THE FUTURE OF RESIDENTIAL DEVELOPMENT

Unlocking the housing market

Knight Frank

INTRODUCTION

Housebuilders and residential developers are used to dealing with a changing world.

Over the past ten years, they have responded to a new focus on urban regeneration, accepted the idea of providing affordable housing alongside market products, and increasingly adapted to new requirements for sustainable and lifetime homes.

Until relatively recently, one thing remained constant: the overwhelming profitability of the sector. The British desire for property, both as somewhere to live and as an investment, drove end sale prices and land values upwards to dizzying heights. For a period, it became virtually impossible to lose money if you were involved in building homes.

This era has ended and a profound change in market conditions has occurred. Sales have ground to a halt. Prices have been slashed and many housebuilders are battling to survive. Those who do are likely to be very critical of the way their businesses were run before this crisis. There will be a period of reflection and change in the industry as a whole.

Predating the market's problems is the observation that Britain has not built enough homes for over a decade. Since the publication of The Barker Review of Housing Supply in 2004, the Government has been desperately trying to increase the volume of newbuild housing. Until recently, it has had some success, but the total has remained well below the level at which official figures suggest households are forming.

There have been mounting criticisms of the planning system. Some focus on the level of bureaucracy and poor staffing levels. Others point to particular policies which are held to reduce land supply and the quality and quantity of homes, such as the green belt, density targets and the promotion of brownfield development. It is clear that there is a gap between the housing the public say they would like and what has actually been provided over recent years, although the reasons for this may be more complex than some suggest.

More recently, the growing demand for homes has been overshadowed by wider problems with the mortgage market and falling prices. This latest crisis is already reducing newbuild volumes to new lows. As the slump continues, the implications of a lack of affordable housing will become apparent. In the longer term, as the gap between household growth and house building becomes more stark, low affordability, not to mention genuine overcrowding and homelessness, will become a real problem.

Despite an incredible boom in values and profits over the past decade, significant criticisms are still levelled at the British housing sector: low build quality, poor design, the apparent inability to create mixed developments served with high quality infrastructure and community facilities. Many opinion formers, think tanks and politicians still believe that new business models, policies, and operators are required if these perennial problems are to be tackled.

Attitudes towards housing are also changing. The recent collapse in prices has meant that houses are no longer viewed as completely secure investments. Renting has suddenly become popular and acceptable, although most still view homeownership as a long-term goal.

The development industry is going through a period of substantial change. Many in the public and private sectors are focussed on short-term survival. However, it is also important that they focus on what sort of world they will find themselves in after the present crisis is over.

This report is an attempt to provide an outline of the possible scenarios that may emerge after this current period of creative destruction, and to suggest what policies should be put in place to ensure that communities and homes can be built that better meet Britain's needs.

We have spoken to 50 of the leading figures in the industry, including planners, architects, economists, consultants, politicians, members of think tanks, journalists and of course, developers themselves – as well as carrying out a comprehensive literature and press review.

The Future of Residential Development is a distillation of the feedback we received, together with our own thoughts on the future of the housing industry. Some suggestions are more probable than others, and you may find yourself disagreeing vehemently with some of the comments. Indeed, we hope you do. Our intention is to stimulate debate about the longer term fate of the industry and the policies that guide its practice. We hope this debate continues over the next year as we begin other, more specific research projects focussing on particular issues raised by this report.

Jon Neale,
Head of Development Research, Knight Frank
March 2009

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

Over the past decade, there have been mounting concerns that Britain has been building too few houses, leading to massive house price inflation and reduced affordability. The Barker Report, published in 2004, put forward the case for higher build rates, arguing that the alternative would be increasing homelessness, social division and economic problems.

Most Government policies related to housing over the past few years have, to some extent at least, assumed that house prices and land prices would continually rise and that the main problems the market would face in the future would be a lack of product and a resulting lack of affordability.

It is now clear that Britain is experiencing a profound residential property downturn. Prices are likely to fall by a total of 30%-35% from their peak in Autumn 2007, with new build likely to be hit harder. Transactions in most areas are down by at least half. It is clear that the policy framework related to residential development needs to be revised for a new climate of lower land and sales prices.

The development industry itself is in severe difficulties. Many housebuilders are unable to sell stock at anything like a reasonable price compared to the amount paid for land. Some are highly indebted and their asset base is depreciating rapidly. They have drastically cut back on their activities and some are fighting bankruptcy.

The house building industry will not quickly return to the level of new home delivery seen before the crisis. It is losing the capacity, both in land and skills, to build large numbers of new homes. It is also likely to emerge from the current crisis with a far more conservative approach to development, concentrating on family homes in suburban and fringe-rural settings. Most companies will avoid high-density apartment schemes in more urban locations.

For many potential schemes, particularly regeneration schemes on brownfield sites, land values are now negative. This is partly a result of the level of commitments made in Section 106 agreements that were negotiated when house prices and sales volumes were far more buoyant. Many developers are now seeking to reconfigure planning applications to feature more houses and fewer flats, perceived as a better proposition in the current market. The Government needs to encourage councils to quickly renegotiate both planning consents and Section 106 agreements to allow schemes to come forward.

In the longer term, there is still a need to secure higher delivery rates if the cycle of boom and bust is not to be repeated once again. There is also the perennial problem of delivering better quality homes in attractive communities, rather than the excess of small flats that have been built over recent years. However, the current situation does offer an opportunity to develop new policies and new business models that could produce a more sustainable housing market in the UK.

