

LETTERS

Affordable Homes Programme not as generous as it seems

From: Councillor John Moss MRICS (retired)

The government has announced a 10-year Affordable Homes Programme (AHP) of £39bn, together with a 10-year rent formula, intended to give the sector long-term certainty and get it building again.

Welcome though this is, it is perhaps not such an increase in funding as is being claimed.

This is because last year, the government announced that from November 2024, the discounts available to council tenants who wished to buy their own homes would be drastically reduced. Predictably, this has led to applications to exercise the Right to Buy all but drying up.

This matters, because Right to Buy receipts have, when adjusted for inflation, totalled over £12.5bn in the 12 years since the scheme was rejuvenated by the coalition government.

In the last two full years, receipts exceeded £1bn, and after a surge of applications when the reduction in discounts was announced, they may reach that level again in 2024-25.

Following the 2012 reset, councils were challenged to use these receipts to build new affordable homes.

The almshouses charity I chair used some of my council's receipts to support building 20 new homes under this scheme.

While the replacement rate is not as high as it might have been, every one of these homes was a home available to a household in need. The ones sold, of course, were already occupied.

So, the net result is that funds from buyers and their banks are being replaced by taxpayers' money or government borrowing and, overall, the funding available is not going up that much at all.

(First published by Property Week)

The September Forum – especially a contribution by Paul Finch – led to this outbreak of professorial correspondence

From Professor Michael Edwards, UCL

Post to Paul Finch and LSE professors Paul Cheshire and Ian Gordon

Today I had an argument with Paul Finch which made me think of writing this open letter to him. Labour and Tory parties in Britain have converged on housing and planning policies which most of us completely reject and I'm detecting some common ground between what deregulationists like Paul Finch and leftists like me are saying. Odd but true. Here goes.

Dear Paul

At the end of Tuesday's meeting of the London Planning and Development Forum you made an impassioned speech which roused the meeting to clapping and cheers.

I agreed with half of what you said but not the other half. The common ground seems to be worth exploring.

The essence of your argument was that the UK saw its biggest housing output in the postwar years when public sector and private sector were both producing. We won't get such massive output now without the state again building at a large scale. (Agreed)

Private housebuilding firms won't supply social housing / 'affordable' housing at the required scale where the costs come on top of general inflation of building costs plus rising environmental, floorspace, safety and other standards, especially in a shrinking economy where disposal prices in the private housing market are flat-lining or falling. (Agreed)

It's wrong to blame the planning system for this failure to build a lot more. Planning authorities don't (on the whole) build. It's private housebuilders who decide how much to build. (Agreed)

Housebuilders are like bakers making bread. If

they are told to give away half their loaves at half price they will naturally shut down production. (Disagree)

I disagree with this step in the argument because the costs faced by housebuilders include land whose behaviour is special, accounting for a third or a half of the final price of a house. Over recent decades the prices of residential land in the UK, especially in and around London, have escalated very dramatically as developers have made large bids for sites in the good years and builders can't/won't meet all these demands for affordable homes, better standards, payments for infrastructure, especially in a falling market unless they can get land much more cheaply. Land prices 'ought' to fall in these conditions and Mr X, the strategic land expert who spoke to us today, confirmed that development land prices can and do fall. But evidently — for our discussion — not fast enough, and that will be especially so in London. Housebuilders are stuck with the sites they own and what they paid for them. I think the evidence supports my version of this problem. We would need to get land price expectations down, as Prof Ian Gordon said today, to have any hope of bringing house prices down to more affordable levels. Until then, land prices ratchet up more readily than they fall.

The important disagreements in all this are about why land prices and house prices have risen so much. Labour and Tory leaderships have swallowed the argument that it's just down to an inadequate total supply of homes. There are crude and more sophisticated versions of this position but many of us disagree. House prices have been driven up by the combined action of many forces:

Paul Cheshire's analysis showing that as people

>>> get richer they consume more housing, for a whole variety of reasons (expand)

Combined with sustained income growth for better-off UK households in our increasingly unequal society

Combined with the lavish availability of mortgages since the 1980s to cover our lavish bids for the next home as we trade up, and more recently for buy-to-rent

Combined with the tax/subsidy treatment of owner-occupation and housing generally, including IHT, CGT and the way housing benefit (LHA) has sustained the growth of private renting and the way Help to Buy fuelled prices and builder profits.

Increasingly by the feedback loop in which old people like me, enriched by these mechanisms over a working life, pass this crazy wealth on to our children by gift or bequest, further accelerating price growth.

