

More Good Homes: The urgent national mission for the UK

Introduction

This note introduces the More Good Homes project, part of the Legatum Institute's The Country We Want To Be programme. This programme will cast a vision for the UK after 2019, looking forward to the opportunities and threats we face as Britain leaves the European Union and forges a new path in the world. It will conclude with a manifesto for government, business and society to be published in the spring of 2019.

The method of compiling this manifesto is deliberately open and consultative. We intend to look at the future from a number of perspectives – particular issues, places, or groups of people – and invite advice and feedback from anyone with an interest or expertise in the area. Typically we expect to publish Introductory Notes, like this one, to start the conversation, followed by more detailed Position Papers, and then full Policy Papers which will contribute to the Manifesto in 2019.

This Introductory Note on housing policy informs the seminar which the Legatum Institute is holding at the Conservative Party Conference on 2 October 2017 with a number of housing experts and stakeholders. Following this event, and in light of feedback to this Note, we will issue a Position Paper in the autumn of 2017 and then a Policy Paper in 2018.

The housing challenge

In imagining the country we want the UK to be, few things are more important than the homes we will live in. Few things matter more to individuals and families – and few issues represent such an acute threat to our country's wellbeing.

The current state of housing in the UK is undermining Britain's economic and social order. It is the most acute domestic challenge facing our country.

In simple terms, housing in the UK is too small, too expensive, and there is not enough of it:

- The average new home in Britain occupies a tiny 76 square metres – 40 per cent less than the average new home in Germany and 30 per cent less than in France.¹
- Even most small homes are too expensive for most new buyers. The average house sells for eight times average annual incomes; in expensive areas the multiple is extreme (in Kensington and Chelsea it is 38 times average earnings). London prices have risen 400 per cent in the last 20 years, and 250 per cent in the rest of the country.²

¹ 'The Case for Space: the size of England's new homes', Royal Institute of British Architecture 2011

² 'Housing affordability in England and Wales: 1997 to 2016', Office of National Statistics 2017

- Small overpriced homes are the result of a system which simply isn't creating enough homes to meet the demand for them. In 2016 140,000 new homes were completed in England – the highest amount for a decade, but still far fewer than the 250,000 per year the government considers necessary to meet our housing need, let alone the 300,000 some experts are calling for.³

The high cost of houses feeds into an over-priced rental market. A quarter of people renting in the private market pay over 50 per cent of their income in rent; too many landlords let substandard homes and deliver a very poor service.⁴ Meanwhile some millions of people live in social housing, too many in insecure conditions watching their own dreams of home ownership recede.

Already a generation of people are entering middle age without having been able to buy homes of their own. In 25 years they face an asset-less retirement, expected somehow to afford private rent (and, in the case of many, to pay for the costs of long-term care) without private capital.

The generation behind them – the millennials – have never known a housing market that afforded any real prospect of home-ownership to the majority of people. Their appetite for radical politics is easily explained. How can people who have no capital, nor any prospect of getting any, be expected to believe in capitalism?

The pressures on the system

The causes of the breakdown in the British housing model are various and complex. It is possible to identify some culprits:

- Growth in households. Our ageing population, changes to family formation (including more family breakdown), and immigration are driving a major increase in the need for homes. In the 20 years after 2019 the number of households in the UK is predicted to rise by almost a quarter.⁵
- Investment demand. Many people and firms, both here and overseas, see UK property as a safe and lucrative asset, and therefore compete with people who want to buy a home to live in it.
- Bank and government policy. Low interest rates, Quantitative Easing and government subsidies for home-buyers have driven up prices.
- Planning constraints. It is very difficult to get permission to increase density in urban areas; the Green Belt – large parts of it ugly brownfield or intensive, mono-culture agriculture – prevents cities from growing.
- Building delays. British builders suffer shortages of labour, capital and competition; nevertheless they are highly profitable. As a result many builders have chronic productivity, and – in response to market realities – practice rationing to maintain prices (i.e. buying land but not developing it until local prices are high enough).

