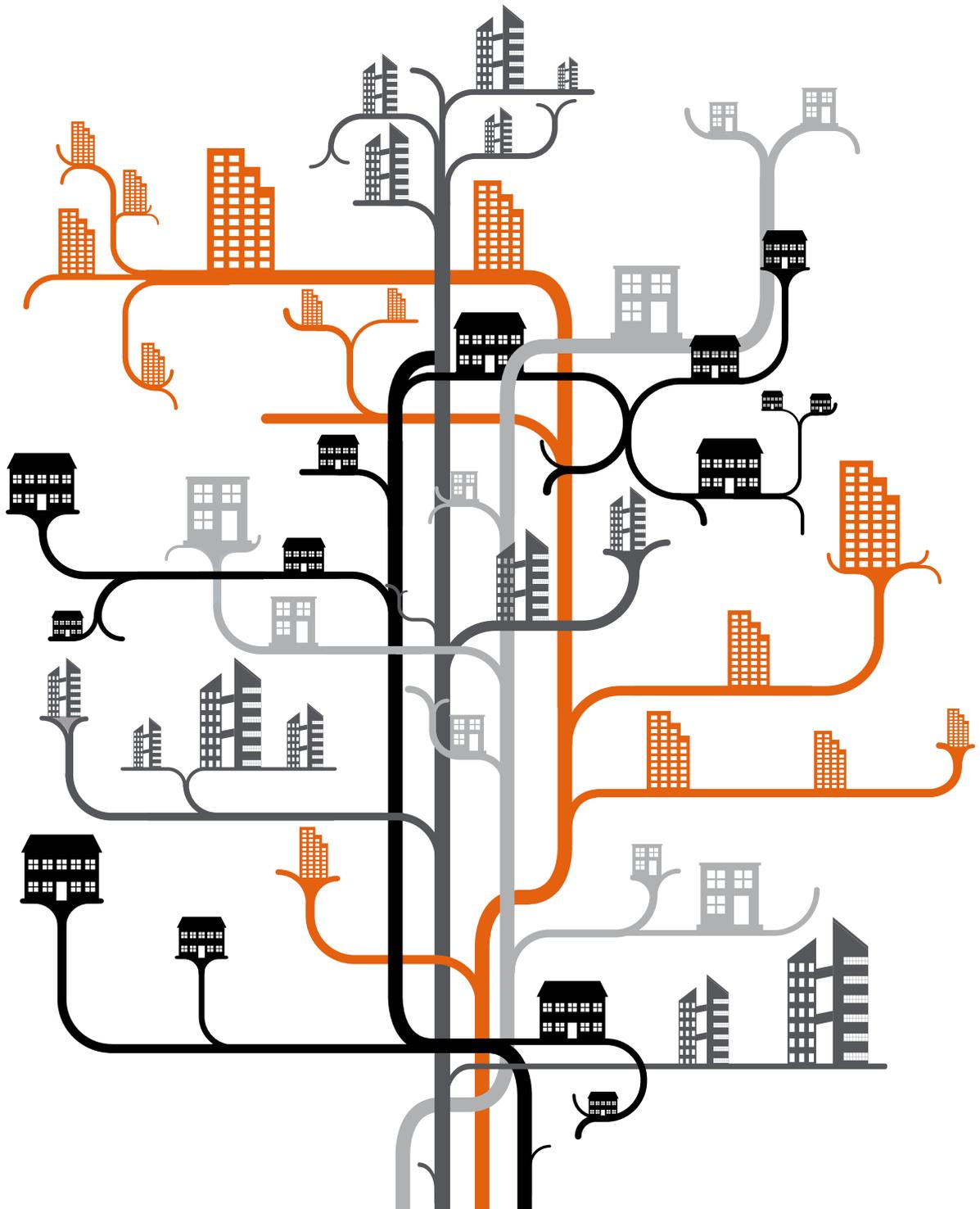


SOLVING THE HOUSING CRISIS
THE BIG IDEA



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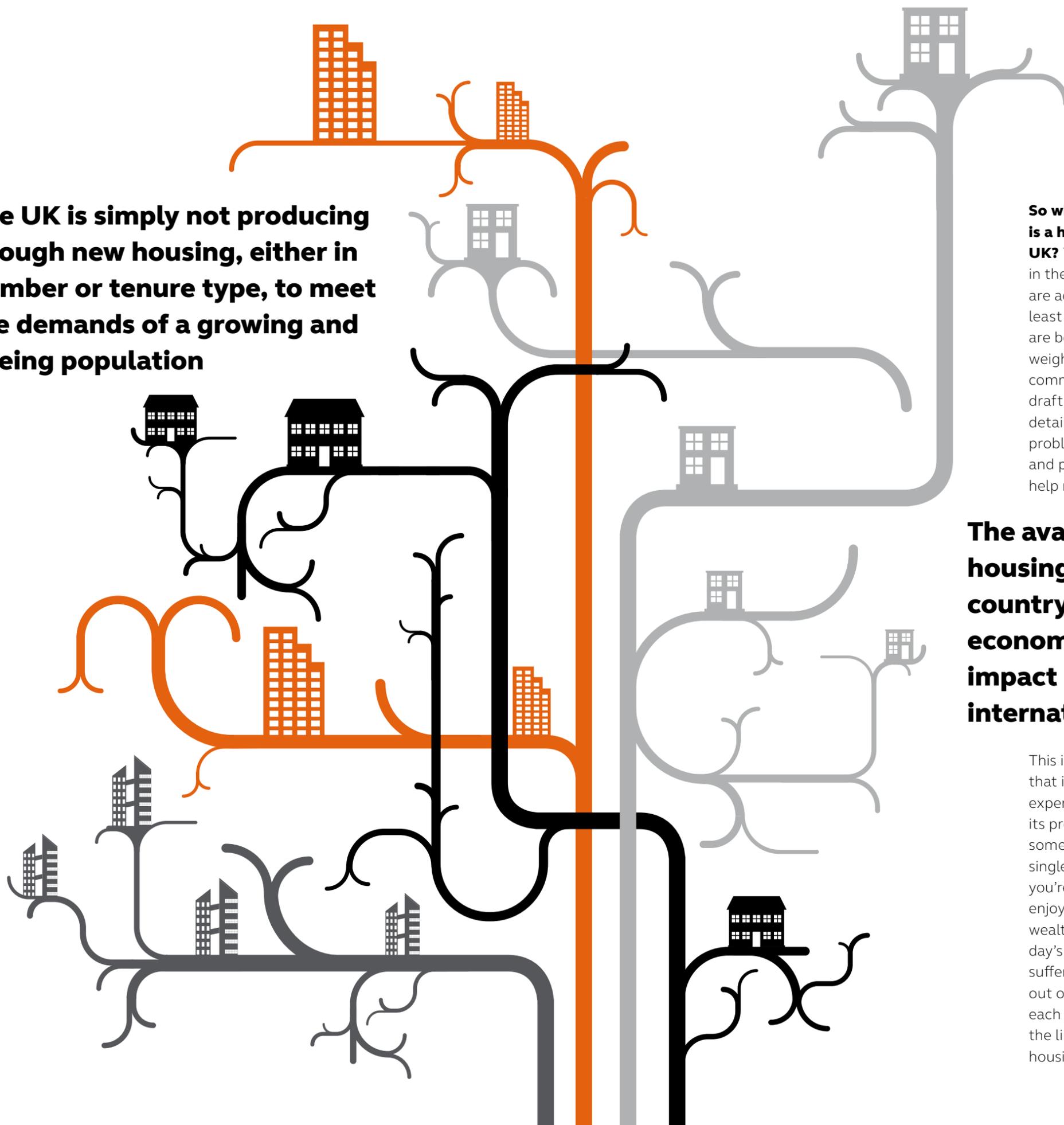
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THE RESULTING
OPERATING ENVIRONMENT

