

THE BARKER REVIEW OF HOUSING SUPPLY A SUBMISSION BY J R HUMBER

PREFACE

The Treasury has identified economically destabilising consequences arising from the UK housing market. The growing shortage of houses is also a key issue for employers looking at locations in which they wish to invest. It creates recruitment difficulties, has labour cost implications and, as recruitment has to take place over longer distances, involves employees in lengthy commuting which adds to congestion on roads, which is already a major problem for businesses.

In this paper, I have inter alia, brought to bear my experience as Chairman of the East of England Business Group, whose members are extremely concerned about these effects on employers in a region which can, or should be, creating new jobs and increasing GDP.

I have also drawn on my experience of the housebuilding industry over 30 years. I was involved in speculative development in the late 1960's and early '70's. I was Chief Executive of the House Builders Federation from 1979 to 1999. I am currently a non-executive director of two medium-sized housebuilding companies and I am a consultant to developers and landowners on a wide range of developments, particularly in the growth areas identified by ODPM in the East of England. I am a stakeholder member of the East of England Regional Assembly and of its Regional Housing Panel, which is currently preparing RPG 14.

I deal with four areas in this paper, and also a number of consequences of them, in terms of housing supply. They are:

- the forward planning system and its political drivers, and the down-stream, detailed planning policies which Government has issued to local authorities;
- the commercial response of housebuilders to these policies and the resulting inelasticity of supply;
- the inelasticity of the overall housing market in this housing market cycle compared to earlier cycles;
- proposals to increase supply in the next five years, within the context of current legislation and policy proposals.

Within these topics, many of the questions posed by the Review are considered.

INTRODUCTION

It is clear that Government, and ODPM in particular, does not understand the commercial context in which housebuilders operate, in terms of the choices available to capital, the risk profile of the industry and the impact of Government planning policies on business risk and opportunity.

Government appears to misunderstand the commercial processes by which housebuilders acquire land and attempt to process sites through the planning system. This lies at the heart of often misleading claims made by Ministers that housebuilders are hoarding land and, more recently, by the Deputy Prime Minister, that the system of optioning land is a means of keeping land off the market.

Many of the demands Government makes of the industry reveal a dichotomy between apparently wanting housebuilders to develop sustainable businesses, capable of supporting R & D and investment in new design and technologies and in training for the future while, on the other hand, expecting them to behave like speculators in a boom, with no thought for the future.

Until policies are amended to reflect commercial realities, their constraining effect on the flow of planning permissions onto the market means that it is unlikely that housebuilders will be willing or able to increase supply in the foreseeable future.

INELASTICITY OF SUPPLY

The Government is concerned that private housing output has virtually flat-lined at an historically low level for the past five years, during a strong market which then turned into boom conditions in 2002.

The industry blames "planning" for this, whilst ODPM Ministers and its advisers increasingly turn to conspiracy theories - land hoarding by housebuilders aimed at reducing output in order to inflate price and profits.

However, any review of housing output since the 1950's suggests that there is something unusual about the period since 1996 - from which

time the current housing market recovery may be dated - and earlier strong and booming housing markets. In these periods, the output of new private homes showed considerable elasticity, reflecting relative economic buoyancy and customer demand.

During the long period of affluence and economic growth, from 1959 to 1968, new home completions rose almost steadily from 150,000 to 222,000 p.a. This was accompanied by a public housing programme which grew in size from 125,000 houses to 200,000 in the same period. At current prices, that suggests approximately a £63 BN turnover industry, compared with a £30BN industry today.

The size and responsiveness of the industry reflected a political environment in which there was almost universal agreement about the need to build houses, accompanied by a planning and public finance climate which supported this. The result was an industry that could invest in training and change and which saw a supply chain, particularly in terms of flows of sites on which it could obtain planning permissions, which encouraged maximisation of output.

It was also a period of greatest affordability of houses since the 1930's, when elasticity of supply was, if anything, even greater. Typically, in the 1960's, land accounted for 10-15% of selling prices, whereas it now accounts for 30-50%, depending on area and location.

