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*future*housing

ISSUE 1

The Generation Game:

How housing
can help address
intergenerational
unfairness



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Foreword

Welcome to Future Housing, a magazine that aims to join up the many dots that inform housing policy and thinking and whose ambition is simply to establish itself as an indispensable title for anyone involved in understanding the bigger housing picture. Our belief is that the silo mentality that afflicts much of the housing policy, planning, building and financing functions often drives unhelpful behaviours.



Each issue aims to bring together the sharpest minds on the events and ideas, opportunities and risks that are shaping our collective thinking towards housing.

In this issue, we consider intergenerational fairness and how our need to build property that is right for first, second and last-time buyers could help close the financial chasm between the baby boomers and the already over-indebted future home owners of tomorrow. Caroline Green offers an update on the work of the Housing Commission and Anne Baxendale, Head of Corporate and Public Affairs at housing charity Shelter, explains why there is still so much to do in helping the most disenfranchised in the housing market. Prof Peter Cochrane OBE examines the technology of housing and how our bricks and mortar may not be the way to deliver the housing we need for the future and Nigel Wilson, Group Chief Executive of Legal & General, highlights why current provision of new homes should shame us all.

We sincerely hope that what results is an informative and open-minded read that mixes compelling argument and analysis in an elegant wrapper. Let us know what you think.

A handwritten signature in dark ink, appearing to read 'M Smith', written in a cursive, flowing style.

Matt Smith
editor@housingpublisher.co.uk

Will the government's national house building crusade deliver the homes we need?

Caroline Green, Assistant Chief Executive at Oxford City Council



The consequences of decades of failure to build enough homes are already keenly felt by the millions of people who cannot afford the homes they need and want and the problems look set to intensify for future generations. Without a change of course, the country is set to be short of two

million homes by 2020. Recent polling from Ipsos MORI indicates that the level of public concern about housing is at its highest for 40 years, particularly amongst 18-34 year olds. According to London Chamber of Commerce, four out of five employers believe that a lack of affordable housing is stalling economic growth and limiting their ability to attract and retain skilled workers.

At long last, it seems the question of how we will build more homes is firmly embedded as a top priority for Government. David Cameron in his Party Conference speech of October 2015 launched a national crusade to get homes built and Government has made a bold commitment to build one million new homes by the next election. That is no small challenge. It will require house building to ramp up in the next two years to somewhere close to the 240,000 new homes per year that most experts agree are needed - something that the country hasn't achieved since the mid-1970s. Latest government house building figures indicate that we built in the region of 155,000 homes in 2014-15. While that is an improvement on the darkest years of the recession there is still a long way to go to plug the gap.

So, is the Government's housing strategy to date enough for the crusade to succeed? That is the question that the group of experts that made up the Lyon's Housing Commission addressed in a recent short update report published in February this year. In summary, the conclusion was that though Government has taken positive steps that will help increase house building, a much more comprehensive strategy is needed to deliver the step change in housing supply needed and ensure it can be sustained across future economic cycles.

It is not surprising, that the focus of Government's strategy to date has been heavily focused on increasing home ownership and support for first time buyers. There is no doubt that the housing crisis impacts most heavily on younger generations. The cost and scarcity of housing means many young adults are

unable to establish independent households of their own. One in four adults between the ages of 20 and 34 are still living with their parents which is hardly surprising when the typical first time buyer needs a deposit equal to 65% of their income and the average household spends 40% of their income on rent. For increasing numbers of young people, the prospects of home ownership look like an increasingly distant promise.

