plans, and not left to last minute negotiation or sacrificed as when successive Governments prioritise housing numbers over quality.
6) Governance mechanisms must bring to the table local communities, developers and a range of agencies and public. Development trusts such as that devised for Northstowe should be considered at an early stage to give communities a long term stake in the development as partners. Such mechanisms however need leadership and effective long term resourcing.

7) [Bob : suggest a further point is inserted here about the potential for Local housing bonds or infrastructure bonds to secure community buy-in through local investments...]

Conclusions

Focusing policy change on the form of new development whether Garden Cities or SUEs alone is not going to resolve the housing crisis. Indeed new forms of development will be unable to offer a solution without significant complementary changes to make it possible for urban extensions or other forms to be deliverable and sustainable.

The lessons from the Growth Areas SUEs include the importance of four key factors; bringing land forward for development; providing forward funding for infrastructure; enabling a range of housing providers to build on the sites; and having effective delivery and governance arrangements.

Much of this is known from other studies both from the UK and elsewhere and is already available to the Government, since this is what the HCA is doing where it is able with its recent interventions in stalled urban extensions.

Bringing forward the huge land banks of the house builders, that monopolise much of the potential building land, to enable urban extensions to be brought forward will be one of the biggest challenges.

Strategically, the key policy change required is to depart from the dependence on the landowner/volume housebuilder model for delivery and to examine other options in a context where Government investment in land and infrastructure is regarded as a long term investment, and local authorities are also able to borrow long term or raise bond finance to invest in their own communities.