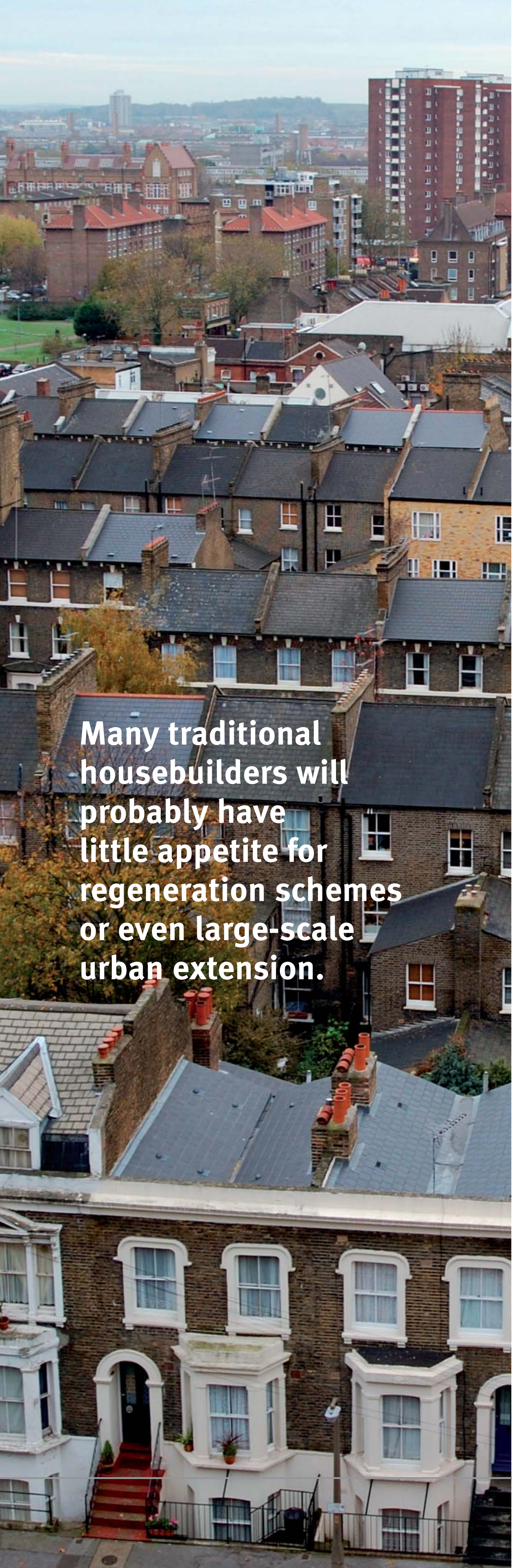
Land values are at a particularly low ebb. Acquisitions have been put on hold, while many housebuilders are considering selling off their land portfolios to raise cash and avoid bankruptcy. It is likely that values will continue to fall as more sites are put on the market, potentially by receivers.

This offers significant opportunities for the public sector. The newly-formed Homes and Communities Agency could buy sites during this period of crisis and consider pump-priming them for the development of future communities, perhaps through infrastructure provision. Parts of sites can then be sold off or contracted to developers, ensuring competition on a product level. The value uplift as the market returns to strength will fund much, if not all, of the capital outlay.

This model could also fit companies who have long been considering getting involved in UK housing development: the commercial developers, the contractors and institutional investors. If maximum value is to be extracted from community development, a long-term investment model may be required, perhaps involving holding stock to let, or at least retaining freeholds. This would also facilitate the delivery of schools, infrastructure and eco-friendly features (such as combined heat and power systems).

Conventional housebuilders may simply become partners in a wider development framework that includes several other companies, including a separate long-term investor in the land. Contractors or commercial developers may be in a better position to provide the expertise for such developments, including new construction technologies that could produce better quality homes at a faster rate. International specialists may enter the UK market.

Registered Social Landlords (RSLs) should remain a market presence and continue to build social and intermediate rented housing. However, the contribution from Section 106 agreements will fall. The amount of housing corporation grant per unit must increase temporarily to cover the shortfall. RSLs could play a major role in the recovery of the development market as they have far less debt on their balance sheets than volume housebuilders.



Many traditional housebuilders will probably have little appetite for regeneration schemes or even large-scale urban extension.

Rents are not falling as rapidly as capital or land values, and yields are beginning to rise – and look more attractive anyway as a result of low base rates. Building properties solely for let may make commercial sense in the medium-term, even if those investors decide to sell or part-sell these properties at a later date. This may also allow faster build-out rates as the development will not be entirely dependent on sales.

Many traditional housebuilders will probably have little appetite for regeneration schemes or even large-scale urban extension. They will probably revert to developing family homes on medium sized sites in greenfield settings. We recommend that this shift should be harnessed rather than resisted. Guidance should incentivise the production of a number of different home types and sizes alongside their core product, perhaps through the use of more restrictive masterplans.

Government assumptions regarding population projections may prove to have massively overstated the potential future demand for housing. Nevertheless, even conservative estimates of growth suggest that insufficient numbers of new homes have been built for some time.

Moreover, there has been a profound overbuilding of small one and two bedroom flats over the past few years, sometimes at very high density within individual blocks. All the evidence suggests that most people, whether they have families or not, want more space. Moreover, many of these schemes appear to lack the amenities that make established high-density city areas, such as Kensington and Chelsea, attractive to long-term residents.

When considering revising policy, it should be noted that a certain level of density is desirable in a neighbourhood, as some community facilities can only be sustained with a certain concentration of residents. This should not be confused with the overcrowding of units in individual buildings – which does not necessarily produce high overall densities within the wider area.

If the flat is to be accepted more widely, it needs to be built in a more spacious and family-friendly form, comparable to those found on the Continent, in Scotland's cities or in the mansion blocks of London. There may well be a pent-up demand for these forms of accommodation, particularly for more attractive urban locations and among certain groups. The market is difficult to establish as so few larger apartments have ever been built in England.

Surveys suggest that most people prefer houses with gardens. This form of housing can be provided at reasonably high density, perhaps mixed with larger flats, through models based on Georgian city areas and Victorian railway suburbs. There is a need to revive the town house or terrace as a land-efficient means of providing spacious houses with gardens in a relatively suburban environment. There is increasing interest in the design of new neighbourhoods that can provide houses within relatively high density, yet green and leafy, contexts. There are many examples of such areas abroad, particularly in the Netherlands.

Homeownership levels have already begun to fall and may drop further over the next few years. Renting has already become more popular and its image may improve, particularly if prices remain depressed for a prolonged period. It is possible that it could become a more practical medium-term option for a larger group of people. It is unclear whether shared equity will prove popular while prices are falling or even flat.

Consequently, the Government urgently needs to incentivise the development of rental property. Demand is likely to increase over the next few years as repossessions rise, and the social housing safety net has shrunk massively compared to previous housing slumps. Some of the incentives needed could include: the use of a separate planning class, reduced affordable housing or other Section 106 requirements, the increased development of social or intermediate rented stock (which could be sold at a later date).

A more positive narrative for the rented sector is required, including the view that homeownership is an ultimate rather than proximate aim. The Government needs to acknowledge something that the current downturn demonstrates: renting is a more flexible and suitable option in some circumstances and there are risks and problems associated with taking on a mortgage, particularly for those on lower incomes. The target of increasing levels of owner-occupation to 75% should be loosened.

Such a shift in attitudes to renting will also help the delivery of homes more generally. A wider provision of build-to-rent or rent-to-buy property will help increase build-out rates as well as provide temporary accommodation for those unwilling or unable to enter homeownership, as well as those forced out of it. Given low land values, and the potential of higher yields, developers or investors holding on to stock to let may become a reality over the next few years.

