



Campaign to Protect
Rural England
Standing up for your countryside



GETTING HOUSES BUILT

How to Accelerate the Delivery of New Housing

Foresight Paper No.4

Campaign to Protect Rural England: Housing Foresight Series

The objective of the Campaign to Protect Rural England's Housing Foresight Series is to provide evidence-based research papers that support innovative policy solutions to critical housing issues.

The purpose of the series is not to set out the Campaign to Protect Rural England's official policy position on the future delivery of housing. Rather, it will explore a number of 'blue-sky' policy solutions with the aim of inciting and provoking wide ranging discussion over the future shape of housing policy.

With this in mind, we welcome comment on the policy solutions identified within the Housing Foresight Series.

Over two years, eight research papers will be released that examine different areas that are impacting upon the delivery of housing in England. We welcome any recommendations on subject matters for these papers. Please email lukeb@cpre.org.uk

Housing Foresight Series Papers So Far

1. **Increasing Diversity in the House Building Sector (Published: July 2014)**
2. **Removing Obstacles to Brownfield Development (Published: September 2014)**
3. **Better Brownfield: Ensuring Responsive Development on Previously Developed Land (Published: March 2015)**
4. **Getting Houses Built: How to Accelerate the Delivery of New Housing (Published: June 2015)**

The research for the Housing Foresight Series has been funded by the Gloucestershire Branch of the Campaign to Protect Rural England. We are grateful for this financial support.



Contents

Executive Summary	Page 04
Recommendations	Page 05
1.0 Introduction	Page 06
2.0 Background: residential development in an English context on brownfield sites	Page 07
2.1 The business model of large-scale house builders	Page 09
3.0 How the business strategies of house builders impact negatively upon the supply and location of new housing	Page 10
3.1 Targeting greenfield land for development	Page 10
3.2 Land banking	Page 12
3.3 Housing build-out rates and land trading	Page 13
4.0 Policy solutions	Page 15
4.1 Empower local government in the development process	Page 15
4.2 Improve site identification for residential development	Page 17
4.3 Greater transparency in land ownership and the development process	Page 19
5.0 Conclusion	Page 21

Executive Summary

- There is a consensus among political parties that ways must be found to increase housing output. In their election manifestos, most parties set targets of providing 200,000 houses a year or more, an ambitious increase from the 140,000 that were delivered in 2013/14.
- To achieve these targets, it has frequently been argued that more land should be released for housing through the planning system. However, the argument for a relationship between making land available for development and the delivery of new housing is, at best, unconvincing.¹ Even if more land was released by the planning system, it is likely that it would take some time before house builders changed their processes and built-out sites more quickly.²
- The house building sector has come to be dominated by a small number of large, 'vertically integrated', private sector firms. The business strategies of these firms are focused around continuing profitability and satisfying the demands for their shareholders, rather than building housing to meet the demands of communities.
- This focus on profitability has impacted upon the location, supply levels and build-out rates of new housing. To reduce risk and attempt to generate higher levels of returns, many firms target greenfield land for development, while suitable previously developed, or brownfield, land remains unused. The development of housing is phased and drip fed onto the market to ensure the maximum sales price for each unit, meaning that large schemes take many years to complete. Firms also hold large amounts of land in strategic banks, mainly on unregistered options agreements. This strategy 'locks up' land, preventing competition from firms who may build-out a site more quickly. Developers also trade land in a non-transparent way, often delaying the completion of housing on a site.

¹ Cochrane, A., Colenutt, R. and Field, M. (2015) Governing the ungovernable: spatial policy, markets and volume house-building in a growth region. Policy and Politics (In press).

² Adams, A. and Leishman, C. (2008) Factors affecting housing build-out rates. University of Glasgow and DCLG

Recommendations

- Empowering local authorities in the development process can accelerate and increase the delivery of new housing. Implementing 'use it or lose it' measures and reforming compulsory purchase provisions to allow local authorities to acquire suitable land for housing can accelerate the development process and help provide much needed housing.
- The planning system currently pressurises local authorities to release large sites for development. Despite the widespread availability of small, nearly always brownfield, sites in urban areas, just 8% of all planning permissions between 2007 and 2013 were granted to schemes of fewer than 10 units.³ Realising the capacity of suitable small sites is essential to accelerating housing build-out rates, and local authorities can take steps to improve site identification.
- More transparency is needed in the development process. To improve planning for housing, all land, and land held in option, should be compulsory registered. Open-book viability assessments should also be required to accelerate the development process.

³ Spratt, L. (2013) An analysis of unimplemented planning permissions for residential dwellings. Local Government Association



1.0 Introduction

England is widely considered to be in the midst of a housing crisis. With annual levels of new supply falling below demand and need each year, there is a political consensus that more housing needs to be delivered. Much recent political rhetoric has focused around the argument that an overly prescriptive planning system that constrains the supply of land is the key reason for low levels of housing supply. However, evidence suggests that increasing the supply of land allocated for housing only results in more damaging and inappropriate sites being released for residential development with housing being developed at exactly the same slow build-out rate. (In this paper, build-out rate refers to the length of time it takes for a development to be completed from the granting of planning permission.) Instead, the evidence points to the conclusion that low housing supply levels result from the structure of the house building sector and the business strategies employed by large house builders.

CPRE's first Housing Foresight paper, 'Increasing Diversity in the House Building Sector', demonstrated how the domination of the house building sector by a small number of large firms has contributed to the under-supply of new housing, and made recommendations as to how this issue could be addressed. These ideas gained some traction and informed political debate ahead of the general election. It remains to be seen whether any of the manifesto and other pre-election promises to diversify the house-building sector will be put into effect by the new Government.