Similarly, the shorter-lived boom of 1970-72/3 saw completions rise from 170,000 to 196,000, although public sector housing started its long decline at this time, and land-price inflation started to become a serious factor for housebuilders.

And finally, the most notorious boom of the 1980's saw private output rise from 115,000 in 1981 to 200,000 in 1988, whilst RSL and council building had fallen to 32,000.

During all these periods housebuilders and developers followed a logical course of increasing output during periods of rising prices, in order to maximise profitability. All this was against a background of what has been widely condemned as a boom and bust economy, when businesses as a whole had little faith in long-term stability and "made hay while the sun shone". This was particularly true of the housebuilding industry because of the multiplier effect of interest rates changes on affordability. This left the housebuilding industry more exposed to the boom and bust cycle than most other industries.

By contrast, since the 1990s we have seen a deliberate attempt by Government to secure more stable growth and lower, more predictable inflation rates. This has changed the behaviour of both Government and businesses.

The most striking aspect of private housing output during the entire 1990s, both during slump and boom, is that private completions have only varied within a narrow band around 145,000 - 150,000 per year.

What equally needs to be understood is that the housing market as a whole has behaved differently compared with earlier periods. Over 30 years to 1990, roughly 12.5% of the owner occupied stock was traded each year, with a one-off leap to 16% in 1988. The market contracted to 7.5% in the early 1990's and has only recovered to around 9.5% on average with the exception of 2002, when it appeared to have risen to around 12%. However indications for 2003 is that it has settled back at 10%+/- . This is significant for new housing output, because a significant part of housebuilders' sales are what is known as "dependent" i.e. a function of the size of the second-hand market.

There may be a number of reasons for this lower level of transactions. It may reflect demography - the population is "middle aging" with an overwhelming proportion of new households aged over 45. This age group, historically, moves less. It may be due to the substantial increases in transactional costs in recent years, stamp duty in particular. It may reflect contentment with existing accommodation and the difficulty of finding anything better - particularly a new house which is smaller and built to high density in a less desirable location than many existing houses.

Whatever the reasons, the contraction of the second-hand market should be investigated, both because it limits the size of the market for new homes and also because it suggests a worrying lack of labour mobility.

Thus we face a phenomenon that is different from the last 40-50 years. From 1999 to 2002, house prices doubled in high demand areas but the housing market as a whole did not respond to rising prices by increasing transaction levels, nor did housebuilders. During previous periods, this price rise would have led to profit maximisation by housebuilders, both by increasing output and taking advantage of the ability to raise prices while existing owners would have traded more vigorously.

Therefore, in looking at housebuilding, this Inquiry needs to focus on what has changed, either in housebuilders' behaviour or the external environment or both.

What has changed is that: -

- over time those opposed to new development have become emboldened by the weakness of national and local politicians in resisting NIMBY and environmental anti-development pressures. This gathers pace constantly and manifests itself currently, for example, in the determination of many local authorities, in the areas identified for growth under the Communities Plan, to resist and delay identifying scope for additional housing and to place as many obstacles as possible (for example, undeliverable demands for up-front infrastructure prior to agreeing to development) in order to justify their NIMBY policies. The pressures surrounding the preparation of RPG 14 and the draft consultation paper on growth in Milton Keynes and the South Midlands would repay detailed examination by the Inquiry in order to understand it better. The effect of this pressure is that plans have been slow to emerge and have placed ceilings on levels of development, designed to prevent market responsiveness;
- the planning system has undergone three major upheavals in a little over a decade. These have changed local authority approaches to planning and their understanding of how development should be brought forward. As a consequence, forward planning has been delayed, slowing the release of land which developers have sought to bring through the system. This, in turn, has altered developers' expectations and influenced their prudential commercial behaviour;
- a smaller housebuilding industry, dominated by major companies who have made substantial forward investment in land in order to support sustainable businesses, which is unwilling to build out land on which it has current planning permission, thereby raising output in the short term, because the experience of the last decade is that replacement land is coming through too slowly to sustain increased output;
- changing planning policies, with their emphasis on brownfield urban locations, higher densities and pressures in new circular guidance and by public sector land sales to influence product mix

and design, have created complexities with which only large firms can deal;

