



## Housebuilding in the UK Debate on 11 January 2018

### Summary

On 11 January 2018, the House of Lords is due to debate a motion moved by Lord Best (Crossbench) “that this House takes note of the performance of the United Kingdom’s major housebuilders”.

Housing policy is a devolved matter, controlled by the constituent nations of the UK. While policies vary in each country in response to specific circumstances there are common themes in terms of the supply and affordability of housing. However, this Library Briefing focuses on the response of the UK Government’s approach to the housing market in England for which it has competence.

It is argued that the level of house building in England has failed to keep up with demand over a protracted period contributing to a housing shortage, and rising house prices. One basis for this argument is that the number of new homes completed annually has consistently failed to match the projected level of household formation. This has led experts to suggest that between 240,000 and 300,000 additional units per year are required to meet both new and historic demand. However, both the Government and industry experts highlight the fact that the level of new builds does not provide the full picture; there were 217,350 ‘net additional dwellings’, completed in 2016/17. These are considered the most accurate measurement of additional housing stock.

The use of household projection data on which to predict demand is also contested. While there are those who suggest current projections might underestimate demand due to the level of concealed households, there are others who contend that in fact the projected number of new households has consistently exceeded actual household formation.

The Government’s 2017 white paper on housing describes the housing market as ‘broken’, blaming the supply shortage, “for too long, we haven’t built enough homes”. The housebuilding market has come to be dominated by the private sector, led by ten large companies. While the private sector’s output is at record levels, public sector housebuilding has been in a long-term decline. The white paper outlines the Government’s plans to change (‘fix’) the market. It has called for a new approach to house building that includes: building homes based on need; building homes faster; diversifying the house building market; and by making it more affordable for people to buy homes.

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## 1. Introduction

On 11 January 2018, the House of Lords is due to debate a motion moved by Lord Best (Crossbench) “that this House takes note of the performance of the United Kingdom’s major housebuilders”.

This Library Briefing examines the supply crisis in the UK presenting an overview of relevant statistics relating to the supply and demand for housing. As housing is a devolved matter, this Briefing focuses on issues within the English housing market for which the UK Government has competence, and its response to tackle these. This Briefing discusses trends in the homebuilding sector such as the growth of the private sector and decline of small and medium-sized enterprises (SMEs). It also looks at emerging business practices within the sector, and emerging trends including consolidation, risk management, land banking and profit maximisation.

## 2. Background: A Crisis of Supply?

House building in the UK has been on a long term downward trend since 1970. Figure 1 shows the steady decline in new home completions in the UK between 1970 and 2017. The number of homes completed in 2016/17 was less than half the number completed in 1969/70.<sup>1</sup> The overall number of new homes built dropped below 200,000 a year in 1990/91, a number which at the time was considered to be the minimum level necessary to keep up with population growth.<sup>2</sup> Since then annual completions have only exceeded 200,000 four times.<sup>3</sup> There was a marked fall-off in completions during the financial crisis, reaching a low point of 133,000 completions in 2012/13. While housebuilding has begun to recover since, the number of completions still only reached 178,360 in 2016/17, according to the DCLG’s new build statistics<sup>4</sup> (It should be noted that the DCLG describe these figures as “a leading indicator of overall housing supply”,<sup>5</sup> and it has been suggested that—for England at least—they underreported the level of new builds completed in 2015/16 by around 15 percent.<sup>6</sup>)

Of the 378,320 homes completed in the UK in 1969/70, 306,860 or 81 percent were in England; 11 percent were in Scotland; 5 percent were in Wales; and 3 percent were in Northern Ireland.<sup>7</sup> This remains consistent

<sup>1</sup> Department for Communities and Local Government, ‘[Permanent Dwellings Completed, by Tenure and Country](#)’, accessed 20 December 2017.

<sup>2</sup> Matthew Weaver, ‘[How did the Crisis in UK Social Housing Happen?](#)’, *Guardian*, 4 October, 2017.

<sup>3</sup> Department for Communities and Local Government, ‘[Permanent Dwellings Completed, by Tenure and Country](#)’, accessed 20 December 2017.

<sup>4</sup> *ibid.*

<sup>5</sup> Department for Communities and Local Government, *House Building: New Build Dwellings, England: September Quarter 2017*, 19 December 2017, p 2.

<sup>6</sup> Residential Analysts, ‘[Counting Houses is Difficult](#)’, 29 August 2017.