The overall objective should be a massive increase in both the range of tenure options available to individuals as well as the types of homes being built, which have remained limited compared to the existing housing stock as well as newbuild in other countries.

In many parts of the country, the supply of brownfield land will not be sufficient to provide all the homes required in the surroundings that people want. As many of the interviewees for The Future of Residential Development recommend, there should be a thorough review of green belt policy. This would allow for the development of urban extensions in certain locations (or possibly, new settlements) – but only if they are or can be linked by extremely high quality public transport links. Cambridge provides a tentative example of this form of development.

In many core cities, regeneration should remain the priority, and could be achieved by the market where large sites are still available in areas of relatively high demand (such as the West Midlands). In some cases, however, the housing boom has masked the redundancy of stock and made low demand areas temporarily appear desirable. The need for regeneration in these areas, or managed decline, will become more apparent over the next few years.

The task in our core cities is to create desirable inner suburbs that could prevent the exodus of many skilled professionals to rural areas. The Government should study why and how suburbs such as Jesmond, Edgbaston and Clifton have retained their status and consider how other areas of these cities with high build quality and a potentially good environment could be transformed. There is a need to provide aspirational, high quality homes in our core cities to increase their competitiveness.

In order to ensure development occurs in many regeneration areas (as well as new communities), the Government needs to provide greater certainty to developers. This includes the advance provision of transport and other infrastructure. More use of spatial planning techniques (perhaps on an England-wide scale) could be one method of reducing the risk associated with achieving planning consent. Master plans should be more prescriptive and planning consents less debatable.

The current downturn offers an opportunity to unlock the housing market and build a new model that provides for the nation's needs.

Clearly, many of these suggestions will require the release of new land. Communities need to see more of the benefit from new development, particularly in the form of improved infrastructure or lower taxation. Together with better quality schemes which minimise sprawl, this may help mitigate the anti-development sentiment in many parts of the country.

These new approaches to planning policy will facilitate the long-term investment by either public or private bodies in new communities. It will give them the confidence to back a development programme that could last decades rather than years. They could factor into their business plans income streams from both sale and rent that may increase in the future as the community develops and becomes more successful.

This emphasis on how value can be created in the long-term through investment in quality needs to be accompanied with a recognition that short-term increases in house prices are not sustainable. Modest, but reliable growth is the ideal for most people earning a living from the housing market. The population should not be encouraged into homeownership at any cost, regardless of circumstances. There needs to be a wider range of options available.

The recent boom has not resulted in an increase in the quality and quantity of housing available to the British public. The current downturn offers an opportunity to unlock the housing market and build a new model that provides for the nation's needs.

THE STATE WE'RE IN

Five years ago, in 2004, the housing market was a very different place. Price inflation appeared to be spiralling out of control. A typical home was worth a staggering 134% more than in 1994. At the time, this dramatic increase was being celebrated as evidence of the strength of the British economy, not least by Government ministers. However, the problems associated with booming prices were beginning to become more apparent, notably in the difficulty many first-time buyers were experiencing in getting on the property ladder.

There was a growing opinion that booming prices and declining affordability were the result of a shortage of homes caused by an inadequate level of house building. Few acknowledged that the increased availability of credit might have an equally important role.

At the exact moment when housing policy became important again...

March of 2004 saw the publication of a Government commissioned report on the problem. The Barker Review of Housing Supply has since become the single most influential commentary on the state of the British housing market. Bank of England economist Kate Barker's warnings of how the country's low level of house building would lead to severe problems of deteriorating affordability and access to housing brought about a new focus on increasing supply.

Barker was not alone in her concerns. The alarm was subsequently raised by organisations as varied as Shelter and the Home Builders Federation (HBF). Each made predictions of the social and economic problems that would arise from unaffordable housing. As well as the obvious issues of growing overcrowding and homelessness, there were particular concerns that the high cost of housing might affect the mobility of both national and international workers, vital in a labour market based on openness and flexibility.

Others, such as the Royal Institution of Chartered Surveyors (RICS), suggested that the increasing role of parental equity in the first-time buyer market was restricting social mobility. Indeed, the RICS warned that, as house prices were rising much faster than wages, society would become permanently polarised. Unless price inflation was halted, young people would only be able to get on the property ladder if they were able to inherit a portion of their parents' equity. They would effectively be divided at birth between property haves and have-nots.

More generally, as Britain was becoming more prosperous, expectations in terms of housing quality and space were rising. These aspirations were reflected in the Government's renewed commitment to providing people with the sort of homes they wanted. It is clear that this was incompatible with rapidly rising house prices and low supply.

Since its publication, the Barker review has framed Government housing policy. It had been evident for some time that Britain was not building enough homes: in 2001 fewer were built than at any time since the First World War. Now, however, it was explicitly stated that a major increase in home building was desperately needed. A low rate of new construction, lower by far than household growth, was held responsible for soaring house prices. The low build rate was, in turn, attributed to insufficient quantities of land being released by the planning system.

The review's central recommendation was that over 240,000 homes needed to be built in England[1] each year to bring house price inflation down to acceptable levels. This found expression in a new emphasis on housing targets by the Government. Several policies aimed at encouraging local authorities to release more development land were introduced, going as far as linking local Government funding to the delivery of new homes.

Three years later, Gordon Brown made housing one of the central issues of his first few months as Prime Minister. During the summer of 2007, housing policy was given a higher profile than it had had since the 1960s, when Harold MacMillan and Harold Wilson tried to outdo each other's promises of record numbers of new homes. The Prime Minister announced a target of building three million new homes by 2020. By the time of this announcement, house prices had risen by almost 200% from their previous low point in the mid 1990s. The value of the average home had reached the equivalent of almost six times the average household income.

Later that summer, the National Housing and Planning Advisory Unit (NHPAU) released a statement predicting that house prices would reach ten times average earnings by 2026 if the house building rate remained at 190,000 houses per year. This body, set up by the Government to advise on future house building, also suggested that just 40% of 30-34 year olds would be able to enter the market by this date.

In the wake of these high profile speeches and announcements, there were increasing signs that a consensus was being reached and that the public was beginning to accept the case for more development.

[1] *Housing policy is devolved to the Scottish and Welsh Assemblies and any policies implemented by central Government only apply in England.*

...then everything changed

However, the end of that summer provided an event that undermined at least some of the argument for a massive increase in housebuilding to improve affordability. House prices peaked and began to fall – and at a historically unprecedented rate.