The UK is simply not producing enough new housing, either in number or tenure type, to meet the demands of a growing and ageing population



So who hasn't heard there is a housing crisis in the UK? Those of us working in the residential sector are acutely aware, not least because our desks are bowing from the weight of the many papers, commentator theories and draft or existing policies detailing the reasons for the problem and the latest ideas and potential solutions to help resolve it.

The UK is simply not producing enough new housing, either in number or tenure type, to meet the demands of a growing and ageing population.

Current outputs are broadly half of what is needed to keep up with household formation and demographic and migration challenges. Furthermore what is being delivered is largely of one type – homes for sale, which is the tenure of choice for the UK (upheld

The availability and affordability of housing is a vital foundation of the country's dynamic and sustainable economy and has a very real impact on the UK's regional and international competitiveness

This is one problem, however, that is not reliant on industry experts' interest to retain its profile. Rather, it is something that affects every single one of us. Whether you're a 'baby boomer' enjoying property ownership wealth, or from modern day's 'generation rent' and suffering from being locked out of home ownership, each one of us is aware of the limitations on our housing options.

by all main political parties, not least because of its positive impact on the economy). However, this form of tenure brings with it huge affordability challenges and is not accessible to a large proportion of society. After all, the availability and affordability of housing is a vital foundation of the country's dynamic and sustainable economy and has a very real impact on the UK's

regional and international competitiveness.

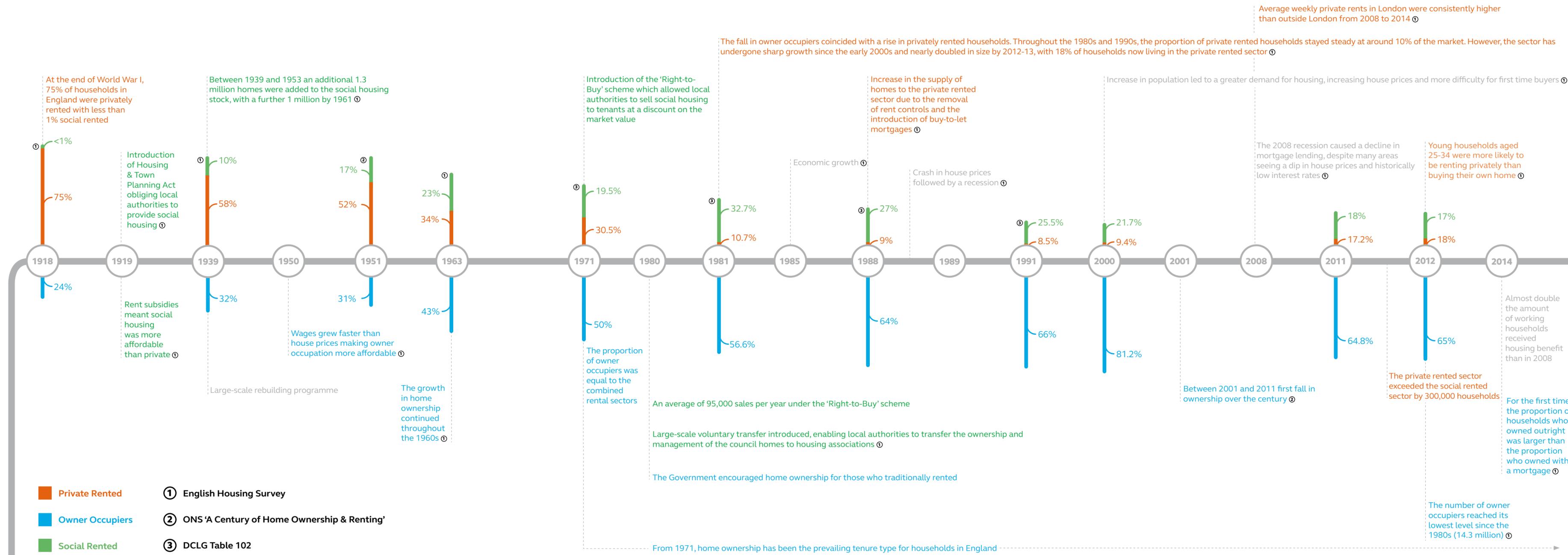
Meanwhile, private housebuilders are able to manage the supply of new homes into the market to optimise house prices for greatest return, whilst the lack of capacity in the house building industry makes the physical ability to achieve the required output levels hard to imagine. The overall result is mass under-supply of a diverse range of alternative tenures, including private housing to rent and a range of affordable homes.

The issue is now deemed a crisis and there is considerable political will to resolve it. But with wider fiscal challenges, the Government does not have the public money to throw at it. Indeed the housing crisis is already costing the taxpayer too much, not least due to the rising and unsustainable Housing Benefit bill.