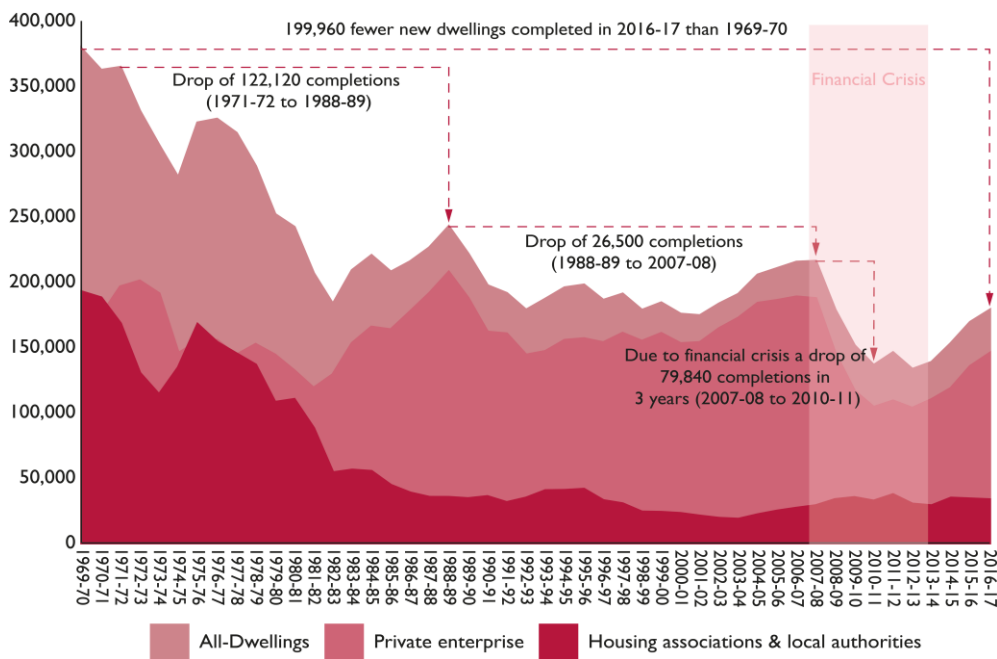
<sup>7</sup> Department for Communities and Local Government, ‘[Permanent Dwellings Completed, by Tenure and Country](#)’, accessed 20 December 2017.

with the split seen in 2016/17: 83 percent in England; 10 percent in Scotland; 4 percent in Wales; and 4 percent in Northern Ireland.<sup>8</sup>

Across the UK private enterprises accounted for 81 percent of all new homes in 2016/17, this compares to 49 percent in 1969/70. Regionally the private sector’s share of new builds increased:

- in England from 53 percent in 1969/70 to 83 percent in 2016/17;
- in Scotland from 20 percent in 1969/70 to 77 percent in 2016/17;
- in Wales from 54 percent in 1969/70 to 82 percent in 2016/17; and
- in Northern Ireland from 37 percent in 1969/70 to 83 percent in 2016/17.<sup>9</sup>

**Figure 1: Number of Homes Completed in the UK, 1969/70 to 2016/17**



(Source: Department for Communities and Local Government, ‘[Permanent Dwellings Completed, by Tenure and Country](#)’, accessed 20 December 2017)

The Government’s 2017 white paper on housing, *Fixing Our Broken Housing Market*, opens with the statement that “the housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes”.<sup>10</sup> This is a widely held viewpoint that has existed for some time.<sup>11</sup>

<sup>8</sup> Department for Communities and Local Government, ‘[Permanent Dwellings Completed, by Tenure and Country](#)’, accessed 20 December 2017.

<sup>9</sup> *ibid.*

<sup>10</sup> Department for Communities and Local Government, *Fixing Our Broken Housing Market*, February 2017, Cm 9352.

For example, a 1983 article in the *Times*, cited by the House of Lords Economic Affairs Committee, stated: “There is likely to be a critical lack of supply unless large-scale building programmes are undertaken immediately [...] too few homes are being built to satisfy the projected demand”.<sup>12</sup>

The Barker Review (2004), commissioned by the then Labour Government, observed the inadequacy of housing supply in the UK, warning that a failure to increase house building would lead to: “problems of homelessness, affordability and social division, decline in standards of public service delivery and increasing the costs of doing business in the UK—hampering our economic success”.<sup>13</sup>

The year the Barker Review was published 205,400 homes were completed in the UK.<sup>14</sup> This was well above the average number of completions seen in the UK since 1990/91 (180,000) when annual completions fell below 200,000 for the first time, but it is argued this still falls short of current demand. In England alone the Government now estimates that somewhere between 225,000 and 275,000 new homes are needed to keep up with a growing population.<sup>15</sup>

## 2.1 Net Housing Supply

New builds are not the only means of increasing housing stock. Conversions of industrial buildings into flats, for example, increases the ‘net supply of housing’.<sup>16</sup> The Department for Communities and Local Government (DCLG) consider ‘net additional dwelling’ statistics as “the primary and most comprehensive measure of housing supply”.<sup>17</sup> The annual net change in the dwelling stock breaks down as follows:

- New house building completions;
- Gains or losses through conversions (for example of a house into flats);
- Changes of use (for example a shop into house or a barn conversion);
- Demolitions; and

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<sup>11</sup> Tom Archer and Ian Cole, [Profits Before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, pp 3 and 9.

<sup>12</sup> B Smith, ‘Crisis in Housing ‘by 1986’’, *Times* (£), 14 February 1983, cited in: House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17.

<sup>13</sup> Kate Barker, [Review of Housing Supply](#), March 2004.

<sup>14</sup> Department for Communities and Local Government, ‘[Permanent Dwellings Completed by Tenure and Country](#)’, accessed 20 December 2017.

<sup>15</sup> Department for Communities and Local Government, [Fixing Our Broken Housing Market](#), February 2017, Cm 9352, p 9.

