

I attach Igloo's response.

[Chris Brown](#)

Igloo Regeneration

[07900 492280](tel:07900492280)

81 Fountain Street, Manchester, M2 2EE

34 Lime Street, London, EC3M 7JE

[www.igloo.uk.net](http://www.igloo.uk.net)

## **The UK Housing Land Market**

### **General Introduction**

The housing land market in the UK is characterised by relatively elastic effective demand (mainly influenced by consumer confidence and the availability of mortgage finance) when compared with supply (new units take 1 – 3 years to bring forward due to the length of the development process).

House prices feed demand through their impact on consumer confidence and the availability of equity, which is usually recycled into the purchase (only a small proportion of transactions are by first time buyers).

The market therefore tends to periodic bubbles and crashes due to these characteristics.

The market is primarily a second hand market. There are around 21.5 million homes of which 1.5 million change hands every year. This number has changed between 1m and 2m over the last thirty years following the cycle of boom and bust.

Thus, efforts to increase the supply of new homes are unlikely to impact prices unless supply for private sale is extremely elastic (going from close to zero in recession to 300 – 400,000 in a boom). No industry would be able to operate on this basis.

The supply of private sector housing has remained virtually constant over the last few decades. However the supply of publicly funded affordable housing has reduced substantially. This has been almost totally responsible for the reduction in overall housing output over this period.

At the same time the house builders have, for commercial reasons, concentrated their production in high value locations where local supply constraints combined with high demand reduces the development risk. This is evidenced by the focus on reducing volumes and increasing unit prices and margins in their annual reports over the last few years.

However, they continue to put pressure on planning authorities by blaming the planning system for high house prices. This is a useful commercial tactic because housebuilders often buy land without planning and take a planning risk. It is therefore in their interests to keep the planning system under pressure to allow them to maximise site values through the planning system. An example of this is their extreme reluctance to secure the trust of the planning system by entering in to 'open book' s106 agreements, as suggested in the Communities Plan.

## **Specific Issues**

### **1 Land Constraints**

Land availability and land price are not closely correlated in the market. Land price is determined by a residual development appraisal (expected selling price less cost plus margin). Prices are primarily determined by competition between purchasers. Almost all developers have three year land banks (see reports and accounts) and almost all local authority areas have five year land supplies (see local plans).

Land prices have fallen recently as developers have anticipated falling housing prices and have increased the margins they require to see in their development appraisals at the point of acquiring land.

The planning system may take longer to negotiate than developers would like but this is for a variety of reasons including poor quality of developers proposals, local political resistance to changes of use and poor quality, badly consulted schemes and, in some areas, capacity and skill constraints with local planning authorities.

The plans themselves are not usually a factor and indeed are very important in maintaining and securing social, economic and environmental benefits.

Indeed a large proportion of residential development every year is termed 'windfall' ie it hasn't been specifically designated in plans, thus showing the flexibility of the planning system.

Neither are development land banks a constraining factor. Developers have always needed around three years land banks to ensure security of turnover and to accommodate the many development processes which include planning but also land assembly, utilities, infrastructure etc. The important and socially, economically and environmentally valuable policy move to brownfield has increased the cost of these landbanks as land now has a higher base value and therefore increases the pressure to develop quickly. At the same time increased density has increased the financial risk for developers (although recently this has been substantially mitigated by the rapid increase in the buy to let and investor market).

## **2 Industry Constraints**

House builders have made considerable profits in the last few years and have retained substantial proportions of this to finance the growth in their businesses. In addition there is considerable use made of debt finance and this has been readily available over recent years. At the same time the increase in the investor market and in particular in 'off plan' sales has meant that the cost of finance to developers has reduced.

Skills shortages have been pronounced in relation to securing innovations in product quality and in particular in increasing supply in regeneration areas ie management skills rather than operative skills.

On the level of operative skills, the housing market is quite different to the car or other consumer goods markets in terms of both the investment aspect and most importantly the environmental impact of the product's design on society, not just its owners (although arguably cars are also not designed with society in mind and have some similar negative externalities). Alternative manufacturing methods are used extensively in commercial development and are being rapidly transported into dense urban residential. However it is likely that the reducing amount of suburban Greenfield housing will continue to be most cost effectively supplied by small improvements to traditional methods rather than for example tunnel form or modular construction.

Contamination and dereliction issues are usually very minor. Invariably issues with utilities (monopoly charges for extra capacity or unwillingness to underground high voltage cables for example) are much more significant and organisations like Offwat seem to place a very low priority on resolving these.

## **3 Policy Environment**

Over most local authority areas the planning system does not control availability of land as the statistics on windfall permissions and the extent of the residential land supplies in local plans makes clear.

Problems of interpretation of planning guidance include inappropriate application of the sequential test. This needs to be applied within housing market areas not within local authority boundaries. At present a location may have housing abandonment while the neighbouring authority is developing on Greenfield sites. The sequential test needs to be applied at city region/housing conurbation level.

In addition there is great misunderstanding of the economics of s106 amongst both planners and developers. The land market is pretty efficient, spotting opportunities for development almost as soon as the residual development value exceeds existing use value. Therefore there is rarely any 'surplus' land value to pay for s106 except where there has been a change of

planning policy which significantly increases values eg industrial to retail or agricultural to residential. In these latter cases s106 are entirely valid.

In the former cases s106 should be based on an 'open book' approach where the developer agrees an appropriate return for risk and reward with the local planning authority and shares any profits in excess of this with the authority. This is how the grant system operates very successfully and English Partnerships are about to undertake research in this area.

However generally, complaints (from house builders) about the planning system are for the following reasons

- 1 They paid too much for the land
- 2 A lack of planners means that processing applications in some areas (eg central London in particular) takes longer than it should
- 3 An entirely reasonable planning policy with great social and economic benefits (eg Green Belt, conservation area, sequential test) is stopping them building housing when and where they want to
- 4 It deflects criticism of them for the poor quality of product

### **Social Housing and the Rental Sector**

Affordable housing numbers have dropped as the subsidy for it has dropped. The industry produces much affordable housing outside desirable areas with high land values. In the relatively few areas of high land values (and recognising that these are highly cyclical and presently over inflated though falling) affordable housing has always been achieved by public subsidy or regulation or charitable funding.

Rented housing over the long term (ie outside of short term bubbles) is also a relatively poor investment after tax and once management costs and risks have been accounted for. Institutional investors look at net returns while small private landlords, when inexperienced, tend to be blind to this element. However a number of institutions do provide private rented eg Alsop Chaco where a housing association absorbs part of these costs and risks.