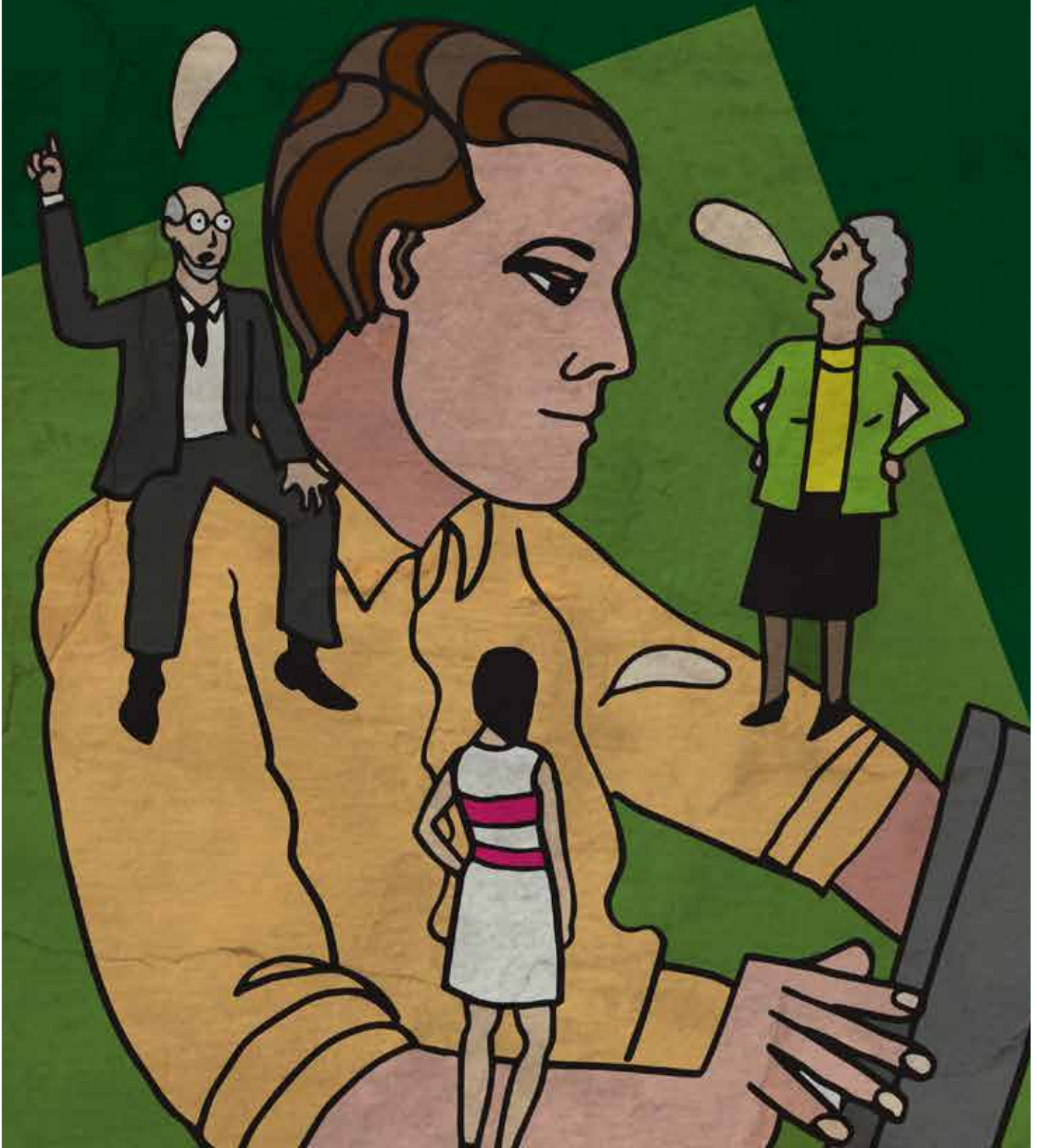
It is right therefore that more can and should be done to help more people own their own home, but even with the government's flagship policy of starter homes, extension of Right to Buy and the welcome expansion of shared ownership schemes, we simply will not build enough homes at prices that everyone can afford to buy. There will continue to be those for whom home ownership is not an option or their preferred choice.

To effectively tackle the housing crisis and deliver the rapid and sustained increase in house building needed, we will need to go beyond a focus on home ownership to recognise that building more homes for rent has a very important part to play in driving up housing supply, supporting a functioning economy

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and increasing affordability and choice. Given the concerns about another economic downturn, greater attention needs to be given to an effective counter-cyclical strategy to achieve a steady profile for house building that can withstand economic shocks. Investment in homes for rent, both at market and sub-market rent in addition to support for home ownership can play an important role in driving up build rates and providing some insulation in counter-cyclical periods. The fact that homes built specifically for rent do not compete with the traditional developer business core model of building homes for individual buyers, means there is a significant opportunity to increase the number of homes built. Tapping the potential for large scale institutional investment in homes for market rent could not only counteract the shortage and improve quality of rented housing, particularly in London

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and other areas of intense housing shortage, it could help unlock wider development and urban regeneration opportunities.