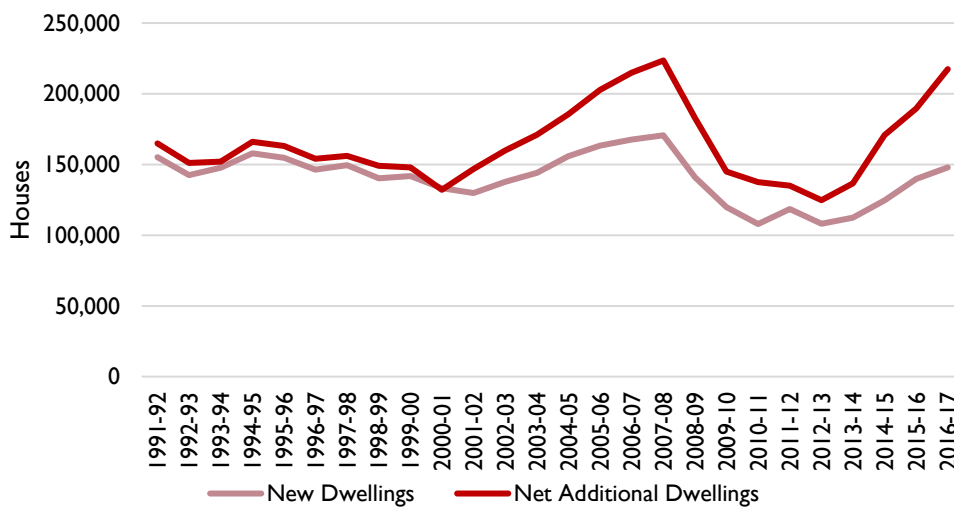
<sup>16</sup> Department for Communities and Local Government, ‘[Housing Supply: Net Additional Dwellings](#)’, accessed 21 December 2017.

<sup>17</sup> *ibid*, p 2.

- Other changes to the dwelling stock (caravans, houseboats etc).<sup>18</sup>

According to DCLG, net additional dwellings reached a peak of 223,530 in England in 2007/08 and then decreased to 124,720 in 2012/13 with the economic downturn.<sup>19</sup> Since then, net additions have increased to 217,350 in 2016/17, up 15 percent on the previous year. This level is 3 percent below the 2007/08 peak.<sup>20</sup> Figure 2 shows the recent trends in new builds and net dwellings.

**Figure 2: Trends in Housing Supply; New Dwellings and Net Additional Dwellings in England 1991/92 to 2016/17**



(Source: Department for Communities and Local Government, '[Permanent Dwellings Completed, by Tenure and Country](#)', and '[Housing Supply: Net Additional Dwellings, England: 2016/17](#)', accessed 20 December 2017)

Analysis by the Nationwide Building Society suggests that while the construction of new build properties is still too low, the increase in conversions can be attributed to a change in government policy.<sup>21</sup> Nationwide concludes:

From 2014, automatic permitted development rights were granted to convert offices into residential properties. Since then, so called 'change of use' additions to housing have nearly doubled, from c20,000 in 2006/07 to 37,000 in 2016/17. Of these, about 18,000 were granted under the new permitted development rights.<sup>22</sup>

<sup>18</sup> Department for Communities and Local Government, '[Housing Supply: Net Additional Dwellings](#)', accessed 21 December 2017, p 4.

<sup>19</sup> *ibid*, p 2.

<sup>20</sup> *ibid*.

<sup>21</sup> Nationwide Building Society, '[House Price Index](#)', November 2017.

<sup>22</sup> *ibid*, p 1.

Conversions have made a significant contribution to increasing the net supply of housing in London and other cities with a limited and expensive housing stock. However, Nationwide suggest growth in this sub-sector is likely to slow as the availability of sites reduces<sup>23</sup> a view shared by Daniel Bentley in a 2016 Briefing Note for Civitas who questioned “how sustainable it will prove to rely on current levels of conversions and change of use from existing premises, which are by their nature finite”.<sup>24</sup>

## 2.2 Housing Shortage

It is argued that the level of house building in England has failed to keep up with demand over a protracted period contributing to a housing shortage, and rising house prices.<sup>25</sup> One basis for this argument is that the number of new houses completed annually has consistently failed to match the projected level of household formation,<sup>26</sup> with the number of new households projected to increase by an average of 206,000 per year in England up to 2039.<sup>27</sup>

It is these projections that have seen the previous Conservative Government include a manifesto pledge to deliver around 200,000 new homes per year up to 2020, with a further half a million by the end of 2022.<sup>28</sup> Academics Tom Archer and Ian Cole of the Sheffield Hallam University Centre for Regional Economic and Social Research have identified a widespread consensus that between 240,000 and 300,000 additional units per year would be required,<sup>29</sup> to meet both new demand and deal with the backlog.

According to Ian Mulheirn of Oxford Economics, however, the household forecasts used have ‘persistently’ overestimated actual household formation rates for many years.<sup>30</sup> He states that since 2000 household formation has averaged only 168,000 per year in the UK, arguing there is nowhere near the level of demand predicted and that in fact there is no real evidence of a housing shortage.<sup>31</sup>

<sup>23</sup> Nationwide Building Society, [House Price Index](#), November 2017, p 2.

<sup>24</sup> Daniel Bentley, [Housing Supply and Household Growth, National and Local](#), Civitas, December 2016.

<sup>25</sup> Matt Griffith and Pete Jefferys, [Solutions for the Housing Shortage](#), Shelter, July 2013.

<sup>26</sup> *ibid.*

<sup>27</sup> Department for Communities and Local Government, [‘Live Tables on Household Projections’](#), accessed 20 December 2017.

<sup>28</sup> Conservative Party, [The Conservative Party Manifesto 2017](#), 18 May 2017, p 70.

<sup>29</sup> Tom Archer and Ian Cole, [Profits Before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 4.

<sup>30</sup> Ian Mulheirn, [‘Is there \\*really\\* a housing shortage?’](#), Medium Blog, 16 January 2017.