³ 'House building: new build dwellings, England: December Quarter 2016', Department for Communities and Local Government 2017

⁴ 'English housing survey 2013 to 2014: headline report', Office of National Statistics 2016

⁵ '2014-based household projections in England, 2014 to 2039', Office of National Statistics 2016

A vision for housing in the UK

No single solution is going to resolve the UK's housing challenge; the simplest ideas can be the most misguided. But it is possible to outline an ideal state, where most parts of the system work properly and where most people are satisfied.

This section sets out some principles which could be developed, severally or together, to create the sort of housing we all want.

1. People's impulse to **home ownership** is right and natural. People who own homes have a stake in their community; they feel secure and able to invest emotionally and financially in the place where they live; asset ownership of any kind makes people responsible and oriented to the long-term.
2. We need **bigger and better homes**. At different stage of life we want different sorts of homes. But when consulted, most people from all backgrounds and places regularly say the same thing: in the city they prefer low- or medium-rise terraces which allow both density and decent space, and out of town they want detached houses with gardens. We should not seek to solve the housing crisis by creating more and more tiny flats.
3. We also need to cater to the demand for **retirement homes** including retirement villages.
4. Builders should be clearly told '**when you buy, you build**'. The decision to buy should represent a belief in the profitability of the site in today's market – not in the potential profit once prices have risen in a few years' time. Housebuilders should be manufactures of houses, not asset managers. Penalising land-hoarding would encourage builders to adopt longer-term balance sheets and cater more efficiently to local demand.
5. The market for builders should be **more competitive**. The productivity of the industry will be enormously enhanced by the adoption of new technology and particularly by modular off-site construction. Changes to planning, insurance and mortgage practices are necessary here.
6. **Local communities** should have the major say in local development decisions. 'Communities' can be as small as single streets, which could decide whether or not to approve a new development or to collectively redevelop their own homes. This also means communities receiving more of the planning gain.
7. It may be necessary to **empower a national agency** – like the National Infrastructure Commission – to drive through major developments like new towns.
8. We should **phase out subsidies** for home-buyers as soon as possible, to reduce the inflationary effect on house prices.
9. The principal cost of a house is the land it sits on. We should be developing **new models of land ownership**, including via Community Land Trusts which acquire land on behalf of local people and sell only the bricks and mortar at a greatly reduced cost compared to the price of the house-plus-land.
10. **Local Authorities should be encouraged to build**, either directly for social housing or by selling land to private developers, Community Land Trusts, or self-builders; we can do this by allowing them to borrow more, to receive Stamp Duty or VAT receipts, or to buy at pre-planning prices.
11. **The Green Belt should not constrain city growth so tightly**. It should be possible to develop land in the Green Belt with a net positive environmental impact – for instance via 'swaps' of new green spaces elsewhere, or simply by ending damaging

- environmental practices of some intensive farming.
12. Growing the supply of homes requires some steps to reduce demand – otherwise the additional capacity will be consumed by high-end buyers and investors without benefit for the majority of people. This is the story of previous building booms, which resulted in further house price inflation. It is possible and may be necessary to **curb property speculation**, which drives up prices and denies investment money to more productive parts of the economy; but this must be done carefully to ensure foreign investment capital continues to flow into the UK, including to help build houses here. We could also impose much more stringent conditions, via the planning process, on the sorts of new developments which can be built.
 13. Long-term, we will reduce demand for housing by **supporting couples** with children to stay together, and **helping families** to look after elderly parents at home. We will also reduce demand if we can **reduce immigration**.

The national mission

The ideas set out above represent a series of provocations for debate. They are mostly radical, and many will attract strong objections.

We start with radical provocations because of the critical nature of the problem. The UK's housing challenge is as acute as any of the more familiar and much-discussed threats to our prosperity, such as Brexit, global economic turbulence or terrorism.

The UK needs a new national mission to build the houses we need – a campaign on the same scale as Nye Bevin's Home for Heroes housebuilding effort in the 1940s, or Harold Macmillan's which followed in the 1950s. We also need systemic reductions in demand, via resolute action on family formation, immigration and investment behaviour. For all of this, public consent and political leadership are required.