Drawing together previous literature on the subject, this paper examines the strategies of volume house builders that impact upon the location and supply levels of new housing, and suggests policy solutions that might accelerate the rate of housing completions while preventing an increase in damaging development in the countryside.



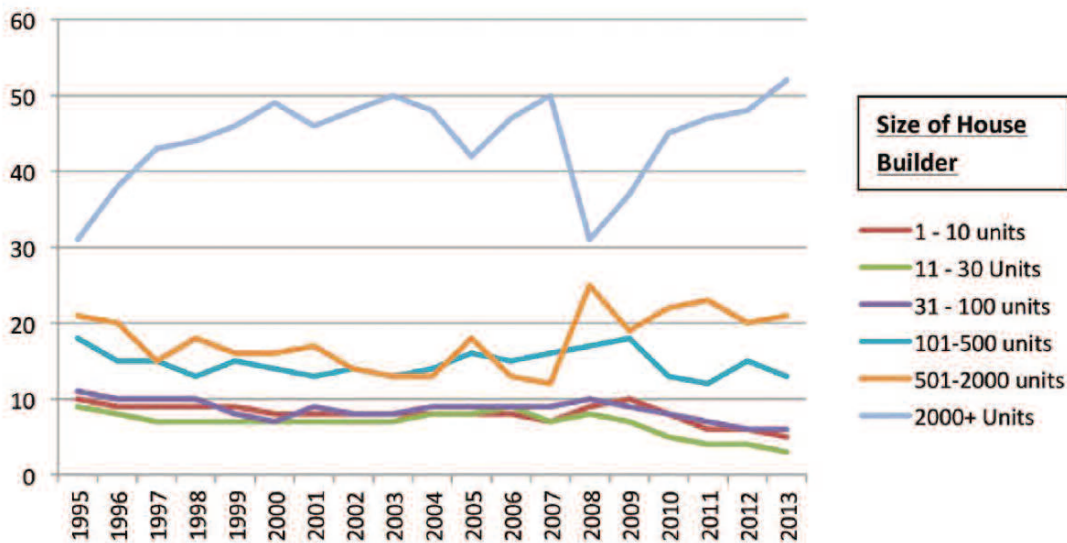
2.0 Background: residential development in an English context

House building in England has been described as a risky and volatile process that is directly linked to the performance of both land and housing markets and the performance of the economy and finance markets.⁴ Unlike many other European countries, there is very little state involvement in the residential development process in England. Land acquisition and market housing construction is left almost entirely to private companies that build on a speculative basis, meaning that their operations are based on an 'assumption of the risk of loss, in return for the uncertain possibility of a reward i.e. profit and saleability of product'.⁵ In practice, as discussed in CPRE's first Housing Foresight paper, the vast majority of house building in England is undertaken by a very small number of volume house builders, which itself impacts upon the stability and effectiveness of housing delivery.

⁴ Payne, S. (2009) The institutional capacity of the UK speculative housebuilding industry - responding to the brownfield development policy agenda. University of Glasgow

⁵ Ibid

Proportion of Output by Size of House Builder - Percentage of New Housing Registrations by Companies Annually Registering with the National House Building Council⁶



⁶ National House Building Council (2013) Registration Output by Size Statistics. National House Building Council

Land is the most important element of house building. However, land is a finite resource and the supply of land available for residential development is necessarily limited by the planning system within the context of competing demands for land use. But the limited availability of land for housing means that the normal economics of supply and demand 'fail to operate, as higher demand for land does not translate into an equal supply side response.'⁷

⁷ Jefferys, P. et al (2014) Building the homes we need: A programme for the 2015 government. Shelter and KMPG

The Institute for Public Policy Research⁸ (IPPR) argues that this limitation of land has created two 'critical sets of tensions' in English house building:

⁸ Griffith, M. et al (2011) we must fix it, delivering reform of the building sector to meet the UK's housing and economic challenges. The Institute of Public Policy Research

- **Value and reward:** The limited land available for residential development creates the 'opportunity for reward'. Land granted planning permission for housing 'automatically becomes much more valuable than land without'. This means that the value of the land is not predominantly added through the construction and sale of housing, but through the 'stroke of a planning official's pen' when planning permission is granted.
- **Volatility and risk:** External factors such as interest rates, mortgage availability, planning regime change and the demand for housing impact on the price of land, causing it to rise or fall. For organisations that seek capture uprisers in land value, this can create large rewards or large downsides. The UK housing market has been the most volatile of those from Organisation for Economic Co-operation and Development (OECD) countries during the past fifty years, and this, coupled with a reliance on the speculative development model of residential development, has been a key cause of 'poor performance in building houses'.⁹

⁹ Aubrey, T. (2015) The challenge of accelerating UK house building: A predistribution approach. Policy Network

Information relating to the land market is also difficult to access. Land prices are hard to obtain and compare because there is no clear and accessible land ownership register. This also makes it difficult for all of the stakeholders involved in the development process to understand how much a piece of land is worth, especially combined with the external factors that influence the price of housing which in turn influences the price developers are willing to pay for land. The uncertainty surrounding the acquisition of land, long development times, and changing financial and social factors external to the house-building process, create a high level of risk in development. Managing this high level of risk to obtain maximum profits drives the business strategies of large developers. However, these business strategies play a part in causing low housing supply and increasing the threat of development in inappropriate locations.