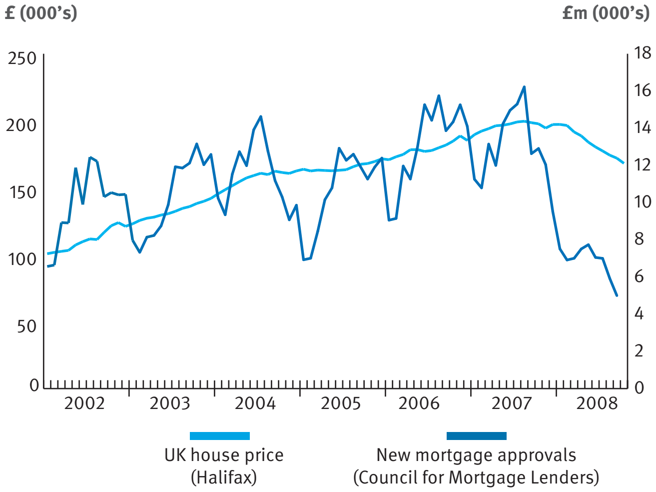
It is now evident that the booming prices of the past decade were the result of more than just a supply-demand imbalance. Mortgages at high loan-to-value ratios and at unprecedented multiples of household income became increasingly available, with few rigorous credit or personal checks. The sharp and sudden tightening in mortgage availability at the onset of the credit crunch meant suddenly the prices at which homes were being advertised were no longer attainable.

The steep rise in house prices and the relationship with the supply of mortgage finance is clearly visible in Figure 1; while Figure 2 demonstrates how first-time buyers have been able to borrow progressively higher multiples of their incomes over the past two decades, a process that noticeably accelerated after 2002.

Prices are now also being driven down by changing fundamentals – the poor economic outlook, rising unemployment and mounting repossessions. Our own research at Knight Frank suggests that they will fall by 30%-35% from the peak of Autumn 2007 before they stabilise, although certain sectors, such as the new build market, could see more substantial falls, perhaps as much as 50%.

Figure 1

UK house prices and mortgage approvals



The ongoing adjustment is proving a painful one for homeowners. After a decade of rapid growth, in which buying a house seemed a guarantee of future wealth, people have had to accept that their homes are now dropping in value and may be worth less than they were several years ago. Many vendors remain unwilling to drop their prices to levels buyers can afford and accept. Consequently, the volume of sales has collapsed, with less than 50% of the expected number taking place in 2008.

But it is not only homeowners who are feeling the crunch. Anyone whose livelihood depends on the property market – from housebuilders, developers and estate agents to removal firms and kitchen manufacturers – are under severe pressure. The accepted wisdom that the shortage of supply and the growth in demand would cause prices to rise ad infinitum has come crashing down with severe consequences.

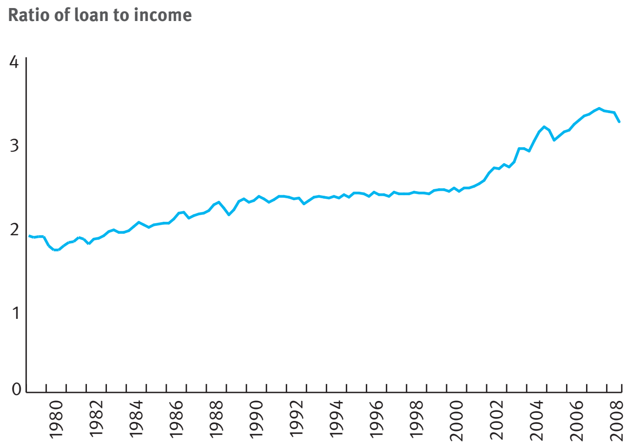
Politicians too have been caught unaware. The assumption of continually rising prices has been the basis for almost every Government housing policy over the past decade, and one that was rarely challenged. Those voices suggesting that the increased availability of credit could lead to accelerating prices over and above the level at which the fundamentals would justify were mostly ignored.

Most significantly, Section 106 agreements – the financial or in kind contributions developers make to the community as part of the planning consent (which often includes social housing) – are no longer fundable. Most were agreed before the depth of the downturn became apparent and were calculated on the basis of sales prices and transaction volumes that were expected in 2007 or before. Based on 2008 trends, however, they appear excessively onerous and would force many schemes into loss if complied with. Development is on hold pending their renegotiation, with grave implications for the provision of social and affordable housing as well as key infrastructure.

Even without the additional costs of Section 106, some brownfield sites now have negative land values. The costs involved in reclaiming and preparing sites now outweigh the profits available. This situation could continue for some time, making the focus on the use of previously developed land unworkable unless more gap funding is provided.

Figure 2

Average first-time buyer mortgage income multiple



Source: Council for Mortgage Lenders

It has become increasingly apparent that the existing policy framework is in need of thorough revision if the Government is to adapt to declining house prices and sharply lower land values. As one industry commentator we interviewed for this report put it: "land can no longer be used to fund an inexhaustible list of social policy goals".

House building goes into hibernation

This crisis has had a dramatic effect on the building industry, in particular on the number of new homes being constructed. Even during the boom, development never really approached the 240,000 homes a year required to meet the Government target of three million homes by 2020.

In 2008, there have been around 100,000 private starts, over a third less than achieved in recent years, as Figure 3 shows. The figures for 2009 will be even lower, with some predicting just 60,000.

This dramatic decline in house building presents serious issues for the Government, given their existing concerns that 240,000 new homes might be too low an annual target. With households continuing to form, in theory at least, at a rate of well over 200,000 a year, the result is likely to be a growing supply gap and an increase in social problems such as overcrowding and homelessness.

This was forecast by Barker in the introduction to her 2004 report:

> *"I do not believe that continuing at the current rate of house building is a realistic option, unless we are prepared to accept increasing problems of homelessness, affordability and social division, decline in standards of public sector delivery and increasing the costs of doing business in the UK – hampering our economic success [2]."*

When the current financial crisis has ended, the British house building industry will look very different. Some companies have already gone bankrupt, and more are likely to follow. Many others are looking to sell off land to bolster their balance sheets. The ability of the industry to build large numbers of new homes is clearly being affected.

This has clear implications for any future Government attempts to bring about an increase in house building levels. The number of national volume housebuilders is likely to be markedly lower. The survivors – even those with an adequate supply of land – will be far more conservative, having narrowly avoided bankruptcy. It is unlikely that they will wish to build homes on the sort of scale that the Government requires.