- they, in turn, face significantly increased risk in respect to, say, building a block of 100 flats on a contaminated site, as compared with 100 houses on an edge-of-town site, which may also be formerly used. Ministers do not appear to appreciate that the former type of development results in a totally different capital requirement, cash flow and exposure to changing markets which radically alters risk and therefore reduces the number of such projects any single developer will undertake. It would probably be imprudent and unpopular with bankers and shareholders for even the largest companies to invest more than 75% of the output which they could have invested previously on traditional housing sites, because of the changed cash flow profile and capital requirement. Thus, politicians' preferred policies will have an unforeseen effects because of their ignorance of commercial reality;
- not only have housebuilders been unable to increase production in the boom in order to maximise profits, they are likely to struggle to maintain profitability in the next phase, unless additional outlets come through the system in sufficient numbers to enable the step-change in output which housebuilders will need to maintain profitability. Low output will not be a rational commercial response to the next phase of the market, but there is no evidence that housebuilders will, or can, change that.

This paper now considers some of these issues in more detail.

PLANNING POLICY

ODPM seems to be confused between land, sites and implementable planning permissions. While access to land is obviously the housebuilders' lifeblood, there is always far more land on offer than is likely to obtain planning permission or to be of any interest, in terms of market demand, to housebuilders. The latter perception can be changed in some cases, most obviously by long-term investment and policy support, as in London Docklands. However, much land will remain stubbornly outside planning policies and market demand.

Planning policy is not driven by the need to build houses where purchasers work or want to live and thus where housebuilders will readily build houses. Since the early 1980s popular support for

additional housebuilding, which was a feature of the political landscape in the '50s, '60s and '70s, has steadily given way to NIMBY opposition. This, in turn, has led to an increasingly difficult climate in which politicians have weighed the electoral advantage of housebuilding against "the environment", which in turn is dressed up as "saving the countryside" if greenfields are involved or "preventing unacceptable congestion" if urban areas are concerned.

Politicians have sought to mitigate this NIMBY-ism, which they have often encouraged through populist environmentalism, by trying to reduce what they perceive to be the unpopularity of new homes, micro-managing housebuilders' output in terms of specific locations, density, product mix and design. In so doing, they create a policy climate in which it is far more difficult to secure planning permission. The financial resources required to acquire and process sites through this planning maze are available only to a small number of larger companies, resulting in a shrinking industry. This shrinkage is evident from NHBC statistics, which show a substantial fall in the number of small firms in the industry and a corresponding fall in their share of the market.

Small, often highly speculative companies have provided much of the elasticity in the industry in previous decades. They are not necessarily serious housebuilders and often they may be the type of speculator who turns to any rising market. However, whereas this type of speculator may happily build 10 detached houses on a suburban infill site in which a volume housebuilder is not interested, they will not risk their capital on a block of flats on a brownfield site with the remediation, design and planning hurdles they currently have to negotiate.

Therefore the effect of the tightening of the policy framework has been to concentrate output on a smaller number of housebuilders who want to maintain substantial businesses and it has driven out the marginal investors and small housebuilders who appear to have played an important role in providing elasticity in the strong markets of the '60s, '70s and '80s. The latter have neither the skills, the capital nor the will to tackle the new framework.

Thus the first two lessons to be taken from policy changes are that until politicians give leadership to change the political climate that has generated the current many anti-development policies, they cannot expect to see performance by local authorities or housebuilders

change, in the short term, just because they have gone into panic mode about supply.

The second lesson is that the industry is contracting in response to the policy framework. This takes two forms. The first is as described above - small investors leave. The second is through consolidation of long-term, serious businesses. Acquisitions of medium-sized private and public companies have been a major feature of the last five years, as well as mergers/acquisitions of the large by the very large.

There are two drivers of this process. First, it occurs in order to acquire land which has been processed to or is near to an implementable planning permission, in order to secure the acquiring company's need for such sites in the next, say, three years.