The issues relating to this lack of supply are multi-faceted and highly complex but the impact on society and the economy means it is time to **THINK BIG!**

HOUSING TRENDS

The declining social rented sector		
1991	2000	2012
4.4 million	4 million	3.7 million
(Number of households)		

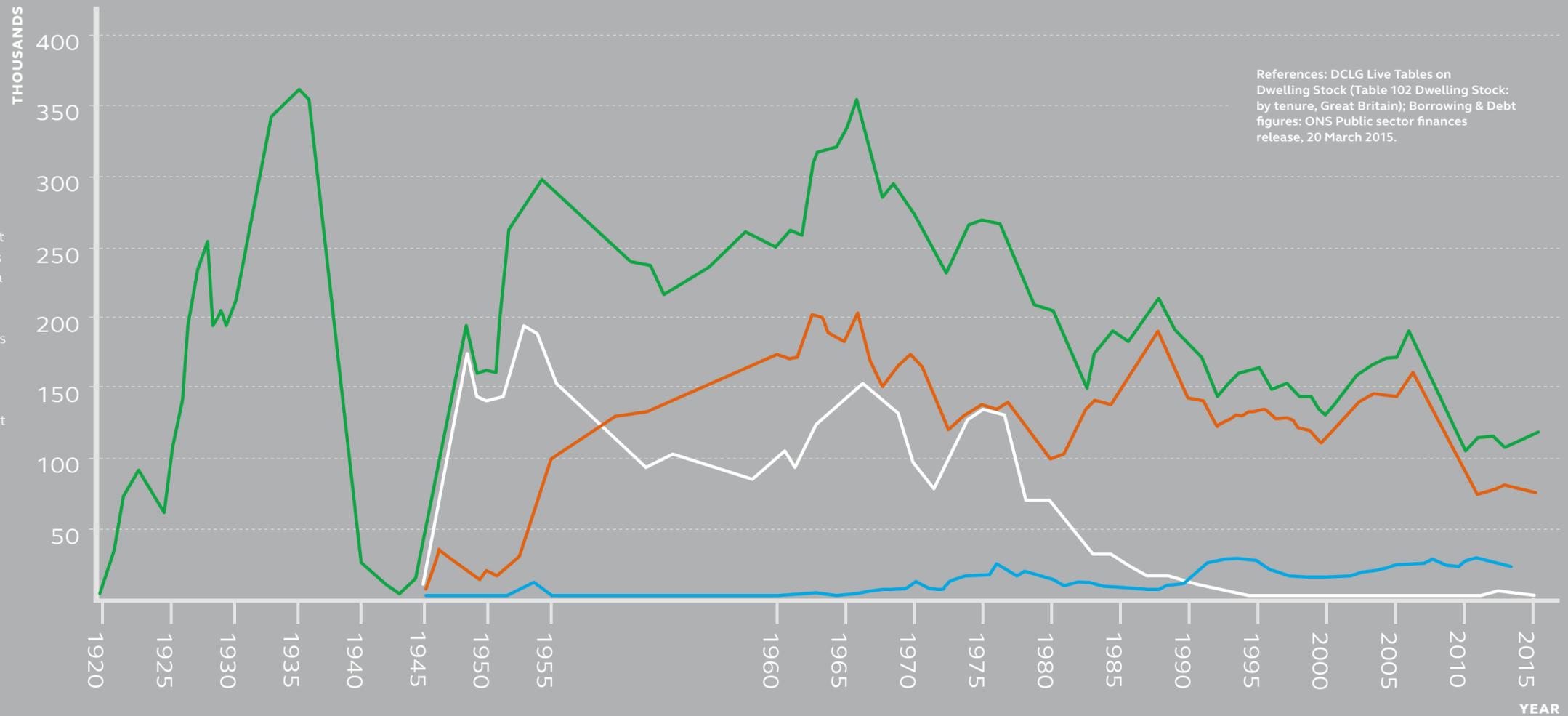


BACKGROUND

The timeline to the left shows the history of housing delivery and tenure trends, and highlights the factors that have made owner occupation the tenure of choice in the UK, taking over from a wartime dominance of private rented housing. It also shows how three broad tenure options have interplayed during economic cycles and times of supply constraint.

HOUSING SUPPLY OUTPUTS

The diagram shows the housing output produced in each delivery sector over the last 100 years and the corresponding borrowing, debt and GDP figures for delivery peaks from the public sector. This gives a picture of how these producers of housing have responded through economic cycles and demonstrates the cyclical nature of housing supply. There appears to be little consistency in output, which in itself compounds economic impact through volatility in house price inflation. Public sector output has contributed well during modest Public Sector Borrowing Requirement (PSBR) borrowing, but has, unsurprisingly, drastically dropped off as borrowing has increased to unsustainable levels. The shortage in new supply of more affordable housing has in turn impacted on the trends in housing on the previous page, for example, private rented sector adoption has risen during periods of limited affordable housing options.



References: DCLG Live Tables on Dwelling Stock (Table 102 Dwelling Stock: by tenure, Great Britain); Borrowing & Debt figures: ONS Public sector finances release, 20 March 2015.

- All Dwellings
- Local Authorities
- Private Enterprises
- Housing Associations

YEAR	1946/47	1950/51	1967/68	1975/76	1980/81	1982/83	2007/08	2009/10	2014/15	2015/16
Borrowing £ billion	0.6	-0.5	1.6 (3.9% GDP)	7.7 (6.7% GDP)	11.5 (4.6% GDP)	8.5 (2.8% GDP)	40.9 (2.7% GDP)	153.5 (10.2% GDP)	88 (4.9% GDP)	69.5 (3.7% GDP)
Debt £ billion				64.7 (56.5% GDP)	113.8 (45.6% GDP)	132.5 (43.9% GDP)	558.2 (36.7% GDP)	956.4 (62% GDP)	1,486 (80.7% GDP)	1,532 (80.3% GDP)

HOUSING SUPPLY AND DEMAND

There have been varying estimates of housing need in recent years, with decades of housing completions in the UK not having kept pace

2011

The Institute of Public Policy Research estimated that by 2025, 3.3 – 4.5 million additional households would be formed and, without a change in building patterns, demand would outstrip supply by 750,000 homes