There is a real concern that in placing emphasis on those who aspire to, and can realistically expect to own their home, Government policies will decrease the availability of affordable homes for rent with detrimental impacts on other citizens and increased pressures on the public purse in future. Research from Shelter cautioned that Starter Homes could be unaffordable for families on average wages in 58% of local authorities. At the same time developers will be able to switch their required affordable housing contributions to starter homes leading to a further reduction in new homes at sub-market rents. Furthermore there is a question of value for the public purse since, under the current proposals, the individuals buying a Starter Home will be able to sell it at full market price after five years. Government will need to work more closely with the industry in developing its model for starter homes to ensure an overall increase in homes and that the public subsidy of these homes exists in perpetuity to benefit future generations of house buyers and does not result in a reduction of affordable homes to rent.

There is no doubt that the housing crisis impacts most heavily on younger generations. The cost and scarcity of housing means many young adults are unable to establish independent households of their own.

The extension of Right to Buy, the reduction of social rents and the classification of housing associations as public sector entities have caused concern and uncertainty in the housing association sector. At the same time, councils' investment plans have been seriously affected by the reduction in social rents and the requirement to consider selling high value council homes to fund the extension of the Right to Buy to housing association tenants. The LGA has recently estimated that up to 80,000 council homes could be lost as a result of Government policies unless councils are given greater powers to build new homes. As the Lyons review identified, England has only ever built sufficient homes to meet housing need when a strong role has been played by councils in supporting supply. Between them, housing associations and councils built 28,380 homes in the year up to September 2015. This is an important contribution and it must be expanded if we are to reach the target of 240,000 homes per annum. If lost or impaired it will cancel out gains made in increased supply for example of starter homes. Finding ways in which local authorities can promote, support, finance and commission new homes and giving housing associations the certainty they need to plan long term is therefore critical if the Government is to achieve its targets.

What is more, government's ambition on housebuilding

simply won't be achieved by relying on the existing industry to build homes for sale. More needs to be done to encourage a wider range of organisations, both public and private, into house building through joint venture partnerships, new delivery models and a more diverse mix of housing tenures. In particular there is significant capacity in the construction industry to play a greater role in housebuilding in partnership with a wider range of commissioners of housing including housing associations, regeneration agents and local authorities.

Government have recognised the importance of strengthening local government's ability to assemble land and drive progress on complex schemes as reflected in the powers granted to Greater Manchester and London to set up Mayoral Development Corporations. The Lyons Commission recommended extending this approach through a new generation of New Homes Corporations to play an active role in land assembly, commissioning development and powers to capture land value to invest in infrastructure. One of David Cameron's announcements in early January – direct commissioning of housing on public land – is a promising step. If adopted at scale this could offer a means to get a wider range of partners into house building, most notably tapping into the capacity that exists in the wider construction industry through increased commissioning from the HCA; housing associations and local authorities.

Lastly, but crucially, Government must ensure that the drive for volume does not come at the expense of the quality of the homes and places that are built. The weakening of policy on zero carbon homes, a retreat from meaningful space standards and the collapse of the previous Government's policy for sustainable drainage raise concerns that quality and sustainability have reduced importance in Government policy. Far greater emphasis on the importance of quality of homes and places is needed to ensure that the legacy of Government's national crusade on house building is the creation of great places to live.

Caroline Green was formerly the Director of Research for the Lyons Review and is now Assistant Chief Executive at Oxford City Council.