They will in all probability concentrate on small- and medium-scale developments aimed at more affluent, secure groups. They will certainly be averse to the high density urban apartment schemes that have proved disastrous for their balance sheets. Greenfield sites, easier and cheaper to develop and perceived as more popular among buyers, will be their priority.

The industry will not just lose capacity – it will be less willing to produce large numbers of new homes, potentially leading to even worse conditions in the housing market during the next upturn.

[2] *Barker, Kate – Review of Housing Supply (HM Treasury, 2004)*

Figure 3

Housing completions per month in England

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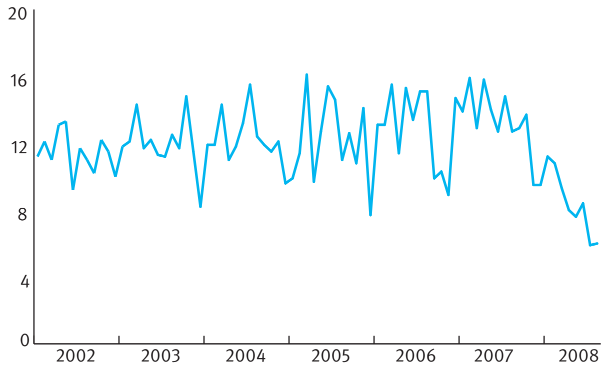


Source: National House-Building Council (NHBC)

The wrong stuff

In recent years, concerns have increasingly been raised about the type of new homes being built. Many have pointed to the over provision of small flats in high-rise blocks, which have attracted few owner-occupiers. There is a general belief that insufficient numbers of family homes have been provided.

Several policy papers from the Barker Review to pamphlets issued by think tanks such as Policy Exchange and the Social Market Foundation, have suggested that the restriction of land supply through the green belt and the attempt to concentrate development on previously developed or brownfield land are the ultimate causes of the problems with the British housing market.

Throughout this literature, land restriction and the complexity of the planning system is deemed to lead to high prices, small unit sizes and a concentrated, uncompetitive house building industry producing a poor quality, standardised product. More land, provided by a review of green belt restrictions and an easing of the brownfield first agenda, is posited as the only real solution to long-term problems with the housing market.

As mentioned above, lower transaction rates, land values and sales prices will lead to developers claiming they can only viably develop greenfield sites. Indeed, schemes consisting of detached houses usually produce lower returns per site area than those consisting of flats. A shift back to more traditional housebuilder products would lead to land values remaining below the level at which brownfield reclamation and preparation is fundable, except for easy-to-develop or high-demand sites.

Councils may respond to this increasing pressure by gradually releasing more agricultural land in order to meet their targets for delivery. This will reduce resistance to the development of extensions to existing urban centres with the aim of providing more family-orientated housing. It is almost certain that the current crisis will lead to some loosening of planning policy.

Consequently, casting our eye into the future, far from undermining the case for allowing more greenfield development, the current crisis could bolster it. It may prove impossible to resist – but could be guided through the encouragement of sustainable, attractive extensions to existing centres. If brownfield regeneration is to continue, a more consumer-friendly and financially viable model needs to be found.

Conclusion

We are currently witnessing the proof that a supply shortage does not result in ever-rising prices. It may, however, magnify the extremes of house price inflation and deflation. With very low supply almost guaranteed over the next few years, the scene is being set for another period of high house price inflation, one that will inevitably be followed by a bust.

It is clear that the house price boom of recent years has been something of a wasted opportunity. Despite soaring sales values, there has not been a significant increase in the quantity or quality of new housing provided in Britain. Declining prices and increasing affordability should not detract from the very real problems that still plague our housing market. The conditions for a permanent solution to these issues need to be put in place now, in preparation for when the market returns to vigour.

Increasing the supply of the sort of homes that people want is essential if we are to exit the vicious circle of house price inflation and deflation and the poor quality of many new homes. To achieve this in the current climate will require a very different approach to residential development. It is vital that policy makers and developers explore what sort of industry is likely to emerge from the current downturn and what policies will be required to allow it to build the homes and communities Britain needs.

This report seeks to analyse the challenges faced by the development industry and outlines how it will shape the companies that will build homes in the future. It also analyses the strategies and policies needed to allow it to prosper and build high quality homes in attractive environments. Who will build our homes in the future, where will they be built, what will they look like, how will they be owned, and finally, how will policy need to change to ensure this happens?

OPINION FORMER:

TONY PIDGLEY,

Managing Director, Berkeley Group PLC

Tony Pidgley *is the Managing Director of The Berkeley Group plc and Chairman of the Executive Committee of the Main Board. He was educated at Secondary Modern School, leaving at the age of 15 to form his own company in haulage and plant hire. At 21, he sold his business to Crest Homes and became a Building Director reporting to the then Managing Director, Jim Farrer. In 1975 both Tony and Jim left Crest and formed Berkeley Homes Limited. The company enjoyed considerable growth over the following 10 years, enabling its flotation on the Unlisted Securities Market in 1984, gaining a full listing in 1985 as The Berkeley Group plc.*

Tony has gained a national reputation for his pioneering approach to the home building industry. Under his guidance the Berkeley Group has become a leader in the business of urban regeneration, contributing to the renaissance of towns and cities throughout the country. Over 90% of the Berkeley Group's developments now take place on brownfield land and through its innovative use of land it has been able to play a key role in the provision of key worker, student and other affordable housing.

What sort of house building industry do you think will emerge from the current crisis? Is it the end of the volume housebuilder?

The house building industry will survive the current crisis. It always has done in the past and will do so again. It will of course be a slimmed down industry in terms of both production capacity and financial capability. Hopefully it will be fitter and more focused and will have learnt some good lessons.

This will not be the end of the volume housebuilder. They are required to help the Government get even closer to their house building targets in the medium to long-term. The issue is that all businesses, whether volume or added value housebuilders have to remember the basics. For housebuilders we need to be efficient, hold the correct land bank levels, match supply and demand and ensure our balance sheets are robust enough to survive in a cyclical industry. As in all downturns, some housebuilders will not survive, as we are currently seeing.

Do you think business models and strategies will change as a result of the current crisis?

Existing volume housebuilders will not change their business model dramatically. Their models are based on principally large or greenfield sites, standard house types, efficient and cost effective production and regional office structures. We will see some adjustments, including more stringent control over land buying, better risk assessment, emphasis on forward sales and lower levels of borrowing. Everyone will be much more cautious financially and irresponsibly high leverage will no longer be the smart game in town.

As the industry emerges from the crisis there will be some important changes. We will see more niche players emerge. This will be important since we need these acorns to grow. These smaller developers will stick to their knitting and will concentrate on the markets that they understand. I view this as a positive.