<sup>31</sup> *ibid.* Further debate on this point can be found in: Chris Giles, [‘However You Analyse It, Housing in Britain is a Mess’](#), *Financial Times* (£), 9 November 2017; and Kate Barker and Neal Hudson, [‘Will Building More Homes Help to Reduce Housing Costs?’](#), Resolution Foundation, 21 November 2017.

There is however, the counter argument that household projections do not take full account of demand. Daniel Bentley, in his Civitas Briefing Note, suggested that over previous years the under supply of housing would have curtailed household formation. Therefore, projections based on historic trends would not take full account of latent demand.<sup>32</sup>

Evidence submitted to the House of Lords Economic Affairs Committee inquiry pointed to an under acknowledged level of ‘concealed households’ whereby “young adults, couples and mothers with children [are] continuing to live with parents, young adults [are] trapped in sharing and mature adults [are] obliged to share”.<sup>33</sup> While not all concealed households share involuntarily,<sup>34</sup> the number has increased by 70 percent (from 170,000 to 289,000) between the 2001 and 2011 census.<sup>35</sup>

In a 2014 Cambridge Centre for Housing and Planning Research paper, A E Holmans suggested that current estimates of demand and need for housing in England should be revisited, given current targets were substantially ahead of the number of new dwellings completed each year and population projections on which they are based rest on high assumptions about immigration.<sup>36</sup> The paper concluded that while the demand for new private sector housing was likely to be less than the 170,000 target, the target for “affordable” housing appeared likely to be well below the level of “need”.<sup>37</sup>

### **Building More Homes**

The target figure of 300,000 homes per year comes from a recommendation in the House of Lords Economic Affairs Committee report, *Building More Homes*, published in July 2016. Having considered a significant body of oral and written evidence, the Committee recommended that, “To meet that demand and have a moderating effect on house prices, at least 300,000 homes a year need to be built for the foreseeable future. Otherwise the average age of a first-time buyer will continue to rise”.<sup>38</sup>

The Committee concluded that while previous government targets to build 200,000 homes per annum may have taken account of population growth

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<sup>32</sup> Daniel Bentley, [Housing Supply and Household Growth, National and Local](#), Civitas, December 2016.

<sup>33</sup> House of Lords Economic Affairs Committee, ‘[Martin Grubb: Written Evidence \(EHM0066\)](#)’, p 558.

<sup>34</sup> A E Holmans, [Housing Need and Effective Demand In England: A Look at “The Big Picture”](#), Cambridge Centre for Housing and Planning Research, April 2014.

<sup>35</sup> *ibid*, p 14.

<sup>36</sup> *ibid*.

<sup>37</sup> *ibid*, p 15.

<sup>38</sup> House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17, p 31, para 84.



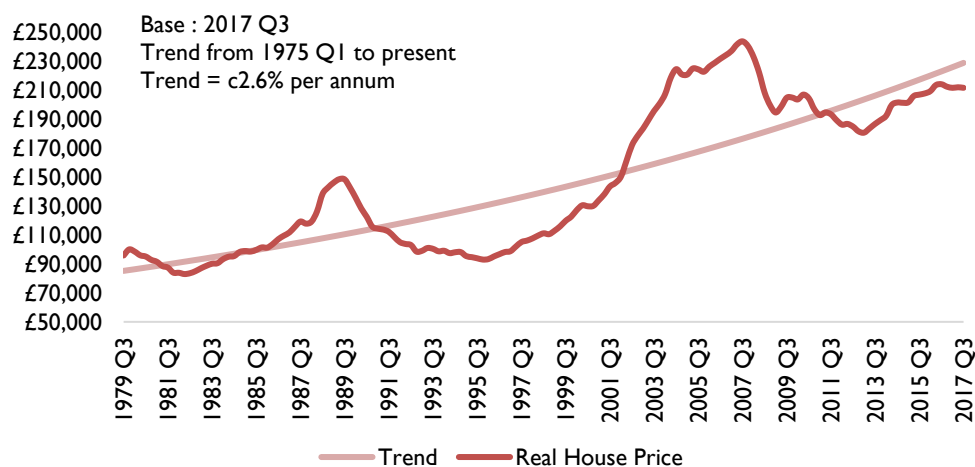
and the household projections,<sup>39</sup> it did not consider the backlog created by the failure to build enough homes over many years.<sup>40</sup> The Committee suggested therefore that the target of 200,000 would fail to meet the demand for new homes or moderate the rate of house price increases.<sup>41</sup>

The House of Commons Library Briefing Paper [Tackling the Under-Supply of Housing in England](#), published in June 2017, considers key trends in housing supply in the UK and goes on to focus on some of the key barriers and potential solutions to increasing supply in England.

### 3. House Prices

The lack of new builds is widely acknowledged to be a leading factor in house price inflation.<sup>42</sup> The latest house price figures from the Nationwide Building Society show house prices in the UK rise, on average, by around 2.6 percent per annum. As of 2017 Q3, the average UK house cost £228,915.<sup>43</sup> This price has risen £5,875 in twelve months (since 2016 Q3). Since Q3 of 2013, the average price has risen by £25,275 (see Figure 3).

**Figure 3: UK House Prices Adjusted for Inflation 1979–2017**



(Source: Nationwide Building Society, '[UK House Prices Adjusted for Inflation](#)', accessed 21 December 2017)

<sup>39</sup> House of Lords Economic Affairs Committee, [Department for Communities and Local Government and Her Majesty's Treasury: Oral Evidence \(EHMOE0014\)](#), 22 March 2016, p 345.