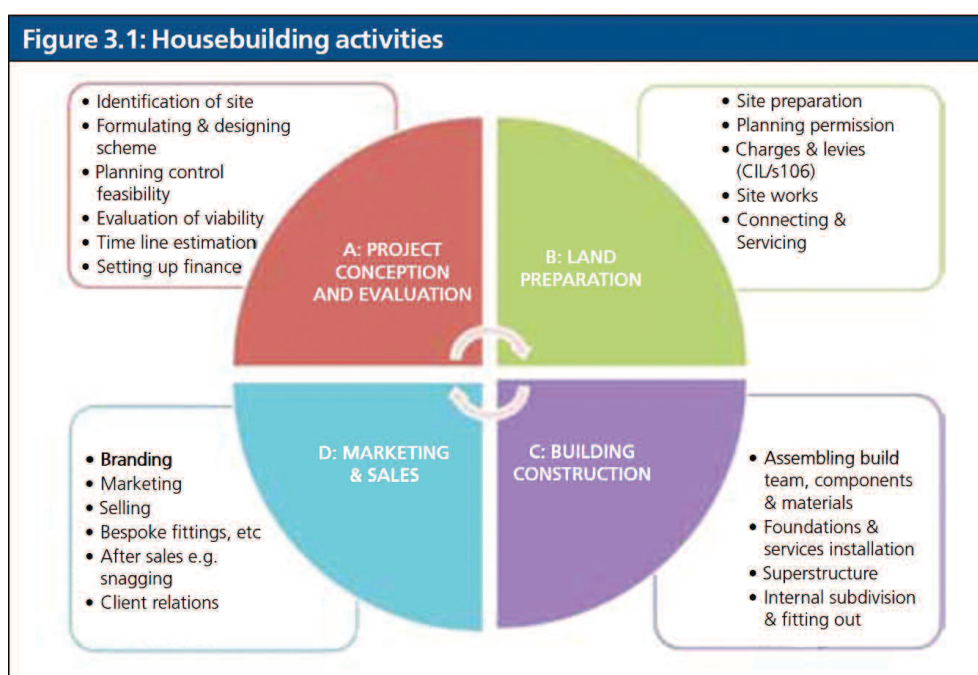
2.1 The business model of large-scale house builders

This balance of risk and reward described by IPPR has caused the business strategies of volume house builders to be driven by the acquisition of land rather than the output of housing.¹⁰ The Office of Fair Trading (OFT) identified that large house builders' key corporate decisions on expansion, mergers and financial structuring are mainly determined by the need to obtain land.¹¹ This focus on land acquisition has moved large-scale house builders away from the traditional model of housing construction and seen them become responsible for the whole development process. This 'vertically integrated' approach to house building contains four specific phases: project conception and evaluation; land preparation; building construction; and marketing and sales.

¹⁰ Griffith, M. et al (2011) we must fix it, delivering reform of the building sector to meet the UK's housing and economic challenges. The Institute of Public Policy Research

¹¹ Office for Fair Trading (2008) Home Building in the UK: A Market Study. OFT

House building activities in development process¹²



¹² Ball, M (2010) The house building industry: Promoting recovery in housing supply. DCLG

This model requires a high level of capital investment from large house builders and the length of the development process increases the exposure to changing market conditions. Significant upfront or 'sunk costs' are committed before revenue is generated.¹³ House builders secure development finance, land and planning consent, and usually construct developments, before any return is achieved on capital employed. Employing such a high level of capital investment for an uncertain return, relying on favourable market conditions, and a smooth negotiation of the planning process, has seen house builders claim they need to maximise profits on each unit of each development scheme to make returns that justify risk.

¹³ Payne, S. (2009) The institutional capacity of the UK speculative housebuilding industry responding to the brownfield development policy agenda. University of Glasgow

¹⁴ Archer, A. and Cole, I. (2014) Still not plannable? Housing supply and the changing structure of the housebuilding industry in the UK in 'austere' times. University of Sheffield

The focus on land acquisition, permission granting and profit maximisation has a key impact on the location and supply levels of new housing. The following section examines strategies employed by volume house builders that impact negatively upon land supply levels, construction timescales and numbers of houses developed.¹⁴

3.0 How the business strategies of house builders impact negatively upon the supply and location of new housing

3.1 Targeting greenfield land for development

¹⁵ Adams, D. & Payne, S. (2011) 'Business as usual? - Exploring the design response of UK speculative house builders to the brownfield development challenge' in Tiesdell, S. & Adams, D. (eds.) urban design in the real estate development process. Oxford: Blackwell, pp. 199-218

Traditionally, the preferred focus of large house builders has been on using greenfield land for the majority of new residential development. These sites are seen as carrying less risk than previously developed ('brownfield') land as greenfield development typically requires less 'sunk costs' at the start of the development process for land preparation. House builders are also able to purchase greenfield sites that can support a large number of units, allowing construction efficiencies and a greater number of the most profitable unit types to be sold.¹⁵

¹⁶ Karadimitriou, N. (2013) Planning policy, sustainability and housebuilder practices: the move into (and out of?) the redevelopment of previously developed land. *Progress in Planning*, 82: 1 - 41

Greenfield land was the default location for residential development before the 1990s. The result of such a focus was that large house builders developed expectations, skills, norms and routines in their business strategies that related specifically to the development of greenfield land.¹⁶ In the late 1990s and 2000s, major national planning policy changes prioritised brownfield land for development. The result was a change in the business strategies of some developers that led to an increase in the proportion of housing developed on brownfield land and a rise in the overall density of new housing. The proportion of housing built on brownfield sites rose significantly from 59% (77,143 dwellings) in 1998 to a peak of 81% (114,202 dwellings) in 2008. While housebuilding rates gradually increased for much of that period, it should be noted that the number of houses built overall fell from around 170,610 in 2007 to 140,990 in 2008 and completion rates have remained low ever since.¹⁷

