
off the fence

There changes under way in the volume housebuilding industry's business model, but that is not the end of the excitement in housing in the period ahead, says David Lock

movement in the housing pipeline



Before the Bankers' Recession swept over us in late 2008, there was a period of significant structural change in the housebuilding industry. Whereas in the 1980s the top ten volume housebuilders produced over 60% of all new homes in England (the 'VHB' had their own pressure group), by 2008 they had been eating each other such that the number of volume housebuilders was reduced to seven, and their proportion of new homes supplied had settled at around 40%.¹ Even if now a little diminished, this agglomeration has been presenting some problems to planning authorities.

First, and despite all the efforts initiated by Secretary of State John Gummer through his 'Quality in Town and Country' initiative in the 1990s and the constant wailings of CABE, the design of new homes (rare exceptions necessarily acknowledged) has become ever more standardised and insensitive to locality.

Second, the stock of allocated or consented land in a local authority area was sometimes in the control of just one or two housebuilders, causing other promoters of development to have to argue for an 'over-supply' in development plans so that there would be more competition and thus faster building rates. I hasten to add that, when investigated, the charge of 'land hoarding' was not proven nationally, but it is obvious that a dominant landholder would not rush to build when, by doing nothing in those heady days, the value on the company's balance sheet would magically rise.

Third, with statutory plan-making taking so long, the promotion of 'strategic land' – large parcels for hundreds or thousands of homes and associated bells and whistles – required resources and tenacity available only to a few companies. They became better at the planning process than the planners, and typically it was the geography of land promotion that would shape an area, rather than the geography designed by the plan-making body.

Fourth, and in particular, the planning of housing type mix, price and even tenure became increasingly difficult for local planning authorities to assert. The planners didn't have the market research or the development knowledge to negotiate successfully. They would cling to a simple demand for some arbitrarily set percentage of the proposed housing to be subsidised by one means or other, or for that cost to be given as cash to enable subsidy elsewhere.

During the recession, there are further changes under way in the volume housebuilding industry business model.

The speculative promotion of strategic land is seen as a business that needs different skill sets from those in the mainstream retail housebuilding industry, and the money required would be for several years, with a success rate of, say, 1 in 4 in terms of scheme promotion, but with a rise in value in that 1 which would make it all worthwhile. This has increasingly been seen as a successful business model in its own right.

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Next, having achieved a successful allocation in a plan, either by artful and intelligent promotion or even through allocation by the planning authority of its own free will, there is another type of business to be done. This is the task of servicing the land and providing its associated infrastructure, to create 'oven ready' land for actual housebuilders. Once again it becomes clear that a different skill set is needed for this business model – sophisticated project management and value engineering involving extremely clever phasing and sequencing of investments, and medium-term funding. This 'site and services' business model is common throughout the world but is only now emerging as a real business type in the UK.

Last is the main housebuilding business, by which 'oven ready' land is taken up, built upon quickly and sold fast to achieve its return. This is a retail business, needs short-term finance, and is undeveloped in two respects. First, industrialisation of building methods is embarrassingly slow. Most of our building sites and processes would still be recognisable by mediaeval labourers: men in mud with wheelbarrows, and skips full of excellent-quality materials chucked out as waste. Second, the financial products available to enable people to buy a house are still slow to blossom. A house is a product for which there is plenty of demand, yet the ways in which one might be obtained are few. It isn't like that with discretionary items like cars. So why is the housebuilding industry so sleepy?

Each of these separating business models – a disaggregation of the agglomeration – is becoming conspicuous. But that is not the end of the excitement in housing in the period ahead.

If the agglomerated volume housebuilding for sale is disaggregating into its distinctive business components, equally radical change is in prospect for the other forms of tenure. Before the recession we had got ourselves into a situation in which the creation of subsidised housing was almost the monopoly of housing associations, and the housing

Private investors are offering schemes by which they will create housing on council-owned land. In one case at least, in return for a ground rent guaranteed for 60 years by the council, the council chooses the tenants and the tenure mix and after the 60 years owns the properties.²

Frustration with the mainstream housing pipeline and its limited offers of tenure and price is leading to growing interest in housing delivery through pathways much neglected in recent years. It just isn't true that one's choice is merely to buy, to rent from a private landlord, or to be in the housing association world.