<sup>40</sup> House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17, p 29, para 79.

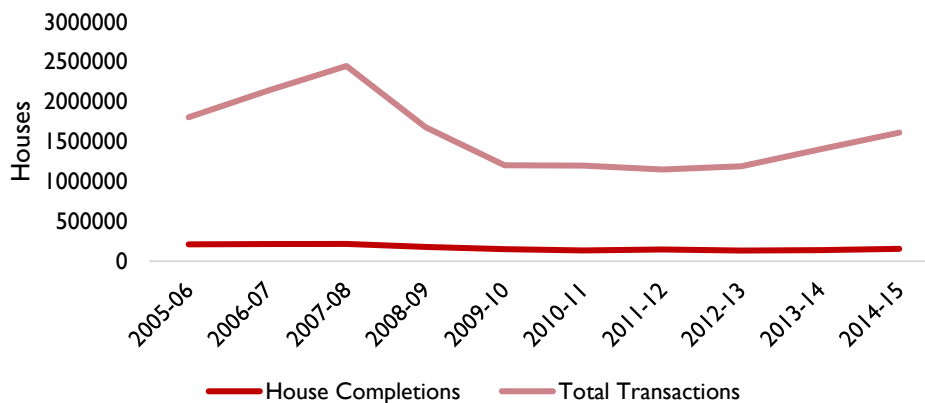
<sup>41</sup> *ibid*,

<sup>42</sup> Christian Hilber and Wouter Vermeulen, [The Impact of Supply Constraints on House Prices in England](#), London School of Economics, 22 April 2014; and Tom Archer and Ian Cole, [Profits before Volume? Major house builders and the crisis of housing supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 4.

<sup>43</sup> Nationwide Building Society, '[UK House Prices Adjusted for Inflation](#)', accessed 21 December 2017.

New builds make up a very small part of the overall housing market, with most transactions involving the existing housing stock. For example, in 2014/15 there were 152,890 new houses completed,<sup>44</sup> whilst there were over 1.6 million properties sold.<sup>45</sup> Assuming all new builds were sold, this would represent around 9.5 percent of total transactions (see Figure 4).

**Figure 4: Total Annual UK Residential Property Transactions versus New House Completions 2005/06 to 2014/15**



(Source: Office for National Statistics, '[Annual UK Property Transactions](#)'; and Department for Communities and Local Government, '[Permanent Dwellings Completed, by Tenure and Country](#)', accessed 20 December 2017)

### Affordable Housing

While 'real' house prices have grown dramatically over the past 40 years, 'real' incomes have not. This has, according to Christian Hilber and Wouter Vermeulen in a paper published by the London School of Economics, created a "housing affordability crisis", which acts as a particular barrier for new entrants onto the housing ladder.<sup>46</sup> Figures from the Office for National Statistics (ONS) show that, on average, working people could expect to pay around 7.6 times their annual earnings on purchasing a home in England and Wales in 2016, up from 3.6 times earnings in 1997.<sup>47</sup> The median price paid for residential property in England and Wales increased by 259 percent between 1997 and 2016; median individual annual earnings increased by 68 percent in the same time period.<sup>48</sup>

<sup>44</sup> Department for Communities and Local Government, '[Permanent Dwellings Completed, by Tenure and Country](#)', accessed 20 December 2017.

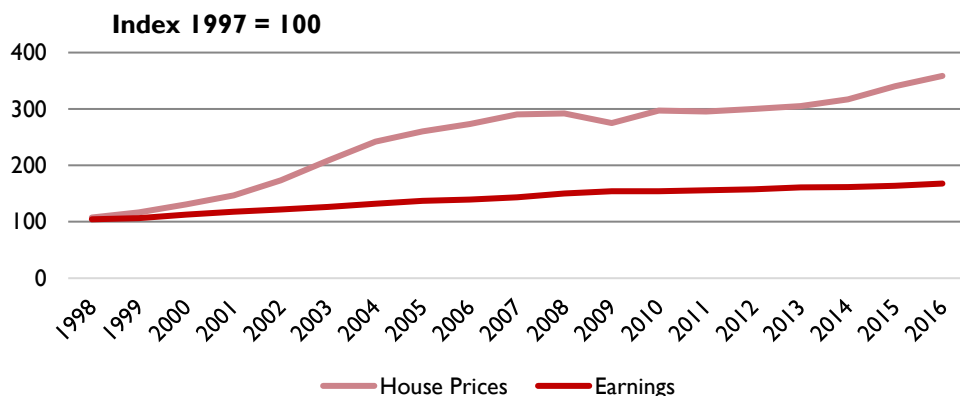
<sup>45</sup> HM Revenue and Customs and Office for National Statistics, '[Annual UK Property Transactions](#)', accessed 21 December 2017.

<sup>46</sup> Christian Hilber and Wouter Vermeulen, '[The Impact of Supply Constraints on House Prices in England](#)', London School of Economics, 22 April 2014.

<sup>47</sup> Office for National Statistics, '[Housing Affordability in England and Wales: 1997 to 2016](#)', March 2017.

<sup>48</sup> *ibid*, p 2.