Second, its purpose is to take capacity and overhead out of the industry and bring it into line with the likely ability of the industry to supply product, in a situations where it perceives its supply pipeline is likely to prevent expansion of output, without unacceptable risks.

FORWARD PLANNING

The 1990s have been characterised by major changes on forward planning which deliberately sought to reduce its market responsiveness. The relative market responsiveness of the system in the 1980's was viewed as creating an unpredictable climate for local residents and this became politically unacceptable. The changes made acted as a brake on the already slow process of taking land through the planning system and into production.

The plan-led system was introduced in 1991 and it effectively allowed local authorities to control the rate of development by giving primacy to land that was allocated in a local plan or UDP and it severely downgrading the likelihood of any other land obtaining permission. Additionally, it enabled even land under consideration in the plan to be held back by the so called "prematurity rule". This enabled local authorities to use delays in their own plan-making to prevent land which they knew to be suitable for development from obtaining planning permission.

Delays in plan production, due to local authority inefficiency and to the internal slowness of the system, caused a considerable hiatus in the land pipeline in the 1990s. This failure of local plan preparation and its consequences are widely enough understood to require no further

explanation, as such, and, in significant part, the Government's current legislative proposals for the planning system are a reaction to this failure.

Nevertheless, developers invested a great deal of skill and expertise in promoting sites through the plan led system and, for example, the growth of strategic land and planning teams in major housebuilders bear witness the importance attached to it.

PPG 3, when introduced in March 2000, disrupted this process and thwarted expectations that, after a long delay, land might start to flow through the plan-led system. Regardless of what Ministers and their officials may have intended - and their intentions seem to have been both unclear and muddled - PPG 3 enabled local authorities, where they wished to do so, effectively to set aside their local plans, in which so much had been invested by developers, if they considered them to be no longer compliant with PPG 3. This caused the second major hiatus in the land supply pipeline, enabling local authorities in high demand areas to repudiate greenfield sites in the plans (often they had allocated them only because they felt compelled to meet structure plan housing numbers) and this also significantly reduced the supply of land.

A local authority perspective on this is provided by Michael Gwilliam, Head of Planning and Transportation at SEERA, in a response to ODPM's enquiries about planning under-performance against policy targets. The suddenness of the policy change, the lack of transition and the subsequent hiatus is highlighted from a source which is independent of the housebuilding industry (reference -

PPG 3 required local authorities to give effect to the new brownfield-first policies, high densities, lower parking and to do so using a sequential approach, urban capacity studies and "plan, monitor and manage" to secure its objective. This policy framework has been widely and deliberately abused by local authorities, many of whom have seen this as an excuse for delay in producing plans. Even the "brownfield first" objective has been thwarted by those local authorities who want as little development as possible, because brownfield windfalls brought forward by developers have fallen foul of the prematurity rule, while a new, PPG 3 compliant, plan is prepared.

Finally, even these plan revisions have, in some cases, now been suspended by local authorities who are not prepared to continue with local plan and UDP preparation when the Government is preparing a

new LDF regime, under its planning legislation, currently before Parliament.

All these changes have, over the last decade, given local authorities where they wish to do so, a wide scope for preventing development in their area. While Ministers may exhort them to behave otherwise, it is naive to ignore the weapons they have given them to prevent development and it is cynical to blame housebuilders for the resulting hiatus.

These constant changes have given housebuilders no confidence in forward land supply and, currently, with more legislative change ushering in another 3-4 year period of transition from one form of plan to another, there is little likelihood either that supply will be increased or that housebuilders' confidence in continuity of increased supply will be improved. **In such a climate, there is no foreseeable reason to expect that housebuilders will be able to increase output. ODPM will have to demonstrate that it can increase housing numbers in plans and that it is willing and able to coerce local authorities to release land continuously at these higher rates before housebuilders will respond.**

DEVELOPING SITES

Ministers are seeking a step-change in housing output via a step-change in levels of interference in housebuilders' business decisions. The only consequence of that will be disinvestment from the housebuilding industry and falling output.