Co-ownership housing is a flexible concept: you buy the proportion you can afford today and rent the rest, and actively 'staircase' your proportion of ownership upwards if you can afford it. Success for 21,500 households in Northern Ireland is not trumpeted enough.³

Co-operative housing was an early enthusiasm of the Garden City Movement, and is widely in use today internationally (John Lennon's apartment in the Dakota Building in New York was in such a scheme), but constitutes only 0.1% of our stock at present. Members own and manage the property collectively.⁴

Self-build housing has become familiar as the indulgence of the rich through TV programmes such as *Grand Designs*, but the spirit of Walter Segal's work for the common man in Lewisham in the 1970s thrives, and this is a real option for lower-income households to gain access to a home by investing some of their own 'sweat equity'.⁵

In such variety lies a path to sunlit golden uplands for any who need a home on suitable terms.

Last we come to the forecast rise in the proportion of homes that are likely to be privately rented – the sunrise of landlordism. There is no doubt that private investors can see that in the present housing shortage there is a large class of households that are too poor to buy and too rich to be given access to a subsidised home. The poor bunnies will be driven into private rental. Many will go willingly, expressing delight at having no mortgage and knowing exactly what their outgoing will be. But history suggests that this will not leave the majority happy with their situation, and also tells us that the necessary regulation of landlords will – given alternative forms of investment such as a return of a healthy stock exchange – lead their funders to seek better returns, and the stock of private rental will then shrivel once again.

As the shelf-loads of words of planning policy and back-up good practice guides are swept away by the short and sharp National Planning Policy Framework,

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itself had become so minutely and rigidly categorised (I have been told there were over 40 types) that people would enter as if into a trap – frozen for ever in their financial and household status of the moment, unable to move up, down or sideways in terms of space or ownership.

Now there is some inventiveness that doesn't depend on planning gain or government grant.

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planning authorities may wonder what they can actually do to widen housing choice and unblock the housing delivery pipeline in their area. The plan-making system should identify an adequate supply of land to ensure competition, variety and choice. But it does not seem realistic for planners to try to become experts in housing markets, and to start specifying house types and tenures in too much detail. Better for a council to set up a cross-departmental Housing Unit under the direct control of the Chief Executive as a crack team of creative people who will use all possible routes (of which planning is but one) to cultivate and encourage variety of price and tenure, and competition among providers, and to ensure that publicly owned land and buildings are put to use without further delay.

It needs to be repeated, dear councillors, that there is now no hiding place. If there isn't enough housing in your area, there is no-one else to blame.

● **David Lock CBE** is Chair of planning consultancy David Lock Associates, and is a Vice-President and Trustee of the TCPA. This article is based on a talk given by the author to the Planning Summer School in Swansea on 4 September 2011. The views expressed are personal.

Notes

- 1 *The Housebuilding Industry: Promoting Recovery in Housing Supply*. Department for Communities and Local Government, Apr. 2010.
www.communities.gov.uk/documents/housing/pdf/1526670.pdf
- 2 The London Borough of Barking – reported in 'Council to provide affordable homes with no grant' (31 Aug. 2011) on the SocInvest: Innovations in Regeneration Finance website, at www.socinvest.co.uk (www.socinvest.co.uk/news.html?id=2074&utm_source=RSS_Feed&utm_medium=RSS&utm_campaign=SocInvest)
- 3 See the Co-Ownership Housing website, at www.co-ownership.org
- 4 See the Confederation of Co-operative Housing website, at www.cch.coop, or the Catalyst Collective website, at www.catalystcollective.org
- 5 See the Community Self Build Agency website, at www.communityselfbuildagency.org.uk, or the Walter Segal Self Build Trust website, at www.segalselfbuild.co.uk