2012

The Future Homes Commission stated that around 300,000 new homes should be built each year to keep pace with demand

2013

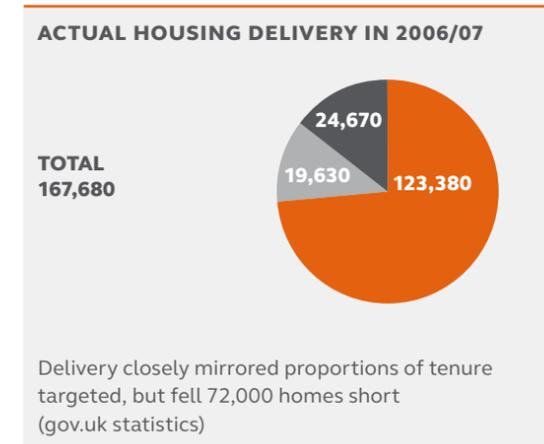
The Town and Country Planning Association projected that household numbers would reach 26.3 million by 2031 and that 245,000 additional new homes would be required each year to meet the newly arising demand (but not to address the backlog)

2014

Shelter projected that 240,000 new homes per annum were needed in England alone

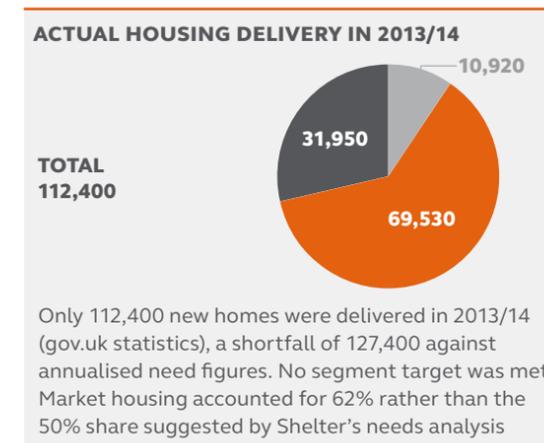
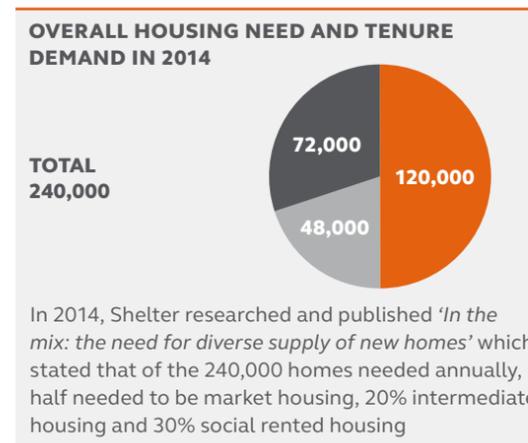
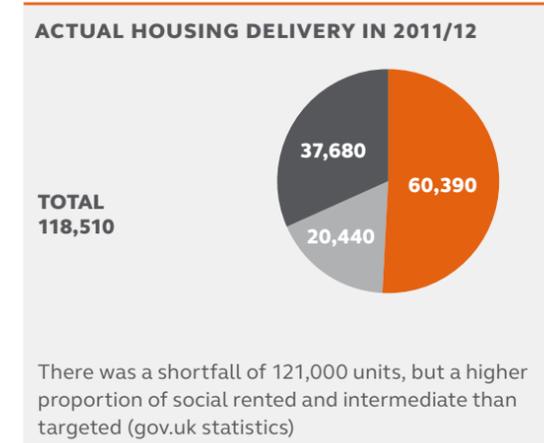
By looking more closely at delivery and tenure type targeted each year, we see that actual delivery has fallen way short. This creates not only a crisis in housing availability but also in housing choice. In England the picture looks like this:

Market Housing Social Rented Housing Intermediate Housing



In 2014, England achieved only 47% of required additional housing and only 43% of affordable housing for both social rent and intermediate form.

In trying to understand this, it is not necessary to look too far back, only to when the housing market suffered understandable distress following the international banking crisis. The interventions of subsequent government initiatives resulted in a better balance of targeted tenure types being delivered. However, overall supply significantly underperformed against actual need.



THE STEPS TO THINKING BIG

- | | |
|---|---|
| <p>1 Develop new ways of funding affordable housing solutions for sale and rent to develop at scale</p> <p>2 Create a housing market with a greater diversity of provider type</p> <p>3 Make affordable housing viable without a government-backed grant, and turn the use of public assets into a financial investment for the Treasury</p> <p>4 Help to address the rising Housing Benefit bill</p> <p>5 Identify ways to meet housing demand whilst adding £2.84 for every £1 spent on housing construction</p> <p>6 Incentivise production of homes for rented tenures</p> <p>7 Substantially increase a diverse supply of housing into the marketplace and improve control of house price inflation</p> | <p>8 Develop capacity building to create a long-term pipeline of output using modern methods of construction</p> <p>9 Implement 'housing for sale' as a route to making profits to subsidise affordable housing provision</p> <p>10 Sustain purchaser appetite</p> <p>11 Leverage further the public sector's response to embracing direct delivery of housing</p> <p>12 Adopt a devolved or devolving structure for delivery which generates greater advantage for local citizens</p> <p>13 Find innovative ways to use land that create investment returns for the taxpayer</p> <p>14 Embrace the Government's planning reform announcements</p> |
|---|---|

development portfolios, using the profits to plug the ever-widening subsidy gap and make the provision of affordable housing viable. We need new ways of funding and incentivising the sustainable development of more affordable housing solutions for sale and rent to develop at scale. This in turn will help provide an

largely require government capital grants or routes to revenue subsidy (affordable rent) to deliver at scale. Where this kind of capital or revenue subsidy is unavailable or insufficient, associations typically seek to adopt housebuilder measures in elements of their development portfolios to create profits to reinvest in new supply. Furthermore, measures in the 2015 Budget have created more pressure for housing associations to overhaul their business models and drive efficiencies. The introduction of a 1% rent reduction for the next four years has wiped an estimated £4.4 billion from the sector's financial capacity (housing associations and local authorities). We need to create a housing market with greater diversity in provider type, giving no one type the power to unduly control supply and influence house price inflation. A more diverse group of providers needs to develop a balance of housing stock to meet actual demand, with affordable options for all generations.