¹⁷ CPRE (2015) Better brownfield. CPRE

However, without evidence, developers cited this prioritisation of brownfield land as a key part of the reason for low housing supply levels and urged a change to the 'brownfield first' policy. Currently, the National Planning Policy Framework contains no policy prioritising brownfield land for development. Instead, a 'presumption in favour of sustainable development', coupled with the need for local authorities to have up-to-date plans for a five year supply of housing land, has enabled house builders to target unsuitable greenfield land for residential development. CPRE's 2014 report 'Targeting the Countryside'¹⁸ found that planning permission has been granted for more than 25,000 houses on greenfield sites through planning appeals, and in 'Green Belt under Siege' that 'over 200,000 houses are proposed to be built on Green Belt land'.¹⁹

Under the current regime, local authorities are incentivised to allocate large greenfield sites for housing as they can make a big contribution to meeting the five-year housing land supply targets required by national planning policy. It is assumed that making large greenfield sites available for development to suit the business strategies of large developers will increase the likelihood of housing being delivered. However, recent research carried out by the Open University suggests that even in areas where there are many large greenfield sites allocated and granted permission for residential development, actual housing delivery remains at build-out rates which guarantee maximum profits for development and this does not stop them purchasing more land, nor pushing for more land to be allocated for housing.²⁰

The business strategies of many large house builders involve targeting greenfield land for residential development as it carries less risk than brownfield. This implies that once greenfield land is allocated for housing, development should quickly proceed. However, any relationship between making land available for development and the delivery of new housing is unconvincing.²¹ At the same time, greenfield development is generally unpopular amongst local communities, damaging to cherished landscapes and agricultural land; it creates urban sprawl at the expense of developing suitable brownfield land.²² It should be possible to address this unsustainable state of affairs through mechanisms which, first, prioritise suitable brownfield development, and, second, ensure that residential developments granted planning permission on greenfield land are actually completed before local authorities are required to make more greenfield land available for more housing

¹⁸ CPRE (2014) Targeting the countryside. CPRE

¹⁹ CPRE (2015) Green Belt under siege: the NPPF Three Years On. CPRE

²⁰ Cochrane, A. Colenutt, R. and Field, M. (2015) Governing the ungovernable: spatial policy, markets and volume house-building in a growth region. Policy and Politics (In press).

²¹ Cochrane, A., Colenutt, R., Field, M. (2015) Governing the ungovernable: spatial policy, markets and volume house-building in a growth region. Policy and Politics (In press).

²² CPRE (2014) Removing obstacles to brownfield development. CPRE Housing Foresight paper 2

3.2 Land banking

²³ Office for Fair Trading (2008)
Home building in the UK: A
market study, OFT

²⁴ Home Builders Federation,
(2014) Permissions to land:
busting the myths about house
builders and 'land banking', HBF

²⁵ ibid

²⁶ LGA Spratt, L. (2013) An
analysis of unimplemented
planning permissions for
residential dwellings 2013.
Local Government Association.

²⁷ Lyons, M. et al (2015)
Mobilising across the nation to
build the homes our children
need, The Labour Party: Lyons
Housing Review

²⁸ Griffith, M. Jefferys, P. (2013)
Solutions for the housing
shortage: How to build the
250,000 homes we need each
year and Shelter

²⁹ Griffith, M. Jefferys, P. (2013)
Solutions for the housing
shortage: How to build the
250,000 homes we need each
year and Shelter

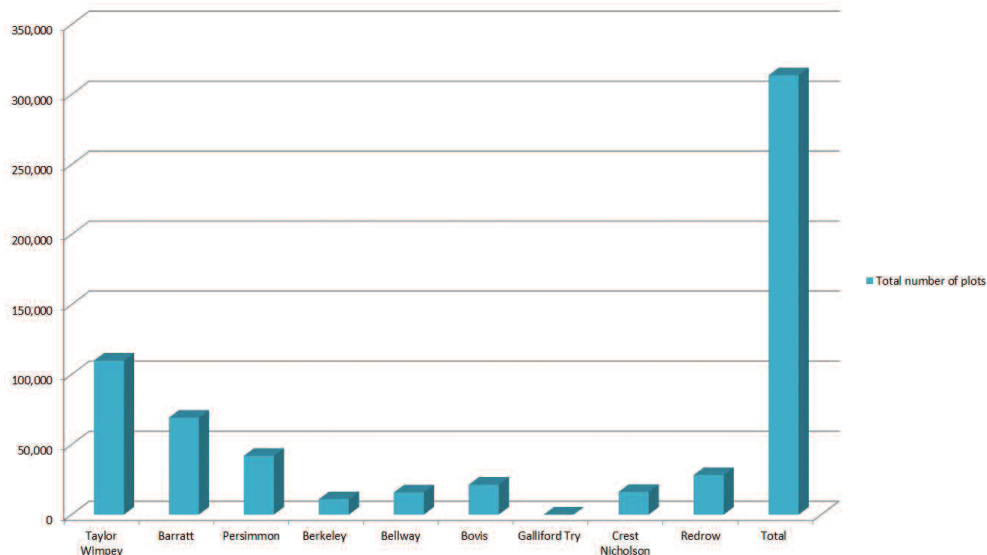
There has been much discussion around the concept of land banking and whether developers deliberately hoard land that remains undeveloped as part of their business strategies. Such claims have previously been denied by the Office for Fair Trading²³ and the Home Builders Federation.²⁴ However, the definition of land banking used by these organisations is narrow, focusing only around land with implementable planning permission on which construction has not yet started.²⁵ The issue of land banking is more complex than this, and developers purchase, hold and delay the development of land for many different reasons.