I cannot over emphasise the importance of the small players or owner-drivers to our industry. When they thrive, our industry thrives. I am concerned that a number have gone bust and that the entry cost is even higher with increased regulation and complications arising from revised building regulations, sustainability requirements such as Level 3 of the Code for Sustainable Homes and affordable housing, just by way of example.

For small builders we need simplified codes that are easy to understand. I would suggest that for sites up to 25 units we should have no affordable housing. I would even drop the Community Infrastructure Levy (CIL) for the sake of simplifying our industry.

What sort of developments can you envisage companies concentrating on?

As companies emerge from this downturn, they will do so with weaker balance sheets and reduced staff capacity. They will need to use their capital base more effectively. This will lead them towards smaller developments that are biased towards housing as opposed to flats. They will look for conditional deals or delayed land payments. Unconditional deals with long gestation periods and complicated drawn out planning will be avoided. Flats will also be avoided, other than in London and proven centres of under supply.

True urban regeneration will be carried out by very few companies because of the scale, expertise and capital required.

Everyone will be much more cautious financially and irresponsibly high leverage will no longer be the smart game in town.

How do you think planning policy has to change to allow that?

A major issue with planning policy is that central Government needs to take on board the fact that planning consents are obtained primarily at local level and it is local democracy that matters. An increased supply of housing land with planning cannot just be turned on like a tap by way of a central Government directive.

There are already too many impediments to development that also contribute to a protracted timescale. These can serve to reduce land values to levels where landowners might not sell or where alternative use values become more viable. We have affordable housing requirements (up to 50%), other Section 106 obligations, stamp duty land tax and the future CIL.

I hesitate to suggest any further Government revisions to planning. There needs to be a determination to make the existing system work. This includes a change of culture whereby planning is seen as a creative force for making things happen as opposed to a means of policing developers.

We need less regulation. Local authority planning departments are already seriously under resourced and yet the CIL will impose requirements that will stretch them to the limits and probably beyond. There is no easy answer to this question!

Do you think build-to-let will ever become a reality?

Will developers produce buildings purely for letting and investment purposes? There are two key elements, namely the funding or investment element and then the product element.

From the investment perspective, the investor needs to look at the total return, which is a combination of rental yield and capital growth. I suspect that the capital growth will be more secure and better if it relates to homes that are open market homes as opposed to homes built just for letting purposes.

From the product element, developers are market led and wish their product to appeal to the widest possible market. This extends to owner-occupiers and investors. The design and specification of the product needs to have the greatest appeal and should not be restricted to one segment of the market.

For these reasons, I do not believe that build-to-let will become a reality other than for specialist sectors such as student accommodation.

Finally, granny has always told us that bricks and mortar is the safest place to put our money. With bank base rates now at very low levels, the time has come for people to start buying houses and flats again.

A CHANGING INDUSTRY

Few industries have been as damaged by the credit crunch as the development and house building sector. The drought of mortgage finance and the decision of many potential buyers to postpone purchase have had a disastrous effect on a capital-intensive business model that is dependent on high sales rates. The collapse in the buy-to-let market has added to these problems, particularly for those developers who have historically relied on bulk sales.

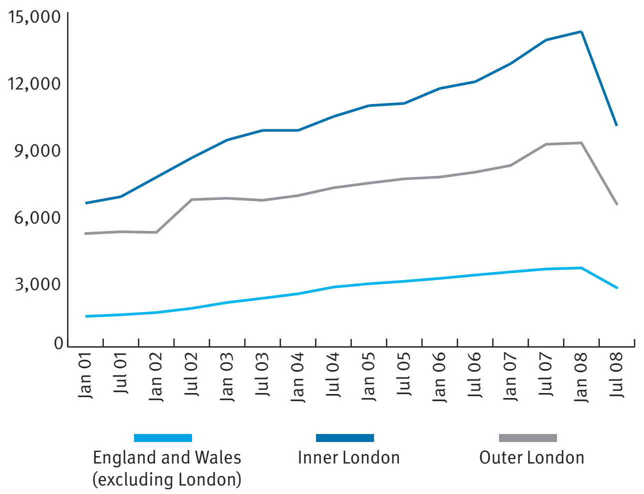
News of bankruptcy has become commonplace, and it is likely that there are more to come. If one of our City based interviewees is correct, there will be far fewer housebuilders in the market at the end of 2010. Even the large quoted companies are threatened.

The need for new homes will continue and some form of development industry will revive to provide them. The wider question is whether it will consist of similar players following traditional business models or whether the current crisis will bring about a paradigm shift that will bring new types of funding models, novel forms of tenure and different approaches to land value.

Figure 4

Development land values – flats and maisonettes

£ per hectare (000's)



Source: Valuation Office Agency, Knight Frank

The perfect storm

The immediate impact of the credit crunch has been the almost total cessation of land buying. Developers, like homebuyers, have been badly hit by a dramatic reduction in the availability of credit – particularly as it has come after a decade of increasingly easy access.

The years leading up to 2007 saw a revolution in property financing. The introduction of a wide variety of structured vehicles for land acquisition and construction supported a period of unrestrained purchasing. By the mid 2000s developers were being offered 100% funding for their projects through mezzanine funding, syndicated loans and private equity, among other even more complicated instruments. Few people appeared to give any consideration to the implications of the balance of risks and rewards these arrangements entailed.

Land with planning consent has historically been in short supply. Unsurprisingly, values were pushed upwards during the boom, particularly as house prices were rising so strongly. However, the degree to which land prices rose in the period before the 2007 peak was out of all proportion to market fundamentals, and was clearly connected with the availability of credit and the expectation of increases in value. As Figure 4 demonstrates, the average price paid for residential land in England and Wales rose by 115% in the five years to 2007.

The credit tap is now firmly turned off and land values have dropped dramatically. Knight Frank's residential land index points to a 33% fall in values over the past year outside London, with the capital slightly more resilient. There are few buyers for land and those with access to cash are opting to wait. Conditions are forcing developers to sell off parts of their land banks. Further depreciation in the land market is expected.

These conditions are challenging enough. Yet added to this picture is the debt being carried by many of the large housebuilders. Between 2005 and 2007, there was a whirl of leveraged mergers and acquisitions. City analysts suggested that the sector was undervalued and was ripe for consolidation. High demand for homes appeared to favour the creation of vast companies. These new organisations would possess the skills and capital to negotiate the planning system and, by exploiting economies of scale, would be best placed to build the required homes at a profit. Buying competitors also provided an easier and quicker way of obtaining rare development land than promoting it through the planning system.