The existing private sector, including housing associations, needs to scale up its supply, whilst new entrants need to find ways to deliver without capital or revenue subsidy, together addressing the supply demands until the housing crisis is solved.

In reviewing housing trends and cyclical supply outputs of the last 100 years, no intervention has created sustained supply year in, year out nor sustainable impact therefrom. The housing delivered versus the housing need has equally confirmed the crisis in housing choice. We need the housing market to become more sustainable and to provide long-term economic advantages to the UK's prosperity, whilst achieving a shift in tenure mix and housing choice aligned more accurately to housing need and demand.

1 Develop new ways of funding affordable housing solutions for sale and rent to develop at scale

The new supply delivered each year, largely by the private sector, does not meet actual housing need. Housing for outright sale is seen to provide the best of all returns and is therefore favoured by housebuilders with shareholders to satisfy. Housing associations, similarly, have adopted it for large proportions of their

environment conducive to greater institutional/pension fund investment.

2 Create a housing market with a greater diversity of provider type

Housing supply outputs are disproportionately reliant on private sector housebuilders, who in turn, manage the flow of supply into the market to maximise returns to their shareholders. Housing associations provide more affordable housing options but

3 Make affordable housing viable without a government-backed grant, and turn the use of public assets into a financial investment for the Treasury

The UK deficit is at an all-time high and pressure remains to minimise public sector borrowing. There is clearly no public money to throw at this problem; the days of government-backed grant programmes supporting affordable housing development are limited, whilst the 2015 Budget dealt providers a revenue blow in terms of capping welfare payments and reducing social housing rents.

We need to create a housing market with greater diversity in provider type, giving no one type the power to control supply and influence house price inflation

We need to make affordable housing viable without a government-backed capital grant. Indeed grant support for this affordable housing has now reached in excess of £43.5 billion (according to the Global Accounts for Registered Providers 2014) in return for 2.6 million social homes in management. We need to find a way to turn public assets into a financial investment for the Treasury, in return for creating greater, cashable returns to the taxpayer in the medium to

long-term. Making assets such as publically owned land perform financially in this way is an opportunity to introduce a powerful multiplier effect which would help pay down the deficit.

4 Help to address the rising Housing Benefit bill

The Housing Benefit bill is rising unsustainably. Aside from the 2015 Budget's measures to reduce rents across social housing for the next four years, there is no sign of the private sector being able to provide enough social rented housing at scale to make a long-term impact on this problem.

Creating well-paid and sustainable work moves people out of welfare dependency, whilst the provision of social rented housing at much greater scale helps to take people in greatest need out of the private rented sector. The provision of greater housing options, affordability wise, helps those currently in social rented housing to move or pay to stay when their circumstances improve.

5 Identify ways to meet housing demand whilst adding £2.84 for every £1 spent on housing construction

Housing delivery typically provides a 2.84 multiplier on GDP (*Construction in the UK economy – the benefits of investment, October 2009*). GDP growth helps the UK to pay down the deficit, whilst underpinning the country's economic prosperity and sustainability.

Finding a way to meet housing demand in England for 240,000 new homes a year would add £2.84 for every £1 spent on construction, whilst giving £0.56 back to the Treasury in associated taxes:

- £1 on construction related wages
- £1.09 indirect expenditure
- £0.75 expenditure on increased household income.

This spend on housing influences the economic competitiveness of regions and localities places in which the housing is delivered.

6 Incentivise production of homes for rented tenures

In seeking greater diversity in what is actually delivered, it needs to be recognised that the development playing field is not level for those building to sell versus those building to rent. This is one reason why the Government is set

House building is at an historic low and this has been a long-term declining trend. To reach 240,000 in England alone, house building numbers need to rise by circa 100%

to miss its target of having helped start 10,000 new build-to-rent homes through a £1 billion fund launched two years ago.

Building to sell confers a distinct advantage. Housebuilders have the opportunity to achieve best value on residual land when they purchase and are also more likely to get planning permission because they can demonstrate the viability of the development.

In order to address this, we need to:

- find measures that level the playing field, which in turn incentivise investors and developers to produce homes for rented tenures
- make sure that Section 106 (s106) for affordable housing provision is delivered on all sites, in and outside London, making all land owners, both public and private, deliver consistently on such obligations
- make sure local planning authorities exert their powers to bring forward and enable land in their local plans for tenures other than outright sale – using the rental covenant for example.

7 Substantially increase a diverse supply of housing into the marketplace and improve control of house price inflation

Peaks and troughs in housing supply contribute to volatility in house price inflation and ultimately housing market booms and busts. These in turn trigger unemployment and lower GDP, impacting the country's economy for years, as we saw in the 2007/08 property crash.

Substantially increasing and then sustaining diverse supply in the market would help control inflation, which in turn would help stabilise the housing market for all providers.

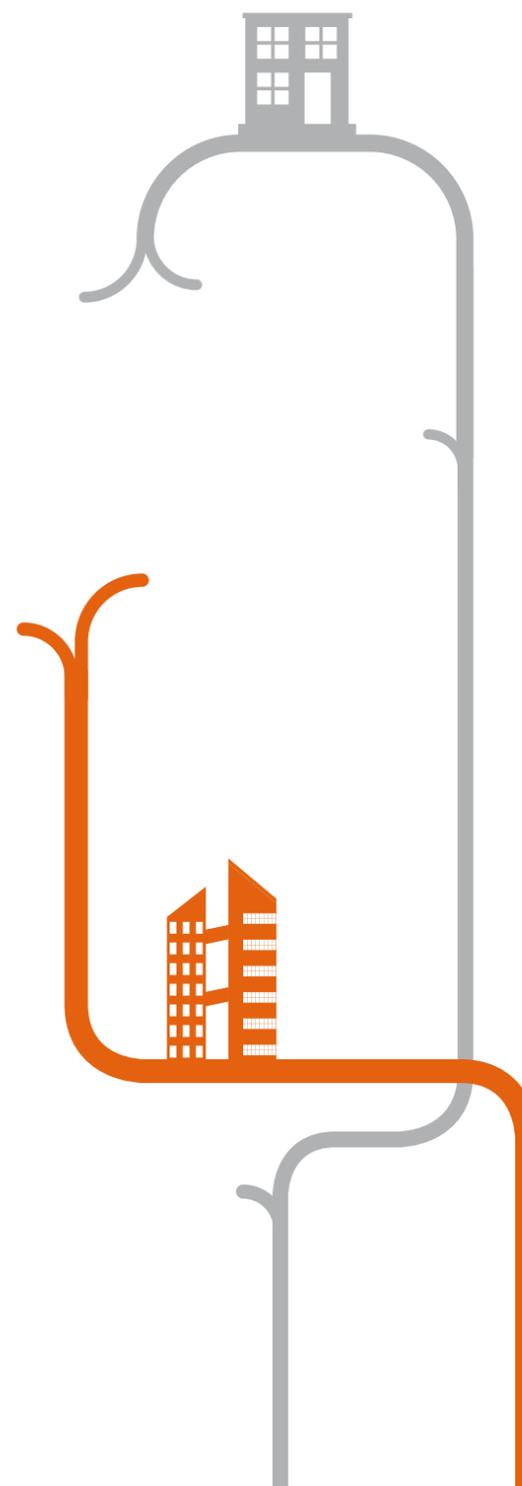
8 Develop capacity building to create a long-term pipeline of output using modern methods of construction