Research by the Local Government Association (LGA) found more than 400,000 housing units with planning permission that have not yet been built. It also found that the average time taken for a private sector development to go from obtaining planning permission to completion has lengthened from 20 months in 2007/08 to 28 months in 2012/13.²⁶ These statistics strongly suggest that the strategies of volume house builders are impacting upon the supply levels of housing.

It is widely accepted that house builders must hold an assured supply of land with planning permission for housing. Access to land is a critical factor in investor confidence and a house builder's standing in the market.²⁷ For this reason it is rational for developers to hold a short-term bank of land with, or close to gaining, planning permission to meet short to medium term development needs (typically 3 – 5 years).²⁸

House builders also hold strategic land banks where they control large amounts of land that they feel will become viable for development in the medium to long term (5 to 20 years). This land is usually held in an options agreement. These are a legal agreement for the developer to buy the land at a future point in time from the land owner. Usually, the agreement is for a fixed period and most require the developer to try and obtain planning permission on it. The developer will not necessarily have to ultimately buy the land but the landowner must sell if the conditions of the agreement are met'.²⁹ According to their 2014 annual reports, England's nine largest house builders hold approximately 313,819 plots in their strategic land banks.

Number of plots in strategic land banks by company, according to 2014 annual reports³⁰



³⁰ CPRE (2015) Analysis of annual reports for the top nine English house builders, Campaign to Protect Rural England

The rationale behind holding strategic land banks is that securing land and planning permission is costly, risky and can take a number of years to obtain. It also prevents rival companies purchasing land in a certain area. Developers are therefore incentivised to purchase and hold land in this manner because it is ‘an asset of increasing value over the long term (with house price inflation)’. Development is delayed until planning permission is secured and house prices reach a level that makes its development profitable. It is clear that the process of strategic land banking can lock up sites in areas of high demand and not enable other house builders to access suitable building land, potentially excluding other housing constructors from gaining access to suitable building land (e.g. housing associations, small builders, or even local authorities) who might be prepared to build more quickly.³¹

³¹ Cochrane, A. Colenutt, R. and Field, M. (2015) *Governing the ungovernable: spatial policy, markets and volume house-building in a growth region.* Policy and Politics (In press).

3.3 Housing build-out rates and land trading

At the start of the development process, developers assume the highest possible price for housing in valuations.³² To ensure that they secure this level of return, they have adopted strategies that impact upon the timings of when housing on a site is delivered. As explored above, the preferred strategy of many volume house builders is to target large greenfield sites for development. Instead of building housing on a development plot as soon as permission is granted, the developer’s choice of unit build-out rate revolves around their opinion of the local housing market’s capacity to be able to absorb new housing at top market prices.

³² Adams, A. and Leishman, C. (2008) *Factors affecting housing build-out rates,* University of Glasgow and DCLG

³³ Cochrane, A. Colenutt, R. and Field, M. (2015) *Governing the ungovernable: spatial policy, markets and volume house-building in a growth region.* Policy and Politics (In press).

³⁴ Griffith, M. and Jefferys, P. (2013) *Solutions for the housing shortage: How to build the 250,000 homes we need each year.* Shelter

³⁵ Adams, D. et al (2008) *Understanding builder to builder residential land transactions.* University of Sheffield and DCLG

³⁶ Royal Town Planning Institute. (2014) *Lyons housing review: submission by the Royal Town Planning Institute, RTPI*

³⁷ Adams, D. et al (2008) *Understanding Builder to Builder Residential Land Transactions.* University of Sheffield and DCLG

³⁸ Ibid

³⁹ Monk et al, (2006) *Delivering affordable housing through Section 106,* Joseph Rowntree Foundation

In order to achieve maximum returns, developers will phase developments and drip feed the market in order to 'hold up prices by holding back demand. In this way prices are levered upwards even when supply is increased or demand is low'.³³ The result of this build-out strategy is that important supply is delayed from coming forward to meet demand, and that it often takes more than five years to complete developments. In the current planning regime, this creates problems as land still to be developed on a site is removed from the estimate of the housing land supply. This increases the pressure for local authorities to grant permission for inappropriate development to comply with national planning policy.

The need for developers to secure maximum profits on each housing unit has also seen business strategies become 'focused on land trading'.³⁴ It is estimated that developers buy 'between 10% and 20% of their land stock from each other and the larger the firm the more likely it is that they will trade with other developers'.³⁵ This focus on land transactions has meant that the house building sector has come to 'be characterised as much by trading land as opposed to actually building houses'.³⁶

House builders will trade land in order to 'maximise sales potential by optimising the number of outlets'.³⁷ Large house builders will also trade land in areas where sales and profits targets have already been met 'in order to compensate the failure of another region to have met its targets. If external influences weaken the demand for and price of housing, land is also traded between developers as a cash raising exercise to secure valuable cash flow'.³⁸

When buying parcels of land, new owners may want to renegotiate planning permissions in order to secure a development scheme that they feel will generate more profit.³⁹ Other developers may choose not to develop a site but add it to a strategic land bank if that suits their business plan. This focus on trading either to increase cash flows or secure land in new areas delays land with planning permission being developed as housing. Developer trading is mainly secured by trust and often land traded may not enter the open market at all; this makes it hard to track the amount of land being traded.