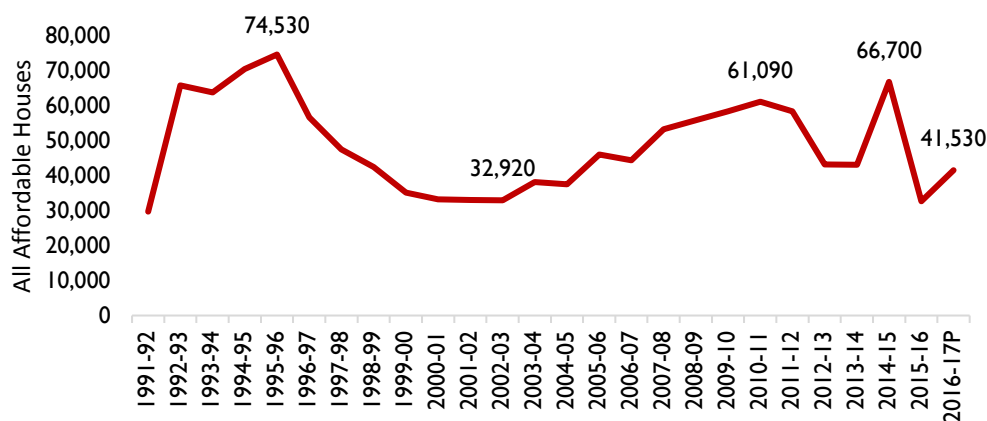
**Figure 5: Median Price Paid for Property and Annual Earnings Indices**



(Source: Office for National Statistics, [‘Median Price Paid for Property and Annual Earnings Indices’](#), accessed 21 December 2017)

Affordable housing is defined in the National Planning Policy Framework.<sup>49</sup> It includes social housing let by local authorities and housing associations and schemes which encourage affordable home ownership, such as shared equity homes.<sup>50</sup> The new supply of affordable homes peaked in 1995/96 at 74,530 before declining to a low of 32,920 in 2002/03. Delivery increased again up until 2010/11, followed by a decline. 2014/15 saw a 55 percent increase in delivery as the 2011–15 Affordable Homes Programme ended. In 2015/16 there was a 51 percent decrease in delivery. In 2016/17, 41,530 homes were delivered.<sup>51</sup>

**Figure 6: Affordable houses built in England 1991/2 to 2016/17**



(Source: Department for Communities and Local Government, [‘Table 1000: Additional Affordable Homes Provided by Type of Scheme, England’](#), accessed 20 December 2017)

<sup>49</sup> Department for Communities and Local Government, [National Planning Policy Framework](#), March 2012.

<sup>50</sup> *ibid*, p 50.

<sup>51</sup> Department for Communities and Local Government, [‘Table 1000: Additional Affordable Homes Provided by Type of Scheme, England’](#), accessed 20 December 2017.

The following House of Lords Library Briefing provides a broader discussion on the availability and affordability of housing in England:

- [Availability and Affordability of Housing](#), October 2017

This House of Commons Library Briefing Paper considers how affordable housing is defined in England and looks at key trends in the affordability of different tenure types:

- [What is Affordable Housing?](#), November 2017

#### 4. Policy Response

Housing policy is a devolved matter, controlled by the constituent nations of the UK. While policies vary in each country in response to specific circumstances there are common themes in terms of the supply and affordability of housing. However, this Library Briefing focuses on the response of the UK Government to the housing crisis in England for which it has competence.

##### 4.1 Housing White Paper

The housing white paper, *Fixing Our Broken Housing Market*, identified three main issues with the ‘broken’ housing market in England:

- Over 40 percent of local planning authorities do not have a plan that meets the projected growth in households in their area;
- The pace of development is too slow, despite a large increase in the number of homes being given planning permission; and
- The structure of the housing market, which is dominated by commercial developers, makes it harder to increase supply.<sup>52</sup>

The white paper noted that Britain’s ten largest housebuilding firms build around 60 percent of new private homes. It called for “a radical rethink of the country’s approach to house building” which has developed over decades. Its proposals included:

- Building homes where there is an identified need, based on a new standard methodology for calculating ‘objectively assessed need’, and encourage councils to plan on this basis;
- Building homes faster by streamlining the planning process;
- Diversifying the housing market by opening it up to smaller builders, encouraging local authorities to build again, encourage

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<sup>52</sup> Department for Communities and Local Government, [Fixing Our Broken Housing Market](#), February 2017, Cm 9352.

institutional investment in the private rented sector and promote more modular and factory built homes. It will also make it easier for people who want to build their own homes; and

- Introducing measures to support first time buyers, renters and preventing homelessness.

Based on these proposals the Government has introduced a number of measures alongside legislation, including:

- The [Help to Buy scheme](#), through which the Government lends up to 20 percent of the cost of newly built homes to house buyers;
- The [Housing Infrastructure Fund](#), a capital grant programme of up to £2.3 billion, to support local authorities to deliver up to 100,000 new homes in England;
- The [Home Building Fund](#), a loan funding scheme to help building companies of all sizes meet the development costs of building homes for sale or rent; and
- The Housing and Planning Act 2016 which provides several measures intended to promote homeownership and boost levels of housebuilding in England. The Act includes a general duty on all local authority planning departments to promote the supply of starter homes in their area. These will be new build homes available exclusively for first time buyers aged over 23 and under 40 and will be sold at 20 percent below normal market prices.

The following House of Commons Library Briefing Paper summarises the key 2015 and 2017 government initiatives aimed at increasing housing supply in England (aside from planning measures):

- [Stimulating Housing Supply—Government Initiatives \(England\)](#), December 2017

## 4.2 Autumn Budget 2017 (England)

In the Autumn Budget 2017, the Government acknowledged that “the only sustainable way to make housing more affordable over the long term is to build more homes in the right places”.<sup>53</sup> The Budget announced a package of measures, with the intention of bringing new house building to a level of 300,000 per year and “restore the dream of home ownership for a new generation”.<sup>54</sup>

<sup>53</sup> HM Treasury, [Autumn Budget 2017](#), 17 November 2017, HC 587 of session 2017–19, p 3.