As we reported in our most recent paper, *'People and Money – Fundamental to Solving the Housing Crisis'*, the country's capacity to build is constrained and in a crisis of its own. House building is at an historic low and this has been a long-term declining trend. To reach 240,000 new homes in England alone,

house building numbers need to rise by circa 100%. Putting this into perspective – numbers grew from 2001 to 2007 by 36%, adding a further 47,000 new homes per annum. Between 1958 and 1968 there was an increase of 53%, representing 121,000 new homes per annum. So boosting the industry to quickly provide an additional 120,000 homes a year is a huge ask.

The output base we have today is similar to that of between 2001 and 2007 and it took no less than six years to achieve less than half of what we need today. This was achieved within a favourable economic environment and, importantly, from a labour market perspective, also supported by a large influx of migrant workers. These workers helped to reduce the high and increasing constraint on production from skills shortages in the late 1990s and early 2000s.

Whatever the intervention, we must find a solution which is given time to create sustainable outputs and is underpinned with capacity building for a long-term pipeline of output including skills/human capacity, building materials and technical solutions such as modern methods of construction, which drastically reduce construction times.



SOLVING THE HOUSING CRISIS
THE BIG IDEA

THE BIG IDEA

A multifaceted solution is required – it is time to implement big thinking! **THE BIG IDEA** uses four pillars of transformation which seek to increase housing supply to at least 240,000 per year in England over a sustained period of time, whilst providing:

- the diverse range of tenures needed
- investment returns to the taxpayer
- a platform of opportunity to address skills shortages and provide employment
- considerable simultaneous growth opportunity for the private sector
- powerful productivity outputs for the Treasury.

1 THE BIG IDEA starts with the creation of a National Housing Service which will:

- be in control of strategy and provide the mandate for direct public delivery of housing of all tenures at scale (target 65,000 per annum)
- deliver locally within devolved or devolving regional structures
- deliver for a sustained period (30 years plus) to catch up with demand forecasts
- adopt profits from housing for sale tenures and revenue streams from rental homes to support cash flow in the financial model
- be the developer/contractor but not the housing manager
- take up to two parliamentary cycles to mobilise a sustainable model
- seek first call on public land suitable for residential development and purchase under a delayed payment mechanism
- be self-sustaining by adopting a delivery model that does not require any grant funding or any draw upon the PSBR
- use private finance for cash flow, as required, through non-PSBR arrangements
- optimise affordable housing delivery whilst providing a clear pathway for customers from social rent into forms of home ownership
- sell portfolios of National Housing Service rental stock through the term to institutional investors (based upon maintaining tenure type) to pay back public land value with value appreciation
- use surplus cash to repay initial 'set up' costs in the early years of development
- buy private land once public reserves are depleted.

2 Build capacity to deliver by providing the private sector with incentives to increase volumes and innovate

3 Ensure that new supply from the private sector (including housing associations) is sustained and increased year-on-year through sharing elements of the National Housing Service's supporting infrastructure

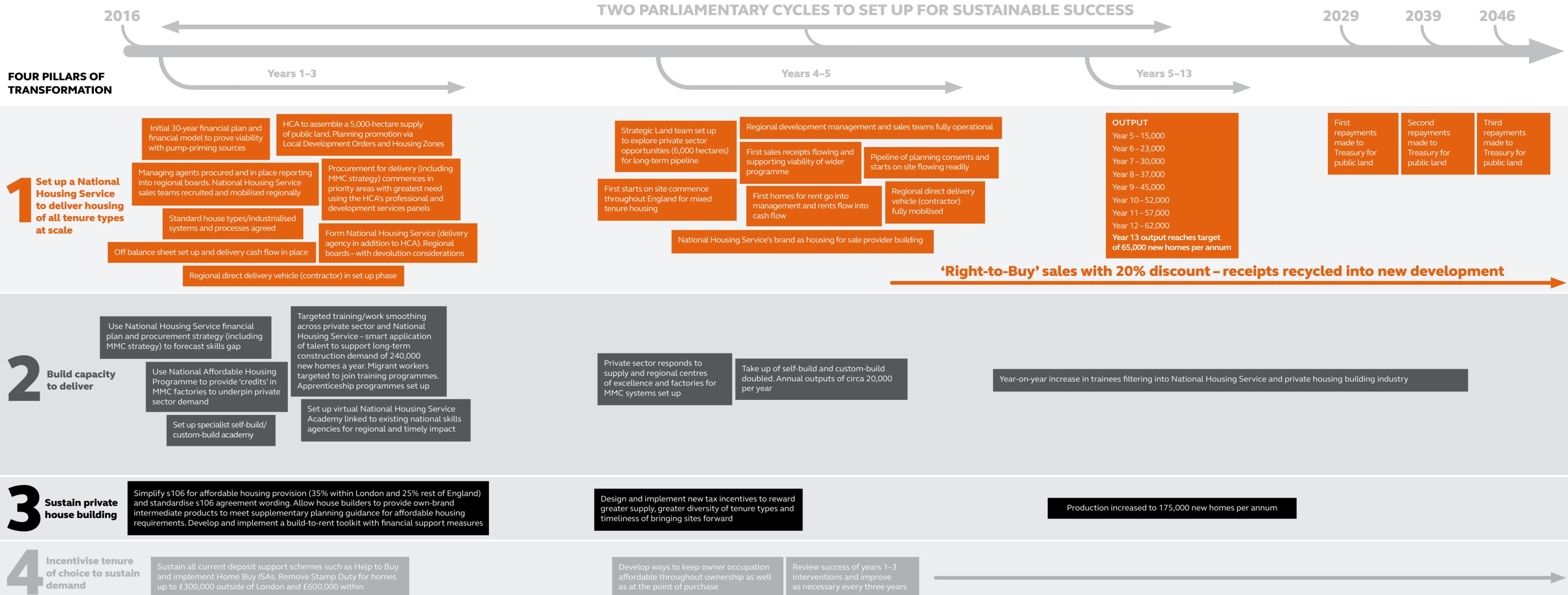
4 Ensure that government-backed home ownership incentives remain and are added to for a sustained period of time, spanning parliamentary terms