It is clear both drip feeding housing and land trading strategies can delay the rate of land with planning permission becoming a completed housing development. This lowers the rate of housing supply. Furthermore, research into strategic land banking and developer trading is hindered by the lack of need to register these transactions, and a lack of data on sites available from the Land Registry. A greater level of transparency in land ownership and land trading can enable better planning for housing, from the national to the neighbourhood level.

4.0 Policy solutions

4.1 Recommendation 1: Empower local government in the development process

The structure of the housing building sector means that currently, 'houses are built to ensure 'profitability is maintained' and the 'shareholders of house builders are satisfied'.⁴⁰ House builders' business strategies are cautious and, generally, it is most profitable for them to secure land in order to benefit from rises in the price of land and to drip feed housing onto the market by developing relatively few properties over a long period of time. House builders are private companies and are naturally profit driven; they do not see their role as a public service to provide an adequate level of housing to meet the demands of communities. However, it is important to remember that it is not just house builders that benefit from movements in land value, as non-builders that sit on land with planning permission and are less likely to develop housing also benefit.⁴¹ Empowering local government can accelerate the delivery of housing that has already been given permission.

Implement 'use it or lose it' measures

To give local planning authorities more control over land in their areas, they need greater powers to decide on how long a planning permission should remain current. At present, there is a default time limit of three years for a full planning permission and renewing permission is often an inexpensive process in many local authorities. Allowing a local planning authority to consider, and if necessary shorten, the life of permission when granting it, will act as a strong deterrent in tackling developers who unnecessarily hold land with planning permission for housing back from development.⁴² Increasing the cost of renewing or extending the life of applications for residential development that has not been implemented should be also be considered by local authorities if there is no valid reason for that development not having taken place.⁴³

⁴⁰ Marsh, A (2013) The problem of housing supply. www.alex-marsh.net

⁴¹ Molior (2012) What are the market-perceived barriers to residential development in London. London: Molior London Limited

⁴² Crowe, D. and Howell, S. (2013) Clearing the hurdles: Freeing localities to boost national growth. Localis

⁴³ Lyons, M. et al (2015) Mobilising across the nation to build the homes our children need. Labour Party: the Lyons housing review

Changing what constitutes the implementation of planning permission also needs to be examined to prevent developments remaining uncompleted. Section 56 of the Town and Country Planning Act 1990 states that to implement planning permission a developer needs to carry out 'construction work, demolition, digging of a trench for foundations, laying of underground pipes or mains to the foundations, laying of construction of roads or any change of use in the land'.⁴⁴ After any of these relatively minor operations have been undertaken, the planning permission remains extant and the developer can indefinitely delay the continuation and completion of construction.

⁴⁴ Town and Country Planning act (1990), Section 56, Legislation

A potential solution to this problem is for a local authority to agree what counts as a 'material operation' (and therefore implementation) of a planning permission as part of the planning application process. This would prevent relatively minor operations counting as implementation and incentivise a quicker completion of development. Further to this, local authorities should be given the option to charge council tax on the dwellings for which they have given planning permission 24 months after planning permission is granted, even if development remains uncompleted. Charging council tax on the completed property values of sites in this way will mean that house builders are incentivised to finish and market development, again accelerating housing delivery.⁴⁵

⁴⁵ CPRE (2014) Removing Obstacles to Brownfield Development, CPRE Housing Foresight paper 2

New models of land acquisition and compulsory purchase orders

Compared with local government in many other European countries, in general local government in England plays a largely passive role in the delivery of new housing. The acquisition of land remains the most expensive cost in the development process, with the rise in land value, once planning permission is granted, being distributed between land owners and house builders. The impact of purchasing land at such a high cost is that developers' business strategies are cautious, based around the need to meet required profit levels. This model of land acquisition and development exacerbates volatility and is a key reason that housing supply remains at low levels.⁴⁶

⁴⁶ Aubrey, T. (2015) The challenge of accelerating UK house building: A predistribution approach. Policy Network

Local authorities in England could be empowered to restructure the way that land is acquired for residential development through greater use of compulsory purchase powers. At present, it's been suggested compulsory purchase orders favour landowners as 'they protect landowners rights to windfall profits, resulting in no meaningful difference between the price of the land on the open market and the price at which a local authority could purchase the land'.⁴⁷ Current legislation means that local authorities are put off using compulsory purchase because it is seen as drawn out, complex and expensive.⁴⁸

⁴⁷ Ibid

⁴⁸ Lyons, M. et al (2015) Mobilising across the nation to build the homes our children need. The Labour Party: Lyons housing review

In Germany, the legal system ‘freezes the value of the land when the local municipality decides to specify an area for residential construction.’ This allows a quick acquisition of suitable land by the municipality at existing land use value. The increase in value ensuing from the sale of land as housing plots to house builders then pays for the necessary infrastructure for the development. The positive impact of this model of land acquisition is that it appears to have the effect of limiting the ‘differences between use value and market value’, which is why Germany has low volatility in its housing market.⁴⁹

⁴⁹ Aubrey, T. (2015) *The Challenge of Accelerating UK House Building: A Predistribution Approach*, Policy Network

Therefore, it would be possible to reform compulsory purchase orders in England to allow the acquisition of suitable land at existing use value (the value of the site in its current use, i.e. agricultural land values or industrial land values as opposed to the value of land in residential use). Suitable land could include brownfield land, land agreed by proper consultation with local communities or where land has planning permission for housing but the land owner has no intention of ‘building out development’.⁵⁰

⁵⁰ Cox, E. (2014) *Home economics: The role of housing in rebalancing the economy*, Institute for Public Policy Research

This mechanism would de-risk the land acquisition process and make land for residential development more affordable. It would have the added benefit of the rise in land value being captured by the state, enabling it to be used to provide necessary infrastructure for a development scheme. Local authorities could then sell serviced plots to house builders, potentially accelerating completion rates because profits would be derived from the sale of properties as opposed to movements in land value. A percentage of any profit made by local authorities in the process should be given to land owners to compensate the loss of land.