PPG 3 and subsequent proposed revisions to Circulars 6/98 and 1/97 are seeking to encourage local authorities to micro-manage housebuilders' production, at a time when ODPM acknowledges that the performance of the development control system is inadequate. This interference involves prescriptions on density, product mix, location, affordable housing, design and probably construction method.

Delays and inability to reach decisions due to lack of staff, lack of skills and inability to process legal agreements are accepted by ODPM as endemic in local planning authorities. Current planning guidance has multiplied the scope for delay and dispute by inserting ever more policy hurdles in the system. Ultimately, if policies become too complicated and invite too much interference by local authorities, who have neither the skill nor the will to apply them appropriately, they become a source of delay and frustration in the system themselves.

Regardless of any justification of ODPM's policy aims, if they cannot be implemented they should be amended. A DoE circular on housing, issued in 1979, advises "the best is the enemy of the good". Ministers are seeking to deliver what they perceive as the best, through local authorities that they acknowledge are not performing satisfactorily.

The difficulty of taking decisions in this policy climate is well illustrated by the confusion into which ODPM became enmired in three appeal decisions attached as appendix 1.

These sites all met what might be described as the headline criteria for approval. They were refused on judgments about relatively minor hurdles within policies. Undoubtedly these decisions were technically correct in detail. In the broad scheme of things, however, these decisions were wrong because they unjustifiably prevented much needed development. Nevertheless they serve to illustrate the extent to which policy prescription and micro-management has become counter-productive, when even ODPM in its decision making, cannot see the wood for the trees. The point the Inquiry needs to understand is that this type of confusion is repeatedly encountered by developers when making planning applications. It means that, too frequently, decisions on planning applications are a complete surprise to the developer, and appear perverse, and do not reflect the Government's intention to support increased output.

This perversity feeds directly into developers' perceptions of their ability to buy land through the system and thus to expand output. Government must restore some sense of balance and priority in its policies. If its true aim is to supervise every aspect of housebuilders' output e.g. control of density, design and social engineering are paramount, they must accept that this will be achieved at the expense of output.

SOME KEY QUESTIONS FOR THE REVIEW

- 1) As a result of the failure to increase supply in recent years, Government alleges that housebuilders are hoarding land and that they are slowing down output**

Many housebuilders in serious production and who are adequately financed could have increased output during the last two or three years. However, for many, the consequence would have been a major drop in output after about three years because, in most cases,

experience has shown that the supply of new land with implementable planning permissions is unlikely to be available as the increased rate of sale. It is a market reality that current sales are governed by future capacity to build. A three year land bank of 1,250 plots, inevitably governs housebuilders with plans for a sustainable business, to a maximum of 500 houses per year, even if they assume they will add the extra 250 plots required to support their output in years 2 and 3. Ministers and their advisers often give the impression that they expect all 1,250 plots with planning permission to be built out, without considering the pipeline issue. This naive view leads them to discount and disregard the absolutely vital importance housebuilders attach to the forward planning process, followed by the development control process. If this cannot increase the supply of implementable planning permissions, housebuilders will not, indeed, would be foolish, to increase completions from their available stocks of land with planning permission. If Ministers chose to label that land hoarding, it suggests that they are not interested in dealing with a well-run industry, safeguarding its staff, training and shareholders, but rather they want to deal with an industry of here-today, gone-tomorrow speculators.

2) The role of options in the process of bringing land forward has been the subject of some extraordinary comments, not least by the Deputy Prime Minister, who appears to have been extremely poorly advised.

The process of optioning land owned by a range of non-developer land-owners is the most efficient way of bringing it through the planning system, in an increasingly complex and lengthy process. These landowners usually do not have the financial resources nor the expertise to deal with this system. Options cost significant amounts of money, and they are structured to place obligations on the developer to use his best endeavours, within a given time period, to obtain planning permission. At the end of that period, the option needs to be reviewed, with a further payment made if planning permission has not been received. If the vendor is not satisfied that best endeavours have been employed, the option may be transferred, leaving a total loss to the first option holder.