The critical success factors for implementing the **four pillars of transformation**

- **Use** the scale of delivery of housing of all tenure types to provide a highly attractive investment portfolio pipeline for institutional investors/pension funds
- **Make** the National Housing Service politically neutral, spanning parliamentary terms
- **Develop** a build-to-rent (of all affordability levels) planning toolkit which seeks to exit to future investors in a sustainable private rented sector market place, whilst levelling the playing field with build-to-sell
- **Ensure** that the National Housing Service's remit complements and aligns with the Government Property Unit (GPU) and the activity that it is leading, as it will increasingly shape the public sector footprint and, by extension, the surplus in the public estate
- **Close** alignment between the GPU and the National Housing Service, focusing particularly on the former's 'Hubs' strategy and its 'One Public Estate' programme will be paramount, whilst connecting to sub-regional and local agendas on public assets
- **Apply** demographic trend modelling using the Strategic Housing Market Assessment data to financially model how to meet need whilst joining up thinking with the Department of Health for adult social care
- **No** adoption of affordable rent, only provision of social rent
- **Use** the Home and Communities Agency (HCA) frameworks to procure Official Journal of the European Union (OJEU) compliant construction partners and professional services
- **Introduce** effective purchaser incentives (ideally investment-based ones), applying new initiatives as required to meet evolving market dynamics, as greater supply hits the market from the National Housing Service and private sector
- **Optimise** self-build/custom-build (and use of local development orders) as a major contributor to skills development and delivery to achieve 100% affordable housing schemes by virtue of the delivery mechanism. Self-builders save circa 20% compared to purchasing fully completed homes direct from housebuilders
- **Build** for outright sale, market rent and as much social rent as is viable in addition to mandatory compliance with standardised s106 provision
- **HCA** to continue to protect social housing assets which are supported by grant through regulation
- **Use** housing associations and local authorities with stock to manage the social rented units and specialist private rented sector managers for build-to-rent. This will provide existing landlords with an opportunity to become more efficient through greater scale, thereby freeing up resources for further supply
- **Pay** all planning obligations in full, for example, s106 and Community Infrastructure Levy (CIL) provisions for infrastructure supporting the wider agenda of placemaking with housing growth at scale. This is to support the delivery of economic and social infrastructure in each locality
- **Apply** a planning strategy that standardises s106 for affordable housing provision including the legal agreements, across the board (public and private) – 35% in London and 25% in the rest of England – and make compliance mandatory
- **Apply** 'Right-to-Buy' to all housing provided but apply a 20% discount (rather than the current 30%), after three continuous years of tenancy. The 20% will level the playing field with all other forms of intermediate housing for sale. All proceeds to fund new National Housing Service supply
- **Sustain** the National Affordable Housing Programme (NAHP) to support the private sector and use HCA to administer it
- **Turn** the NAHP into credits per unit for solutions using modern methods of construction (MMC), providing the order book to underpin capacity building investment
- **Leverage** HCA/devolved land commissions to support the assembly of a public land portfolio, including provision above new public infrastructure of 5000 hectares, whilst recognising that the faster public services reform efficiency wise, the faster sites will come forward for re-purposing.

THE STEPS TO IMPLEMENTATION



THE STEPS TO IMPLEMENTATION

The diagram to the left outlines the implementation stages required to set up and deliver THE BIG IDEA over an initial 30-year timeline. The steps for setting up a National Housing Service have been financially modelled to establish proof of concept.

THE BIG RESULTS

In the first 30 years, the National Housing Service would be capable of delivering:

Over half a million new affordable homes – 267,000 new social rented units and 236,000 intermediate homes (124,000 shared ownership and 112,000 intermediate for sale)

1,499,000 new mixed-tenure homes

Larger and more sustainable self-build market developed and underpinned by National Housing Service plot supply opportunities

193,000

new build-to-rent homes, let at market rents

£1.307 trillion

Significant GDP impacts resulting from overall construction spend over 30 years x 2.84 multiplier effect = £1.307 trillion

Sustainable vehicle for delivery developed (demonstrated through confidence generated in the marketplace as a result of consistency of application across devolved regional structures), with the ability to continue beyond 30 years

Concept of ‘Right-to-Buy’ fully supported and delivered throughout but with discounts comparable to other intermediate forms of housing at 20%

Overall housing outputs increased over first 10 delivery years and then sustained at 65,000 per annum with ability to increase labour and material capacity (being mindful of success of private sector delivery being equally as important)

Major opportunity afforded to housing associations and local authority landlords to become more efficient through greater scale

£20 billion

All CIL and s106 supporting infrastructure paid in full – circa £20 billion

Compelling route for local authorities discharging their responsibilities for greater housing provision in strategic enabling, planning and landlord efficiency terms