The full report of the Lyons Housing Review is available at http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf; and the update report published in February 2016 can be found at <http://www.housing.org.uk/resource-library/browse/lyons-housing-commission-update-report/>

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5 Council of Mortgage Lenders, Helping the Bank of Mum and Dad, June 2013; English Housing Survey, 2012/13

6 Starter Homes, will they be affordable? Shelter 2015 https://england.shelter.org.uk/_data/assets/pdf_file/0011/1183790/Starter_Homes_FINAL_w_Appendix_v2.pdf

7 http://www.local.gov.uk/media-releases/-/journal_content/56/10180/7668062/NEWS

8 DCLG House building Statistics, Live table 209 <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>

Housing construction or production?

Prof Peter Cochrane OBE

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Around the year 1600 every nail produced in the UK was hand crafted one at a time, but the demands of ship building in the UK were so great the process was soon automated. In short we ran out of blacksmiths. Fast forward 400 years and we don't have enough brick layers, roofers, carpenters, plumbers, electricians and tilers. The demand for new housing has outstripped our national ability to deliver, and training more artisans is not the way to address the problem.

The reality is that the building industry has changed little since Roman times and remains relatively untouched by the gains of the industrial revolution. Whilst other industries enjoy the advantages of robotics and automation, new materials and technologies, housebuilding remains in the 'delivery dark ages'. Dropping one brick on top of another, nailing every tenth tile to the roof, cutting joists and flooring by the plank, nailing a component at a time, not to mention the archaic way they are wired and plumbed, sees house construction in the UK taking many months. If we are to build 250,000 new homes a year to meet the growing demand, this is not the way!

Not so long ago the automotive and aircraft industries operated like the building industry today, and if they had continued that way we would all be driving the unreliable monster vehicles of the 1890s whilst flying dangerous bi-planes! Production line methods have not only brought great advance in availability and design, they have brought about better performance, comfort, reduced material wastage, and the ability to adapt and change rapidly. Sadly, house building enjoys none of these features, in the UK that is! Looking abroad however we see a different scene altogether.

Go to Germany, Scandinavia, Canada and the USA and the construction of homes is rapidly migrating to production. Homes are manufactured a panel or room at a time fully wired, plumbed and decorated in a factory under clean and controlled conditions. A concrete raft is laid and prepared on the building site with accurately located plumbing inlets and outlets. This takes two to four weeks to complete, but when the manufactured housing units are delivered the entire construction can be completed in less than a week. And the new owners can move in

garages, the poor use of space, and poorly designed bathrooms and kitchens. German, Scandinavian, Canadian and American builds suffer no such maladies: they see continual improvements of design, materials and components along with far lower transport costs. They are also far more sustainable and demand far less energy to produce, operate and maintain!

Given the shortage of able bodies and skilled people in the UK building industry it is interesting to consider what happens when a house is factory assembled on site

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sans dust, design and construction failures. No need for snagging lists, decorating and carpet laying, and kitchen appliance fitting. The building is complete and ready for picture hanging TV, hi-fi and wi-fi living!

These are the overt benefits, but there are many more! Building a home in the UK is critically weather and material supply dependent. The uncertainties of both cause delays and hold ups measured in weeks. Every build has a new set of unique (and oft repeated) problems, errors, faults and mistakes spanning basic layout, design, plumbing, electrical, IT, windows, doors, floors and flues! Design variabilities see nowhere to hang your hat, no built-in wardrobes, detached

in a week as opposed to being built a nail-at-a-time on a waterlogged site over three months or more. This effectively frees up a huge and extremely capable workforce, but also opens the door to building associations, families and individuals, and a new era of DIY home assembly! This is the kind of transformation the UK needs to see if it is to hit the national need for new homes.

Traditionally the UK builds and people buy homes that are too small, only to extend them later. The factory production and assembly route allows for pre-planning so a home can expand a 'child or new need' at time across a pre laid/prepared raft with minimal disruption and planning. Effectively, adding a box or



changing the size of a box, removing or adding a wall needs only a screwdriver and not a bulldozer and a dozen workers!

If other sectors have taught us anything, it is that the future is about change, the adoption of the new and adaptation to the needs of a changing spectrum of living and working demands. Office buildings and workplaces are having to recognise this and so will our homes. Traditional methods of construction cannot satisfy

such an environment, but the factory production of new living spaces can. It really is time for the building industry to change, to catch up, get modern, and to deliver better designs to a better quality using less material at a much lower price. After all, every other industry has done exactly that already!