<sup>54</sup> *ibid.*

An additional £15.3 billion of funding was announced for housing between 2017 and 2022; this would bring total support for housing to at least £44 billion over this period:

- A further £2 billion of funding for affordable housing including funding for social rented homes. This takes the total budget for the Affordable Homes Programme from £7.1 billion to £9.1 billion to 2020–21. It is expected that this will provide at least 25,000 new affordable homes;
- A further £2.7 billion to the competitively allocated Housing Infrastructure Fund (HIF) in England. This takes the total investment in the HIF to £5 billion;
- £1.1 billion for a new Land Assembly Fund, funded from the National Productivity Investment Fund (NPIF). The new fund will enable Homes England (HE) to work alongside private developers to develop strategic sites, including new settlements and urban regeneration schemes;
- £630 million through the NPIF to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation;
- £1.5 billion for the Home Building Fund, providing loans specifically targeted at supporting SMEs who cannot access the finance they need to build;
- More funding (£204 million) to encourage innovation and skills in the construction sector; and
- An increase in the Stamp Duty threshold to £300,000 for first-time buyers.<sup>55</sup>

## 5. House Building Market

The Government’s latest housing policy intends to rebalance the housing market which has been characterised by a significant decline in public sector house building activity (as shown in Figure 1 of this Library Briefing) and a consolidation of the private housebuilding market by ten of the largest housebuilding firms, who “[...] build around 60 percent of new private homes”.<sup>56</sup>

As discussed in section 4.1, the white paper called for a “radical rethink of the country’s approach to house building”, including diversifying the housing market by opening it up to smaller house building companies and encouraging local authorities to build again.

<sup>55</sup> HM Treasury, *Autumn Budget 2017*, 17 November 2017, HC 587 of session 2017–19, p 3.

<sup>56</sup> Department for Communities and Local Government, *Fixing Our Broken Housing Market*, February 2017, Cm 9352.

## 5.1 Industry Consolidation

### *Decline of Small Homebuilders*

As the private sector influence on the housing market has changed so too has the makeup of the market. The Home Builders Federation (HBF) note that the period from the 1960s to 1980s was a time in which small housebuilding companies could start up, grow quickly and establish themselves as significant contributors to regional economies.<sup>57</sup> However, since the late 1980s a structural decline has taken place which has seen the number of smaller active companies fall from around 12,200 firms, responsible for nearly four in ten new home completions in 1988, to around 2,400 companies responsible for just 12 percent of new builds in 2014.<sup>58</sup>

A report published by the HBF, exploring ways to reverse the decline of the small housebuilder, noted several contributory factors:

- The advent of the ‘plan-led’ planning system in 1990 has seen the average permissioned housing scheme increase in size by 17 percent in less than a decade suggesting many sites allocated in local plans are out of reach for smaller companies;
- Delay and risk during the planning stage has influenced lender attitudes to housebuilding meaning that terms SMEs borrow on are restricting growth opportunities; and
- In just the period 2007 to 2009, one third of small companies ceased building homes.<sup>59</sup>

### *Rise of Larger Building Companies*

The HBF note that housebuilding output is now reliant on fewer and fewer companies:

- In 2004, there were 171,000 additional homes supplied in England, the same number recorded in 2014;
- Less than half the number of builders (of all sizes) were responsible for this output, 2,527, in 2014 compared to 5,863 in 2004;
- The HBF estimate small developers were responsible for around 15,000 to 20,000 new build completions in 2015/16. This is fewer than the total output from SMEs during the 2008–09 recession.<sup>60</sup>

<sup>57</sup> Home Builders Federation, [Reversing the Decline of Small Housebuilders](#), 2017.

<sup>58</sup> House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17, p 21, para 38.

<sup>59</sup> Home Builders Federation, [Reversing the Decline of Small Housebuilders](#), 2017.

<sup>60</sup> *ibid*, p 14.

Whilst the economic crisis had an immediate impact on the number of small building companies operating in England, as the point above clearly shows they have continued to struggle post-recession. The HBF suggests that even following planning reforms, such as the 2012 National Planning Policy Framework (NPPF) which has seen significant increases in the number of planning consents, small housebuilders continue to struggle to acquire land on which to build.<sup>61</sup> In addition to this, the move towards larger developments, bureaucracy and the initial costs involved with negotiating the planning system mean larger companies are better placed to manage the inherent risks.

The HBF suggest that part of the practice of local authorities focusing on larger sites with a very high number of units may be counterproductive.<sup>62</sup> It states that while it may be efficient in strong market areas, it is inefficient in weaker market areas. While the NPPF has been lauded for increasing the number of planning consents,<sup>63</sup> it is argued that the number of sites permitted, in areas of need, remains short of where it needs to be.<sup>64</sup>

### **Land Banking**

According to Tom Archer and Ian Cole, the structure of the UK housing industry is such that UK housebuilders, in strict business terms, are land speculators first and housing developers second. They suggest that it is the volatility in land prices and indeed house prices which represents the greatest risks to housebuilding sector—ultimately determining profits and losses of any development. Archer and Cole note:

[T]o protect against volatility and secure sales at predicted prices, housebuilders use land banks to control the flow of new housing into local markets, and to strengthen their negotiating position with landowners. Land banks help the larger housebuilders ‘spread risks, lower financing costs, [and] improve negotiating positions with land-owners’.<sup>65</sup>

The House of Lords Economic Affairs Committee’s report noted that the practice of land banking was a common criticism of large housebuilders. It provided data from three of the largest housebuilders that showed each held up to five years’ supply of land, with planning permission, as shown in Table 1.