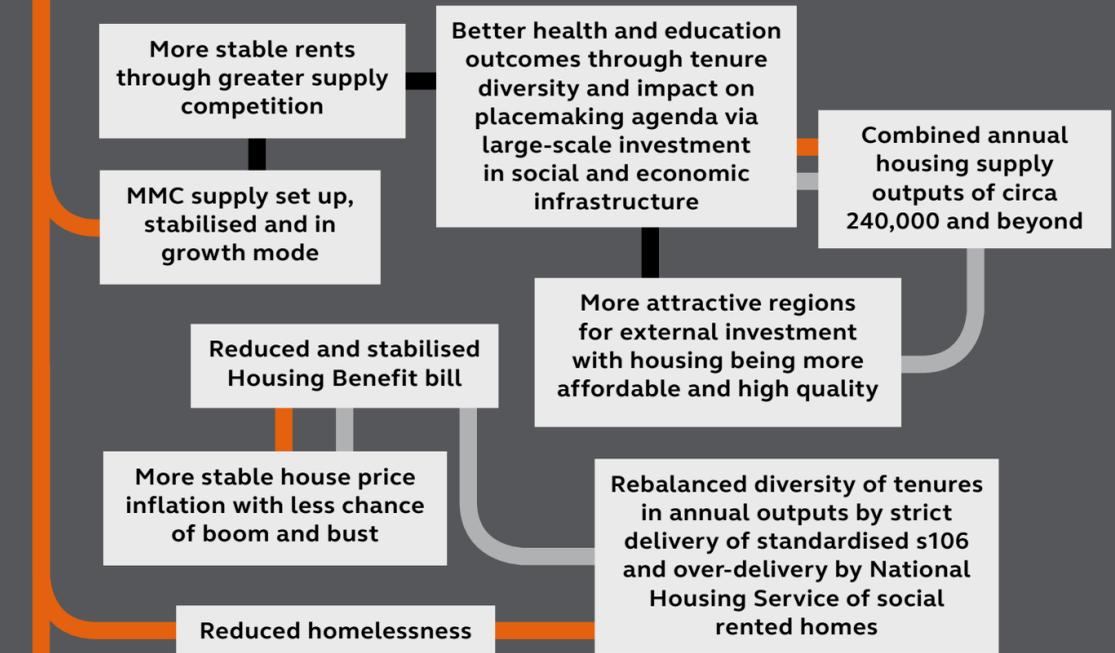
97,500 new jobs

Skills and capacity built by creating 97,500 new jobs by leveraging trajectory of sustainable supply. Capacity building through the provision of 80,000 new trainee placements

All with:

- no public subsidy required
- no affordable rent provided – only social rent
- £2.9 billion cash reserve after 30 years and when all land paid for
- enhanced deferred land payments generated to benefit taxpayer worth £38 billion (enhancement of £20.2 billion from purchase date)
- no public borrowing used for cash flow
- volume of rental property delivered – prime for institutional investment
- 57% more social rent delivered on top of s106 obligations
- win-win outcomes for central and local government.

Within 30 years, as a combined effort, the private sector and National Housing Service will have the potential to provide:



THE RESULTING OPERATING ENVIRONMENT

There would be a significant difference between the current operating environment and the environment as a result of implementing **THE BIG IDEA:**

CURRENT

Owner occupation UK's tenure of choice
(with policies in place to support it). Trends show significant barriers to entry exist

GDP
UK deficit at an all-time high – house building outputs suboptimal for GDP well-being

Delivery of housing
Not meeting output targets in volume or tenure diversity

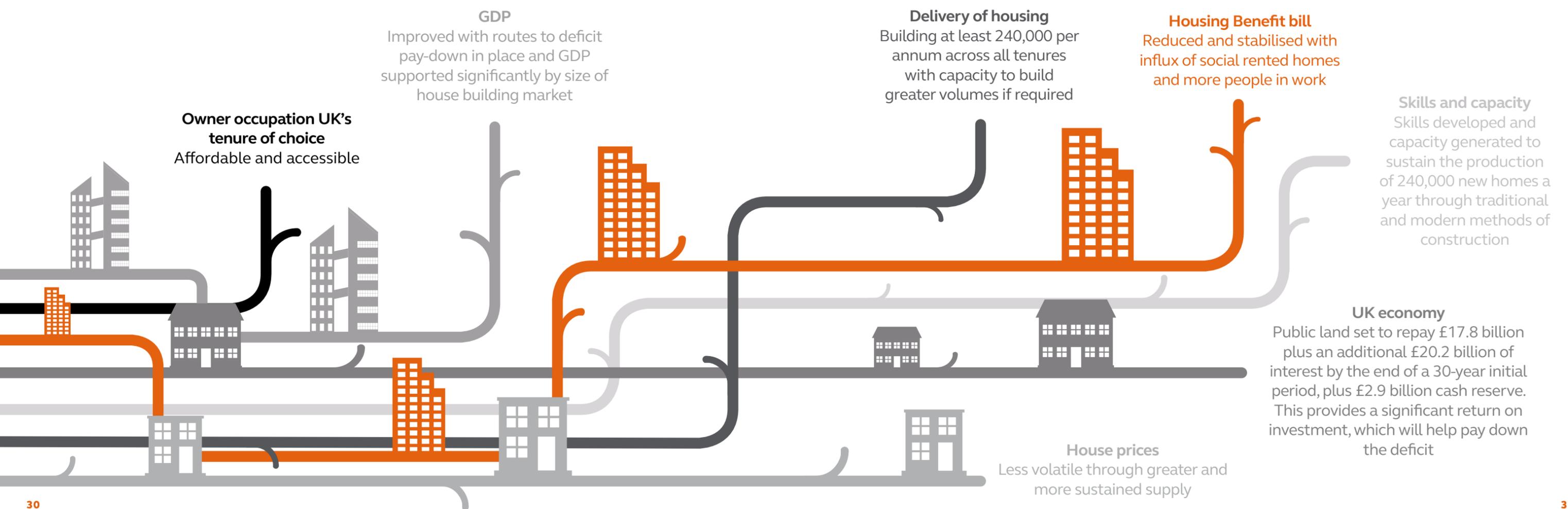
Skills and capacity
Major shortage in skills capacity to meet annual housing target

House prices
Restored to pre-crash levels and rising

Housing Benefit bill
At record high

UK economy
Still in recovery with austerity measures still in place for local government

RESULTING OPERATING ENVIRONMENT



THE BIG IDEA – achieving regional, national and international competitiveness by alleviating pressures on housing supply and affordability, providing skills and employment opportunities and delivering compelling levels of economic productivity



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