Over the past twelve months, the value of their assets – land and completed homes – has dropped, while their debt continues to accrue interest. With sales rates and prices continuing to fall, the situation is likely to deteriorate.

What will happen to the housebuilders?

The merger and acquisitions spree that occurred in the house building sector prior to the credit crunch was the culmination of a process of consolidation that has been occurring, on and off, since the Second World War.

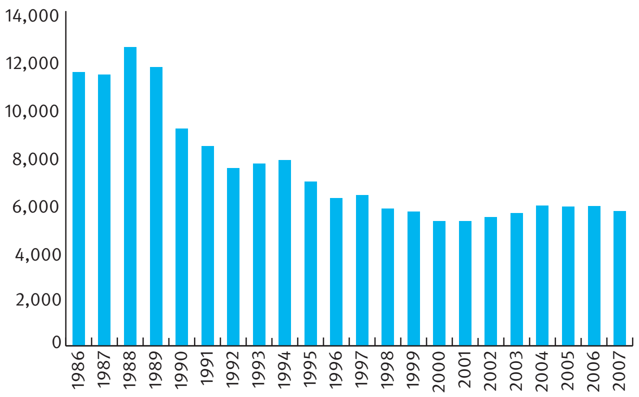
In the 1930s, when around 250,000 houses a year were being built, only ten housebuilders were producing more than 1,000 units a year. The majority of the country's homes were being constructed by small builders producing a handful of homes, a situation that had existed since the 19th century.

The trend towards consolidation began in the post-war period. By the early 1970s, the top ten housebuilders were building over 17% of the nation's new homes. The regional housebuilder had arrived.

Growth continued to be concentrated among the larger players during the subsequent decade. By the 1980s, there were five companies producing more than 5,000 homes a year. A handful of regional players had become national, volume developers. Homes had become increasingly standardised and companies benefited from the resulting economies of scale.

Figure 5

Number of builders on NHBC register constructing one or more units



Source: National House-Building Council (NHBC)

This trend continued, as Figure 5 demonstrates. By 2006, the market was dominated by three firms: Taylor Wimpey, Barratt, and Persimmon. Each was building over 15,000 homes a year. Only one company, Bellway, ranked as a medium sized firm, producing just over 7,000 homes. The next largest, Redrow, managed only 4,735.

Previous busts in the sector had resulted in a long roll call of industry casualties. Yet the collapses of the early 1970s and the early 1990s occurred in a far less concentrated industry. Today the impact could be more dramatic. The era of ever increasing consolidation is over and it is entirely possible that a more diverse, regional industry could emerge in its aftermath. After all, after a spate of liquidations, the City is unlikely to fund the creation of new industry giants.

Clearly, some companies will survive the current crisis. Those with strong balance sheets have the capacity to put development and acquisition activities on hold until conditions become more favourable. Indeed, those in this position are eyeing the land market very carefully.

The apparent free fall in values provides enormous opportunities. Strategic and so-called oven-ready land is looking much better value and there are signs that some developers are beginning to consider the acquisition of sites.

Looking to the future, volume housebuilders will avoid apartment-based regeneration schemes on brownfield sites. Lower land values – the result of increasing build costs and lower sales prices and rates – will be less able to support the preparation and decontamination costs of such sites, let alone the greater upfront capital investment required for denser flatted schemes. The crisis has been most pronounced in the apartment market. Many developers will blame the industry's problems on their involvement in or over dependence on this sector. It is highly unlikely that there will be anything more than a marginal appetite for these schemes in the near future among conventional housebuilders.

Anecdotally, in the land market, interest is greatest in greenfield sites in more prosperous locations, particularly in the south-east. There is an increasing belief that too few conventional family houses have been built, and that these properties will hold their value much better than flats. Many housebuilders now view this type of development as their core business, an area they will return to at the expense of regeneration schemes.

High profile problems with many city centre developments and the alleged shortage of family homes are likely to increase pressure on planners to release more greenfield land and allow lower density detached homes. There has already been a trend of developers looking to reconfigure existing planning consents, often at much lower densities. In almost every case they are looking to increase the proportion of houses at the expense of flats.

Renegotiating Section 106 agreements

One of the key problems for developers is that their schemes usually include a requirement to deliver items such as infrastructure funding and affordable housing through a Section 106 agreement. A scramble to renegotiate these agreements to reflect new market conditions is already occurring.

Central Government has the potential to play a critical role by issuing guidance enabling councils to accept reduced Section 106 packages. The delay caused by the renegotiation process is blocking the delivery of new housing. This is a problem that is likely to become more entrenched over the next six months as councils try to avoid scaling back their aspirations for new facilities or more social housing.

One of the casualties of the downturn will be infrastructure provision, unless local or central Government provides more funding to fill the gap. This deficit will not only reduce the numbers of new homes being delivered as developments dependent on unfundable transport links are cancelled. It could also result in the residents of many new and recently built schemes living with thoroughly inadequate infrastructure.

The impact on larger regeneration areas will only continue. The Community Infrastructure Levy (CIL), if comprehensively introduced, will also be hit by the slump in land values. This fee-based approach to Section 106 is designed to pool contributions to make larger developments more feasible.

The unwelcome truth is that there simply will not be enough value in land or development to provide the list of improvements many projects require. Land in some urban locations will have negative value as a result of the capital expenditure required to prepare it for development, let alone any additional costs produced by Section 106.

Who will own the land?

Behind the headlines that developers have put parcels of their land bank on the market, companies are also quietly considering the options for the disposal of larger portions. Land is a housebuilders' main asset and one that is hard to obtain. Selling is a last resort, only used if cash is desperately needed to avoid insolvency.