There is a need for the adoption of the new and adaptation to the needs of a changing spectrum of living and working demands.

Building the homes we need:

Why we don't build enough homes and how to fix this

Anne Baxendale, Head of Corporate and Public Affairs at Shelter



Housing has now become a truly national crisis with the shortage of homes touching all corners of the country and millions of people on low and middle incomes. Home ownership is now at its lowest level in 30 years and the number of families with children renting privately has doubled in the

last decade. Despite working hard and saving, they are increasingly trapped in unstable and expensive private renting.

Housing has risen up the political agenda in recent years, driven by increased voter anxiety not only among those directly affected, but among parents concerned about their children's prospects. That's why housing was a top four issue during the election and frequently polls ahead of crime, education and Europe.

Shelter helps three million people a year struggling with bad housing and homelessness. At the root of all of the problems we help with is the shortage of homes in England. Few would dispute this, but at the moment we're not delivering anywhere near the number of homes we need.

The Housing and Planning Bill does not meet the scale of the challenge we're facing. Tweaks to Compulsory Purchase Orders are welcome and should encourage more private housebuilding. But with the introduction of Starter Homes and the forced sale of council homes, the Bill represents a focus on home ownership products for the better-off at the expense of affordable homes for people on lower incomes. Meanwhile the underlying drivers of the crisis are perpetuated.

Nor are further changes to the planning system the answer. Constant chopping and changing increases uncertainty for developers and investors, slowing things down. And the government mustn't contemplate a return to excessive mortgage lending. This would risk inflating a new bubble and exposing first time buyers to the risk of arrears and negative equity.

Only bold action to address England's massive housing shortage will ease the pressure. As well as boosting public and private investment, supporting a new generation of garden cities, and increasing competition among builders, our national effort should focus on reforming the system to provide more land at cheaper cost. The private housebuilding market as currently constituted is simply unable to fully meet demand for more homes. It hasn't filled the gap left by falling public investment, despite increased demand. In fact private housebuilding has ratcheted down over generations, with every turn of the boom-bust cycle.

At the heart of this is the high cost of land. Because land is inherently scarce, developers compete with each other to pay over the odds for it (usually pricing smaller builders out). The more they are forced to pay, the more they have to squeeze down the size, quality and affordability of homes. They are incentivised to try and wriggle out of affordable housing obligations and to hold on to the site and wait for its value to rise, rather than promote it for development and sale. Simply put, the cost of land ensures it doesn't become rational for developers to build the homes we need, when we need them.

The only way we will get more homes built is to take bold action to get more land at lower and more stable prices into the hands of people who want to build. Here's how we can do that:

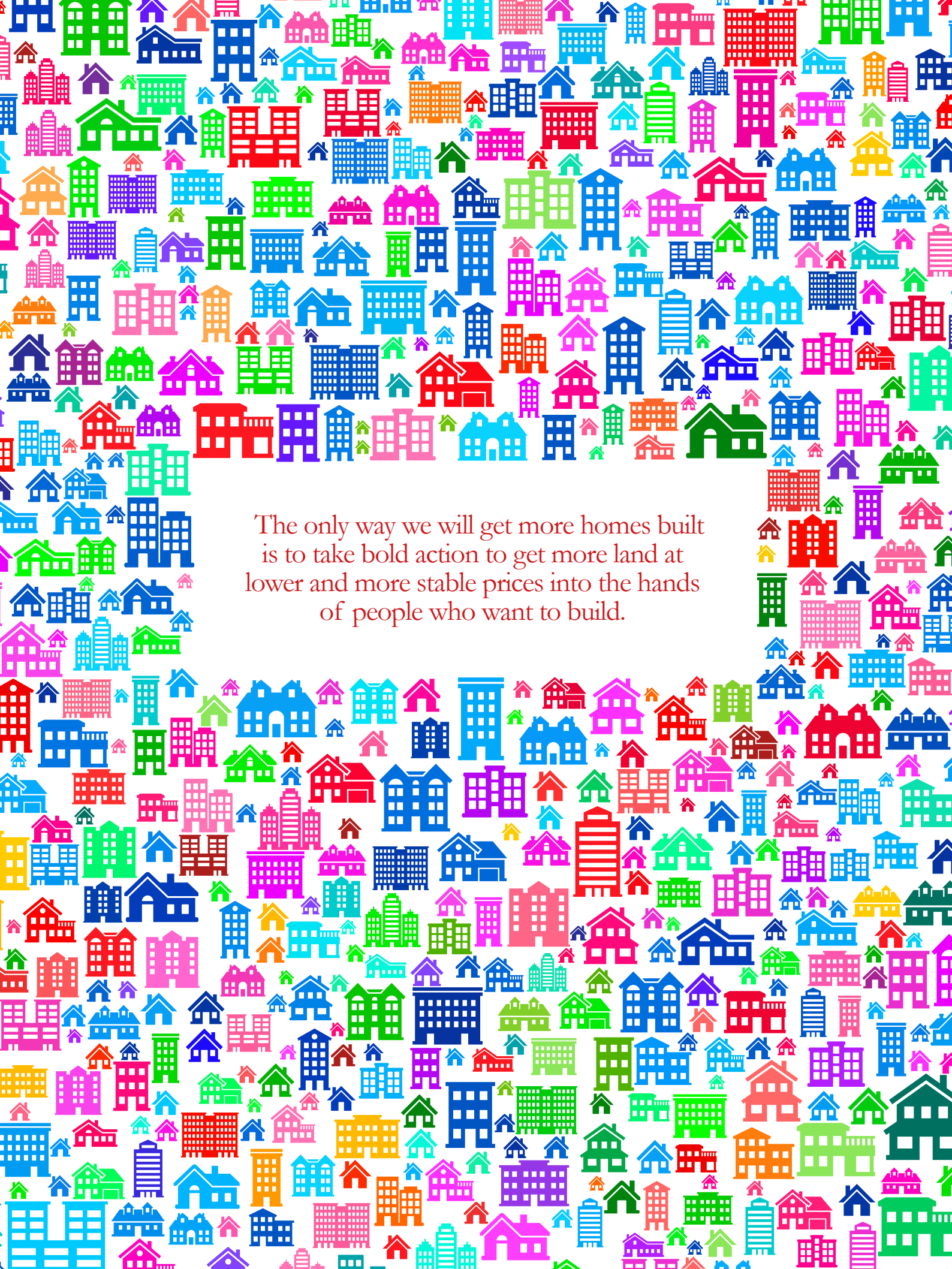
1. Supporting 'New Home Zones'. Local authorities or development corporations should be given powers to zone an area for low-cost development. They would negotiate land at a lower cost than developers can, using the credible threat of compulsory acquisition at existing value as a last resort. Once the land is purchased, it would be sold on to builders who would compete for it on the basis of the quality and affordability of homes they wish to provide. For this to be achieved, CPO law must be changed to be made fairer and more efficient.

2. Unlock stalled sites. Sites with planning permission would be unlocked by a 'carrot and stick' approach. First, funds for infrastructure should be provided (from the regional growth fund, for instance) to get the site moving. If the site remains undeveloped, council tax should be levied as if the home were built. This requires greater tax powers for local authorities.

3. Promoting land market transparency. Land prices and ownership by site should be published in an easily accessible format. This would create a level playing field so that small builders and new entrants can find sites more easily.

Shelter's award winning entry to the 2014 Wolfson Economics Prize (with PRP, KPMG LLP, Laing O'Rourke plc and Legal & General) shows how this can be done. For more information, see the full submission at <http://www.policyexchange.org.uk/item/wolfson-economics-prize>.

Although none of this will be simple, the worst option is doing nothing. Inaction means accepting continued falls in home ownership, year-on-year rent rises, further increases in the housing benefit bill, and many more people living in overcrowded, substandard accommodation – or even facing homelessness. With rising anxiety about the problem, declining Nimbyism and an emerging consensus in the housing sector on how to build the homes we need, there is now a once in a generation opportunity to solve our housing crisis.