4.2 Recommendation 2: Improve site identification for residential development

As described above, in response to challenging targets set by five-year housing land supply documents, local planning authorities are encouraged to allocate large sites for housing in order to meet targets. However, the complexity of negotiating planning obligations on large sites, combined with the phasing strategies employed by volume house builders and slow build-out rates, mean that this type of development often takes more than five years for all houses to be completed. The result is that the land still to be developed is removed from the estimate of the five-year housing land supply and pressure is put on the local authority to release more, often inappropriate, land for housing.

Evidence from the Local Government Association suggests that large sites overly dominate the permissions given for new housing, with only 8% of planning permissions for residential development given for sites of under 10 units between 2007 and 2013. This is despite the fact that build-out rates on smaller sites are faster than those on large sites. In 2013, the average time from permission to completion was just 22 months for schemes of fewer than 10 units compared with 47 months for schemes of more than 250 units.⁵¹

⁵¹ Spratt, L. (2013) An analysis of unimplemented planning permissions for residential dwellings 2013. Local Government Association

Average time taken to progress schemes from obtaining permission to completion by number of units per scheme in 2012/13 financial year⁵²

⁵² Ibid

	Average time from permission to start on site (months)	Average time from start on site to completion (months)	Average time from permission to completion (months)	Base
Fewer than 10 units	11	11	22	288
10-49 units	12	13	25	1,526
50-99 units	10	22	31	351
100-249 units	12	26	38	233
250 or more units	15	34	47	64
All schemes	12	16	27	2,462

To overcome the housing crisis, it is essential that the capacity of small scale sites is realised and the many smaller development opportunities that exist in England's urban areas come forward for development. Local authorities can improve the way that suitable small sites are identified and added into local plans.

On larger sites that have been allocated for residential development in five-year housing land supply plans, and are owned by a solitary developer, local authorities could have more power to enforce a developer to build-out a site within five years or offer plots of land on the site to small and medium sized builders or to self-builders to develop the remaining parcels of land within the five-year period. Local authorities could also identify and map small publicly owned sites in their areas and offer them to smaller and medium sized builders, housing associations or for innovative development models, such as community land trusts and custom and self-build.⁵³

⁵³ CPRE, (2015) forthcoming Housing Foresight research. CPRE

4.3 Recommendation 3: Greater transparency in land ownership and the development process

Land ownership

Currently, there is a lack of transparency in the residential land market in terms of ownership and transactions. This lack of information about the land market contributes to blocking new entrants to the market.⁵⁴ There is little information about 'not only who owns land but who has an option to acquire that land conditional in some way on the granting of planning permission'.⁵⁵ The Land Registry only holds information for 82% of the land in England and Wales, and such information is expensive to access. However, this information is essential to improving planning at a national, local and neighbourhood level, and making it publically accessible would help improve planning for new housing.⁵⁶

To make the ownership of land more transparent, it should be obligatory to register all land ownership, options agreements and sales with the land registry. To enforce this, financial penalties should apply if land is not registered after a year and, after five years, remaining unregistered land could become public property.⁵⁷

⁵⁴ Griffith, M. and Jefferys, P. (2013) Solutions for the housing shortage: How to build the 250,000 homes we need each year. Shelter

⁵⁵ Royal Town Planning Institute. (2014) Lyons housing review: submission by the Royal Town Planning Institute, RTPI

⁵⁶ Lyons, M. et al (2015) Mobilising across the nation to build the homes our children need. The Labour Party: the Lyons housing review

⁵⁷ Griffith, M. and Jefferys, P. (2013) Solutions for the housing shortage: How to build the 250,000 homes we need each year. Shelter



Transparency in the assessment of viability

A key reason for delay in the completion of housing developments is negotiation around the viability of a development scheme. House builders often argue that the development of a scheme that contains the payment of planning obligations at a level that would be deemed acceptable by local authorities is not viable under current market conditions. However, in its current format, the processes used for assessing the viability of individual development schemes are flawed. For a start, there is no agreed methodology for assessing viability and that, as the Lyons Review observed, 'allows different parties to pick the methodology most to their advantage'.⁵⁸ On top of this, data used in valuations, such as the cost of construction, are case specific and not standardised, and the sources of many variables inputted into the process are kept confidential by developers, which encourages manipulation.⁵⁹

To minimise their costs in the process of independent assessment, developers employ companies that deliberately underestimate development values and overstate development costs to create an artificially pessimistic outcome.⁶⁰ Through this process a 'viability industry' of advisers skilled in minimising developer obligations and agents getting 'incentives for reducing them' has been created.⁶¹ This process of negotiation greatly lengthens the time it takes for development to start on individual sites.