The alternative would be for housebuilders to buy land outright, without benefit of planning permission at some price which is either a multiple of agricultural value or a significant discount to OMV with planning permission. Few vendors would accept this, naturally wanting to share in the uplift in value on grant of planning.

The investment required under an option agreement is considerable and may involve seeking allocation through a local plan, making representations at an Inquiry and even at a Structure Plan EIP, if the site is large enough. Subsequently processes for obtaining planning permission have to be executed and the option normally requires the proposed developer to bear the costs of an appeal, if planning permission is refused.

On average, the success rate on options is between 1:4 and 1:5, representing a very considerable investment and overhead to be borne, allied to a strict timescale in which to perform because, obviously the landowner does not want to wait any longer than they have to, to receive payment of full market value, less any discounts for size and infrastructure that may be agreed.

The system has an inbuilt forward momentum, with financial loss for failure. It is therefore incumbent upon ODPM to explain their understanding of this process and how they believe it leads to delay and the withholding of land. From the housebuilding industry's perception, this is a system that compels performance and delivery.

3) Unused planning permissions are cited by ODPM as evidence that housebuilders are withholding land from development.

These are three aspects to this issue. The first, existing land banks with planning permission and whether it should and could, commercially, be built out immediately, have been discussed above. The prudent use of available planning permissions to sustain a business is appropriate commercial behaviour.

The second aspect raises questions about whether ODPM properly understands planning permissions. An outline planning permission is not an implementable planning permission. A Section 106 and other agreements generally have to be negotiated and this takes an average of a year to conclude if all goes relatively well; much longer in a minority of cases. Simultaneously, details ranging from design and materials, landscaping, play areas and access plus agreements with Environment Agency and Highways Department need to be put in place, before a planning permission is implementable by a housebuilder. The total time to achieve this is typically between 12-24 months. This is a very significant increase, compared with barely ten years ago, when a start could usually be made and many of these matters agreed as work progressed.

In some cases, the sum total of these conditions prevents development for several years - 5 years is not unknown on some major sites, and may even result in a scheme never being built. This may seem improbable but, for example, where a major change of policy such as PPG 3 changes the policy context overnight, not just allocated sites, but sites with outline planning permission have lapsed as local authorities used their power to delay to run them out of time. It is also particularly difficult, sometimes, to complete this process if planning permission is issued on appeal, subject to Section 106 Agreements and conditions to be subsequently granted by the local authorities.

It is also important to understand that phasing policies, imposed for a variety of reasons, on large sites by local authorities mean that simply adding up the number of plots with planning permission presents a misleading picture of the amount of land available to be built on.

ODPM clearly needs to research and understand this whole question better. The old DoE had a better understanding of these issues when policies required local authorities to prepare 5 year surveys of land availability. "Availability" was strictly defined according to commercial and planning criteria. These have been abandoned and "availability" has been replaced by a widely defined and nebulous concept of "capacity", which leads to gross over-simplification of all elements of land supply and which has abandoned the old rigour in understanding the effects of phasing and what is a realistically implementable planning permission.

The third aspect of unused permissions relates to the likelihood that there are a considerable number of unused residential planning permissions, beyond the above two categories. This would not be remotely surprising, since any land on which planning permission can be obtained is potentially so valuable that all manner of landowners seek, and sometimes, obtain, planning permission. This does not mean that it is all developable, commercially, and still less that it is in the hands of housebuilders in serious production, but not being developed. There is no evidence to support the latter point.

Obvious examples of this type of applicant are owners of houses with large gardens who obtain planning permission for one or two larger houses and will only accept prices that well-off self-builders will pay. This land is not commercially viable or genuinely available to the industry and may wait many years before a suitable buyer is found.

Farmers are inveterate applicants for planning permission of small pieces of land, but often utilities are not available at viable prices and neither housebuilders nor RSLs can sustain development on such land.

Again it is incumbent upon ODPM to produce evidence of these unused planning permissions and subject them to scrutiny with the housebuilding industry, otherwise the claims appear to be simply aimed at blame-shifting, and to muddying the water. The remedy available to ODPM is to encourage non-renewal of these unimplemented permissions, which generally remain unimplemented for good reasons.