But this is not the whole story. Housing markets are partly local and prices reflect access to jobs, environmental qualities, state investment in Elizabeth Lines, super-sewers, good schools and so on. London and its region are uniquely well-endowed in these ways, not to mention with theatres, concerts, museums and universities which people want to use.

The crude versions of the supply-side argument simply propose massive de-regulation, assuming that housing output would grow without social housing obligations, conservation areas, green belts, biodiversity net gain and so on. Many of us are unconvinced and the serious research on the subject suggests that the affordability benefits would be very very slow indeed, swamped by all these other factors pushing prices up, and environmentally disastrous too.

The Mayor of London is clearly not keen on us discussing these issues. The planning team wants to be left alone to produce what looks like being an even worse plan than its predecessors.

How can we progress it?

Perhaps a version with footnotes should be next.

Michael

From Professor Paul Cheshire LSE to Professor Michael Edwards

Dear Michael, Nice letter but I fear I disagree with your arguments in crucial places.

First and most important is the work I and others at LSE (particularly Christian Hilber) have done now over many years (you were involved as an ESRC overseer/interlocutor in the first project back in the early 1980s). In my judgement this line of research has produced overwhelming and absolutely rigorous evidence that the planning system we have in Britain is the major cause of our housing crisis – a crisis of supply. The co-authored paper Christian published in the Economic Journal in 2016 (The Economic Journal, 126, 358–405. Doi:

10.1111/eoj.12213) demonstrated that variations across LAs in their 'restrictiveness' – measured as % of major applications rejected, offsetting in an econometrically very sophisticated way for problems of reverse causation or endogeneity – causally explained a variation of at least 25% in the difference in house prices – all other characteristics held constant – between the South East and the North. This still excluded the constraining effects on supply of both Green Belts and Brown field first policies and the uncertainty the discretionary decision making process of our planning system (not Continental European systems) injects into the development process. The uncertainty generated by our locally politically controlled and lobbyable planning system in turn helps drive the monopolisation of our development industry because it generates a big barrier to entry favouring bigger firms.

The brown field and greenbelt policies – in place respectively for a generation and over two generations – constricts land supply for housing and most strongly constricts it in those places people most want to live – near big urban jobs markets. The most convincing evidence for me on the effects of this constriction of land supply was the modelling Steve Sheppard and I did back in the late 1990s early 2000s, commissioned in April 1997 (when there was no government), by the then DETR to model the impact on real house price growth between 1996 and 2016 of alternative policies for land release. The results of this modelling (again very detailed econometric work using observations of actual houses, the size and shape of their gardens, transactions in them and the characteristics of the households who bought them including their incomes) concluded that the combination of both these restrictions on land supply for housing would lead to an increase of 132% in the real price of characteristic-constant houses by 2016; and that was when the brown field target was set at only 60%.

This research was sadly never published (tho referred to in the attached) because by the time it was completed Rogers had reported and Prescott had committed to urban densification and sacrosanct greenbelts). So it was literally suppressed because it was thought 'critics of government policy might use our results' – so much for evidence based policy. It was also claimed that our results were absurd and there was no way house prices could rise in real terms by 132% by 2016. In the outturn the increase was around 140% – depending a bit on what price deflator you use to get 'real' price increase. And, as you say Michael, by far the most important driver of this price increase – of course in the face of a supply constraint – was the expected increase in real incomes not population. If you subtracted projected



income growth but retained the projected increase in population then the increase was only 4.4%.

Nor do I agree that only a big increase in government house building can generate a serious increase in supply. I disagree because i) all houses, however paid for, need land and that is what we are absolutely constraining; ii) we have completely persuasive evidence that the current set of planning policies are creating a perfect storm in terms of building; iii) if you go back before 1947 to when we did build houses we built lots of them; and, of course iv) there is no way in reality it could happen because of public finances.

In the current GLA area the largest number of houses built since 1945 is some 37,500 in 1970 at the peak of social housing build. Mostly we have averaged around 25,000 a year in the last 60 years but very variable. In fact in 2019/20 we got close to the 1970 figure with not many social houses. But back in the 1930s we were happily building 70,000+ houses a year within what is now the GLA area. I attach a slide of historic house building in what is now the GLA area.

A minor point on land prices is that indeed they do reflect the expected loss of profits to developers of 'affordable housing' production via S106. I searched around for sites with outline planning but no obligations in Barnet and found one implying a price per ha of building land of £37million. At the same time – 2020 – a very senior valuer estimated the price of building land in Barnet at £5m per ha. But of course they were implicitly subtracting the negative value of S106 – so what a developer would pay assuming there would be S106 obligations.

All the best,

Paul