<sup>61</sup> Home Builders Federation, [Reversing the Decline of Small Housebuilders](#), 2017, p 21.

<sup>62</sup> *ibid.*

<sup>63</sup> *ibid.*, p 8.

<sup>64</sup> *ibid.*

<sup>65</sup> Tom Archer and Ian Cole, [Profits Before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 4.



**Table 1: Land Holdings and Completions by Major Housebuilders, UK, 2015**

	Barratt	Persimmon	Taylor Wimpey
Homes Completed in 2015	16,447	14,572	13,341
Plots in 'short term landbank'	70,523	54,300	76,000
Plots anticipated from 'strategic land holdings'	71,600	100,000	107,000

(Source: House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17, p 22, table 3)

The report also cited figures from the Local Government Association, published in February 2015, that indicated there were 475,000 homes in England that had been given planning permission but had yet to be built.<sup>66</sup>

Tom Archer and Ian Cole suggest this practice is driven by a desire to maximise profit.<sup>67</sup> Through analysis of nine of the ten largest housebuilders' annual reports (one company is not publicly listed), they found:

- Between 2010 and 2015, the biggest five house builders saw their Profit Before Tax (PBT) rise by 473 percent, and the biggest nine firms saw an increase of 489 percent in their PBT.<sup>68</sup>
- This group of firms had collectively achieved over £372 million in end of year profits by 2010, and this had risen sharply to over £2 billion by 2015. This represents a near 500 percent increase in end of year profits between 2010 and 2015, after taxation and other impairments have been taken into account.<sup>69</sup>
- In this period housing completions rose by 48 percent, while housebuilding revenue increased by 103 percent.<sup>70</sup>
- The rate of growth in profit is ten times the rate of increase in completions.<sup>71</sup>
- In 2015, the biggest five house builders returned 43 percent of their yearly profits to shareholders, an amount totalling £936 million.<sup>72</sup>

<sup>66</sup> House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17, p 23, para 47.

<sup>67</sup> Tom Archer and Ian Cole, [Profits Before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 13.

<sup>68</sup> *ibid*, p 17.

<sup>69</sup> *ibid*, p 18.

<sup>70</sup> *ibid*.

<sup>71</sup> *ibid*.

<sup>72</sup> *ibid*.

According to the authors, the focus on profit “acts as a major disincentive to increase output significantly in times of both falling house prices and rising house prices” because:

- when prices are rising, an increase in output might lead to oversupply which will affect end sale prices; and
- selling at below projected levels in times of declining prices would directly jeopardise the predicted margin.<sup>73</sup>

Research published by the HBF in 2014 stated that rather than being a device to simply extract profit, having an assured supply of permissioned land is simply a prerequisite for sustaining a viable business.<sup>74</sup> It noted:

In reality, this is the opposite of ‘land hoarding’ or ‘land banking’; the more homes a company builds per year, and the faster the speed at which they are constructing and selling them, the greater the need the company has to buy and maintain a supply of permissioned land. Delays can be caused by overly prescriptive planning permissions which fail to reflect prevailing market conditions. Where this has occurred, renegotiations will usually take place which can result in lengthy delays.<sup>75</sup>

Evidence provided by DCLG to the House of Lords Economic Affairs Committee supported this position:

There are strong financial incentives not to sit on land with permission as once acquired, the planning permission often has an expiry date after which the firm would need to reapply [...] firms are incentivised to get building because only through building will we get a return. The housebuilding model does not sit well with land hoarding.<sup>76</sup>

Other issues with the growing influence of these large companies, noted by Tom Archer and Ian Cole, include:

- The price of new products by these house builders is increasingly outstripping price growth in the wider housing market.<sup>77</sup>
- They have focused on land purchases and development in ‘better

<sup>73</sup> Tom Archer and Ian Cole, [Profits Before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 19.

<sup>74</sup> Home Builders Federation, [Permissions to Land: Busting the Myths about House Builders and ‘Land Banking’](#), May 2014.

<sup>75</sup> *ibid*, p 3.

<sup>76</sup> House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17, p 23, para 45.

<sup>77</sup> Tom Archer and Ian Cole, [Profits before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 14.

- quality locations'.<sup>78</sup>
- The output of the large companies has been geographically concentrated, particularly in the South East of England.<sup>79</sup>
  - There is evidence that they may be extending their geographical coverage to take advantage of lower land prices, favourable planning regimes and government measures to target 'low supply areas'.<sup>80</sup>

Based on their analysis of the sector, the authors concluded that “the Government must recognise the inability of the private sector, as currently incentivised, to build the number of homes needed. It suggests the market is dysfunctional and calls on the Prime Minister to intervene”.<sup>81</sup>

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<sup>78</sup> Tom Archer and Ian Cole, [Profits before Volume? Major House Builders and the Crisis of Housing Supply](#), Sheffield Hallam University Centre for Regional Economic and Social Research, October 2016, p 15.

<sup>79</sup> *ibid*, p 16.

<sup>80</sup> *ibid*.

<sup>81</sup> *ibid*, p 25.