4) The lack of responsiveness of housebuilders to demand inevitably raises the suspicion that housebuilders are benefiting from shortage.

Typically, housebuilders have benefited from house price inflation in the last four years. Many housebuilders were unable to increase the number of sites needed to meet budgets in 1999 and 2000. The impending and actual policy changes to PPG 3 removed sites that were budgeted for production from 2001 onwards and slowed down the rate at which many others became available for production, as policy was re-assessed. Much of the industry found itself with 80% of the sites it needed to meet budgets, but 25% house price inflation enabled it to achieve and even exceed budgets from that lower output. As that slow feed-through of sites in the pipeline has continued, budgets have increasingly been set to reflect those expectations, while inflation has given a misleading boost to profits, although it has mainly been fed through to land prices. On the face of it, therefore, there seems to be a case for claiming that housebuilders are profiting from the current situation. This needs to be caveated heavily by considering whether that situation is actually any more sustainable for housebuilders than the alternative of burning through existing sites and halving output in two years' time.

In reality, once the current surge of house prices levels out, it is likely to be followed by anything between five and seven years of relatively flat house prices, as house price/earnings ratios gradually fall back from 6.5% x to around 4 x, which is the level that usually triggers house price upturns in the high demand areas. As a result, housebuilders will not be able to rely on inflation to create high margins from lower turnover - they will need higher turnover to create profit.

It is therefore clearly in housebuilders' interests, having failed to maximise profits from both margin and turnover as they have in previous cycles, to increase output in the next cycle. Simply, they will need higher turnover to maintain profits. However there is no indication that they will be able to achieve this. Moreover, as their profit margins and turnover are restrained by purchasers' indebtedness and slowdown in income growth, housebuilders are also likely to face high costs, increased capital lock-up and less willingness on the part of purchasers to buy the products that Government policy is increasingly prescribing. In these circumstances, supply and demand may come back into equilibrium at below current output, resulting in a further contraction of the industry. **The housebuilding industry's commercial need is to increase output in the next five years, but it is unlikely to be able to do so.**

CONCLUSIONS

Until Ministers understand the commercial drivers of the housebuilding industry, they will continue to misunderstand the consequences of their own policies. The impact of policy changes since 1990 has been to reduce the market responsiveness of the planning system. Further micro-management of the housebuilders' product leaves, inter alia, fewer housebuilders able to deal with the system, a smaller industry and a gradual acceleration of disinvestment from the industry.

In these circumstances, housebuilders' non-responsiveness to demand is both logical and inevitable and will remain the case until policies change or until the new planning system produces a consistently higher supply of land with planning permission, which changes housebuilders' perceptions and therefore behaviour.

PROPOSALS TO INCREASE HOUSEBUILDING OUTPUT

- * Reverse the prematurity rule and, in the absence of an up-to-date UDP, Local Plan or LDF, introduce a presumption in favour of development of any site in any draft plan published by the local authority in the previous ten years.
- * Encourage developers to bring forward brownfield sites and sites in draft local plans by making rapid decisions on such appeals on these sites a priority for the Appeals Inspectorate.

- * Appeals Inspectors should grant full planning permissions, based on unilateral undertakings from developers and the presentation of sufficient detail to enable houses, site layout and landscape to be properly identified.
- * 15% additional output should automatically be inserted by ODPM to all housing figures submitted on structure and local plan UDPs, RSSs and LDFs, until local authorities produce appropriate figures.
- * PPG 3 should be reviewed urgently in order to ensure that the declared aims of "brownfield first" "not greenfield never" are not frustrated by devices such as urban capacity studies which overstate supply and the misuse of sequential tests to frustrate the market.
- * "Plan, monitor and manage" should be scrapped because it creates inertia and procrastination in the system.
- * A requirement that each local authority should have a five year supply of available land, based on the criteria applied in the 1980's, should be re-introduced.
- LDV's should be given full planning powers in all growth areas and they should have flexibility to exceed local plan rates of housing development. If developers are able and willing to develop additional sites and output, and where those sites meet all other criteria of suitability.

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