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The Generation Game

Matt Smith, Editor of Future Housing magazine



Our national mental and financial well-being has long been inextricably bound up with the success of our housing market. Small wonder so many young people today feel disenfranchised when it is so hard in terms of supply, regulation, and affordability to secure a place they can call their own.

Housing occupies a unique position in the hearts and minds of the UK's population, being both home and asset class and, though it is increasingly unavailable to many younger people, we expect it to underwrite our funding for everything from grandchildren's school fees to our funding of long-term care in our later years. The fact is that if you own a house (or houses) you are better-off than anyone who does not.

Yet while successive administrations have made countless efforts to help younger people own their own homes, home ownership is a dream that is increasingly out of reach for many thirty somethings.

Fiscal incentives to help younger buyers such as Help to Buy, Shared Ownership, and Starter Homes, have very often inflated prices and distorted value. They do serve a useful visible political purpose but, in truth, are largely confusing and result in little more than making current homeowners feel richer.

This has huge implications for younger generations who are already more indebted than their parents were at the same age and will endure a lower standard of living as a result. In the UK at least, young people face a rising cost of living when it comes to housing, higher taxes and reductions in state expenditure, as well as stagnant wages and lower paid work. They look to the baby boomers and see a gilded generation who have earned more and borrowed more than any other generation before them. For the boomers, frequent bouts of double-digit inflation have meant they have almost never had to pay for their properties.

Housing plays a key role in the intergenerational fairness debate. Rents and high house prices are an increasing burden on the young, while the elderly own increasingly

expensive properties. However, longer lifespans mean that, unlike previous eras, money is not going to be recycled for new deposits. More draconian borrowing criteria, and the dire under-supply of property, will mean housing remains out of reach.

Some young people can rely on inheritances, or obtain help with a housing deposit from the Bank of Mum and Dad, especially when their parents own desirable properties in prosperous areas. But many, from more modest backgrounds, cannot do this and face higher rents while saving a deposit. If they have racked up student debt then the chances of being able to afford anything in London or the South East is negligible without parental help. It's not uncommon to hear of young teachers going to Dubai to pay off their student debts and build up a deposit fund for a UK property.

Around 50% of all housing equity is already held by people aged 65 and over and that percentage is not set to decline. The number of housing transactions is looking stuck around the 1.2 million mark illustrating the market is becoming gridlocked, with each group in the wrong place.

The gridlock is not the fault of the occupiers. It is not true that the baby boomers who have done well out of the housing market are the selfish generation, since they don't decide government

policy. Many worry about the prospects of their children and grandchildren and hand down a lot of their wealth to them. The issue of undersupply has been compounded by the unintended consequences of improved regulation that has created stricter affordability measures, mortgage prisoners with interest only loans who cannot move onto capital repayment mortgages, as well as a reduced appetite of mortgage lenders to innovate.

Even in areas where there is a high proportion of retired owner occupiers, it is not unusual for there to be a lack of affordable retirement housing.

Too often many of the assumptions about what people

Around 50% of all housing equity is already held by people aged 65 and over and that percentage is not set to decline.

want in later life are incorrect. Many smaller householders often live in larger family homes, and when they downsize still want rooms where friends, relatives or carers can stay.

Enabling the younger generation to get on the housing ladder means we have to find a way of re-invigorating the entire chain to move again. This is about supplying the right kinds of property that people want in the right areas, making it affordable, and commercially viable. Emptying trophy homes will not help. We have more demand for single person dwellings than ever before. Partly because of affordability but also because social trends such as not marrying, more divorces, as well as more older people, we need the right kind of third age property in the right areas.

Younger people are increasingly going to be asked to shoulder the cost of an ageing and politically powerful group of individuals. The low interest rate environment is an important avenue of help to the younger generations who look on with disbelief at the attention given by government to protecting areas related to older people. Housing offers one area where the current imbalance can be redressed.