Therefore, in order to increase transparency and accelerate the negotiation process, an 'open book' approach to the assessment of viability is needed, with no variables redacted to preserve commercial confidentiality. Guidance around the assessment of viability should also be clarified, with a single methodology identified to decrease uncertainty and offer more clarity to developers, land owners and local authorities.⁶²

⁵⁸ Lyons, M. et al (2015) Mobilising across the nation to build the homes our children need. The Labour Party: the Lyons housing review

⁵⁹ Colenutt, R. (2015) Viability assessment and freedom of information, Paper for Highbury group on housing delivery: 20 April 2015

⁶⁰ London Borough of Islington. (2014) Development viability: Discussion paper and questionnaire, London Borough of Islington

⁶¹ Colenutt, R. (2015) Viability assessment and freedom of information. Paper for Highbury group on housing delivery: 20 April 2015

⁶² Lyons, M. et al (2015) Mobilising across the nation to build the homes our children need. The Labour Party: the Lyons housing review



5.0 Conclusion

The aim of this paper has been to highlight the negative impacts on housing delivery arising from the fact that the English house building sector is currently overly reliant on a small number of volume house builders. These volume house builders are private companies and their business strategies are, understandably, focused around continuing profitability and satisfying the demands for their shareholders, rather than building housing to meet the demands of communities. It is clear that certain business strategies employed by many of these companies to ensure the maximisation of profits are intensifying the housing crisis:

- Many house builders have taken advantage of policy set out in the National Planning Policy Framework to target large-scale and often inappropriate greenfield sites for development, rather than locally supported greenfield and brownfield sites, because it is simpler to generate the returns they require.
- House builders are holding large amounts of land in strategic land banks, generally on options agreements, in the hope that they can develop viable sites in the future. However, this strategy is 'locking up' sites in areas with high housing demand far into the future and decreasing competition from other house builders who cannot access the land.
- House builders are trading an unknown amount of land (with or without planning permission) with each other, and this can delay the development of housing.
- They are also phasing the development of large sites, drip feeding markets so they can achieve the maximum sales price possible for each unit. This strategy is creating pressure on local authorities to identify more land for development, generating a greater likelihood of inappropriate land being allocated for housing.

Local authorities can be empowered to combat these strategies and accelerate the rate at which housing is developed. To prevent land banking, it should be up to a local authority to decide on the life of a planning application to ensure that permissions are implemented within a certain time.

However, the definition of implementation should be decided on by the local authority and house builder as part of the application process to both prevent 'minor operations' counting as implementation and incentivise quicker completion of development. To further encourage the completion of housing, an option to levy council tax on the projected value of homes that have not been completed 24 months after full permission has been granted, could be adopted by local authorities.

Drawing on the example of house building in Germany, local authorities in England could become more involved in land acquisition. Reforming compulsory purchase orders to enable the purchase of suitable land for residential development at current use values (the value of the site in its current use, i.e. agricultural land values or industrial land values as opposed to the value of land in residential use), would enable communities to benefit from the increase in values from the sale of land as housing plots to developers, which can then be used to pay for the necessary infrastructure for development.⁶³

⁶³ Aubrey, T. (2015) The challenge of accelerating UK house building: A predistribution approach. Policy Network

Allocating smaller sites for development can accelerate the building of housing. Currently, planning pressures are having the impact of incentivising local authorities to allocate large sites for development. However, these sites are complex and completing their development takes a number of years, compared with smaller sites which, on average, have a speedier build out. Between 2007 and 2013, just 8% of residential permissions were given for sites of 10 units or less, despite England's urban areas containing many small scale sites suitable for residential development by smaller and medium sized house builders. Realising the capacity of such sites is essential to meeting housing need.



Transparency of land ownership and in the development process is also key to improving the development of housing. Enabling the identification of land ownership and options agreements is important for successful planning at a neighbourhood, local authority and national level. The compulsory registry of all land, including all land held in option, with penalties for land owners who fail to register land, can allow more robust planning for housing into the future. Agreeing a clear method in the assessment of viability, and increasing transparency by requiring all valuations to be 'open-book' can shorten unnecessary delays for negotiation in the development process, ensuring an acceleration of house building.

The business focus on profitability employed by large house builders impacts on the supply, location and build-out rates of new housing delivered. This means that achieving the construction of 200,000 houses per year or more is highly unlikely while the structure of the industry remains the same.⁶⁴ While many of the policy recommendations in this paper have the potential to accelerate housing build-out, a wider discussion is needed about the future provision of housing in England. This discussion needs to examine the ways in which the diversity in the house building sector can be encouraged, what roles the public sector can play, and what policy and legal mechanisms are needed to speed up the delivery of new housing on allocated land.

⁶⁴ Knight Frank (2015) Gaining Ground: House Building Report 2015. Knight Frank Residential Research

Photo credits:

Cover photo: Abandoned housing development near Burford, Oxfordshire © Chris Howes Wild Places Photography Alamy; page 5 and page 6 © Shutterstock; page 19 © Elliot Brown; page 22 © Hazel Simpson; back cover: © Chris Guy.

All other images © CPRE



CPRE is an environmental charity campaigning for a beautiful and living countryside that everyone can value and enjoy.

We aim to defend the countryside from damaging development by:

- influencing national and local planning policy relating to housing
- promoting appropriate brownfield development
- promoting examples of sustainable urban and rural development and good practice
- influencing the approach of the Government towards the countryside and planning

Campaign to Protect Rural England
5-11 Lavington Street
London
SE1 0NZ

020 7981 2800
info@cpre.org.uk
www.cpre.org.uk
tweet @cpre

Registered charity number: 1089685

CPRE is a company limited by guarantee registered in England, number 4302973

June 2015



Researched and written
by Luke Burroughs.