If we can get beyond the silo mentality that divides housing policy and action into government, planning, developers, Housing Associations, financial services, regulators – to name a few – we could choose to build enough houses so that the cost of buying or renting a house falls, or at least stabilises. We need properties that everyone needs and that recognize people's aspirations for their first or their last home. If we understand the nature of the housing that is needed for the future, we

can tackle the gridlock of property and money and go a long way to re-balancing society. If we can avoid much of the mounting ill feeling between the generations that Brexit exposed and bring real meaning to the phrase social mobility, wouldn't we have done well?



Rebuilding our housing economy

Nigel Wilson, Chief Executive of Legal & General Group



The UK's chronic housing shortage can be found in all parts of the country and cuts across all forms of tenure. We obsess about the London market and the first-time buyer, but we fail to innovate, to think of new solutions or to disrupt a seriously dysfunctional market.

Shelter has identified, for example, that around one in forty renting households in places as diverse as Peterborough, Bolton, Birmingham and Tameside are at risk of eviction. Even where house prices are cheap by London standards, renting is insufficiently affordable and accommodation can be of poor quality.

The UK is unusual if not unique in Europe for not having a rental sector that operates at scale. Council housing was sold off and not replaced after 1979, with the result that the market polarised between Housing Associations and other social providers with finite resources, and a growing cottage industry of buy-to-let landlords. Not all of these operate to high standards: if not actually Rachman, then certainly Rigsby.

Growing home ownership meant that the plight of renters over time became a second-order political issue – but owner-occupation has now fallen to 63%, its lowest level for 29 years – and the rental sector is straining to take up the strain. After a last-minute dash for buy-to-let mortgages in April ahead of Stamp Duty changes, the attractions of becoming a landlord are fading due to high transaction costs.

Institutions can take some of the strain in providing quality homes for rent. Germany and Holland are great examples: long-term institutions invest in scale in build-to-rent because they

know that predictable rental incomes (inflation with a cap or collar) are ideal for paying their pension obligations. It's a model Legal & General is bringing to the UK, with an initial £600m partnership with the Dutch pension fund PGGM, creating new homes for rent for example in Walthamstow (London), Salford (Manchester) and Bath.

It's not just the rental sector that lacks supply. The basic economics of housing in the UK doesn't work. There is no other market where supply and demand are so mismatched, but no-one has stepped in to address production. Modular housing construction can be part of the solution. We can use modern technology to manufacture homes off-site at industrial scale – delivering large numbers at pace. Legal & General's new factory in Yorkshire, for example will be able to produce 3,000 houses annually.

In the UK we look at home-ownership through the wrong end of the telescope. Unlike any other product, housing is disconnected from the price points at which purchasers can transact. This is at the heart of the affordability problem. We are good at building million-pound apartments in central London for non-resident purchasers. But we don't have a local offer at £99,999, £199,999 and so on.

The constraint is not the cost of building – if modern, modular techniques are used. More often it is the cost of land, and again we have been stunningly unimaginative. Building at greater density does not mean reducing quality of life for residents: Paris and New York have twice the density of London. Many of our 1960's towns now need economic regeneration as

they are inappropriate for modern living and modern business. Again Legal & General are taking action: our regeneration of Bracknell recognises that we need to bring people back into town centres.

And not just for first-time buyers. We need more specialist housing. A third of retired people want to right-size into suitable accommodation close to family, friends and facilities. The over 60's own £1.3 trillion of housing equity, yet only 2% of new building is for older people. Better choice, again at the right price points, would allow people to make housing decisions that make financial sense – allowing them to improve retirement income – and which are also positive in terms of lifestyle. And it would free-up family homes for those with families. This is another initiative Legal & General experts are working on.

Ultimately the provision of housing is about inter-generational and intra-generational fairness. Baby-boomers have enjoyed a huge house-price windfall. We shouldn't be pricing out our children through a combination of land-restricting Nimbyism, constraining supply and by clinging to outdated building techniques. The Bank of Mum and Dad provided £5bn of support for house-purchases last year, but what of those young people who don't have parents who can fund them?

That is why we need a radical increase in decent-quality, suitably-priced homes for people to own and to rent. Post-War politicians, like Nye Bevan and Harold Macmillan, operating in an age of real austerity, managed to create 300,000 or 400,000 new homes per year: we should be ashamed of our 125,000 today.