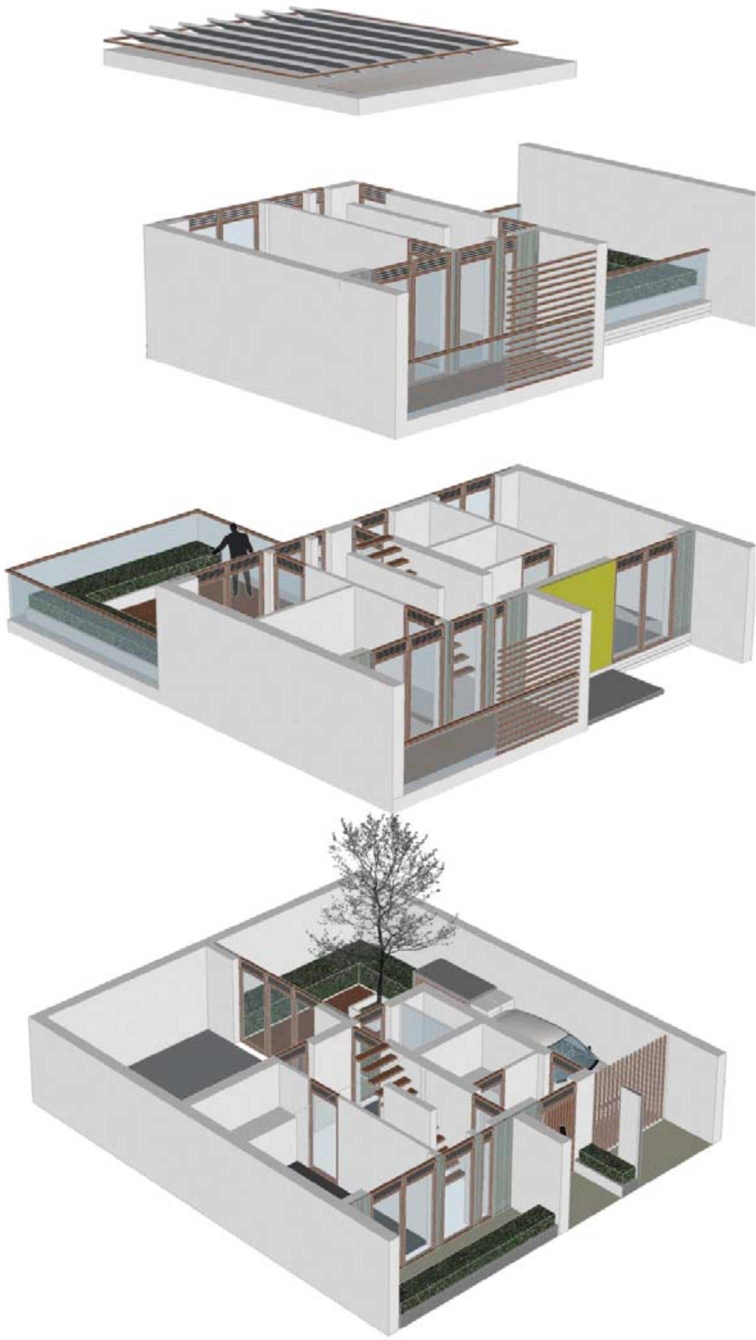
Selling land banks represents a lost opportunity for many stressed housebuilders and developers. Bringing this land through the planning system is a costly but highly profitable process. Substantial resources are devoted over the long-term to ensure that landholdings are included in development plans and receive consent.

Pension funds, sovereign wealth funds and wealthy individuals are watching the land market very carefully, aware of the opportunities that are emerging. There is every indication that they will buy when they believe the market is approaching its lowest point. The future of land owned by failed housebuilders needs to be monitored. After all, it is land that has been or will be released for local housing need after an expensive and time-consuming process by local planning authorities. There is no provision for other land being used if development of this is blocked by new landowners. Will the new owners retain it or attempt to sell it? And what will the impact be for the sector?

Much of it could end up in the hands of individuals or organisations who are not directly involved in development. This could represent a shift in ownership away from relatively transparent UK-based companies to more opaque owners who may be domiciled overseas. The magnitude of this change will depend on the extent to which banks, domestic funds and the public sector become involved in the market.

The Government will need to consider the possibility that some land could be held undeveloped as a long-term investment. Many owners will wait for more optimal market conditions before selling, especially if land and house prices do not bounce back as quickly as some suggest. The development of more houses at lower densities could keep values low for some time. The supply of willing vendors could reduce substantially. This will frustrate both Government targets for new homes and the setting up of new ventures by housebuilders.

Volume housebuilders will avoid apartment-based regeneration schemes on brownfield sites.



Richard Harvey – The Courtyard Terrace (© PRP Architects)

Another possibility is that these owners – particularly the institutions – may be open to joint ventures and the possibility of more substantial income streams over a longer period. Record lows in base rates and decreasing yields from bonds means that the returns available from building-to-let could prove more attractive than in the past.

Organisations who can deliver commercial and infrastructure elements as well as lower cost housing on a larger scale will benefit.

If short-term profits in property development become hard to achieve, the possibility of greater, more stable returns in the future through the development of whole new communities will prove more tempting. Any new housebuilders formed as the market begins to pick up, together with companies with short land banks, could find that joint venture arrangements are the only route forward for their businesses.

It is important to bear in mind that the first new towns were built after the Government compulsorily purchased land at existing use value. A prolonged strike by landowners against the background of a mounting housing shortage could lead to the Government revisiting that particular measure, perhaps through the Homes and Communities Agency (HCA). In some countries, such as France, it is not uncommon for local authorities to force landowners into joint ventures with the threat of forced purchase. Moving towards some sort of development, or selling on, might be the best strategy for owners of critical land if more draconian measures are to be avoided.

Nevertheless, the HCA is likely to become more active in the land market. The current weak market provides a one-off opportunity for the Government to bring large numbers of development sites into public ownership. The HCA could then either enter into joint ventures with housebuilders, contractors or registered social landlords to build out schemes or simply contract them to carry out the required work.

For more strategic sites, it could look to channel the long-term gain in value into community and infrastructure investment. This could be substantial as land values will be at a low ebb for the next year or so. If the banks or pension funds end up owning large portions of land, they could pursue a similar role, looking for long-term returns, perhaps even retaining the freehold – something some commercial developers are already considering.

One result of this current shake-out could be that some surviving housebuilders, at least in the short-term, are reduced to contractors, planning consultants and sales advisors. Despite appearances, this would not be an unusual state of affairs. In many countries, organisations who build houses are not generally landowners.

Nevertheless, such a change would be very significant. For most businesses in this sector, land promotion and trading are the most valuable part of their activity. Housebuilders might find themselves forced to compete for clients and customers over housing quality and build efficiency rather than land and location, leading to very different approaches to development.

Other housebuilders will continue profitably doing what they have always, albeit on a smaller scale and in selected locations. They are unlikely to have an interest in large regeneration schemes. Even the construction of new communities will require a more comprehensive and complex approach and, in particular, a long-term view on potential profits. The Government may find it needs to intervene in many locations if it wants this type of development to go ahead. Housebuilders may not emerge from the current turmoil as willing or appropriate funding or landowning partners, except in certain highly profitable locations or as part of a more complex array of funders and developers.

New communities

Much of the land that will become available for development over the next few years – in addition to that currently on the market – will come from the public sector, in the form of disposed Government assets sold via the HCA. Less will come from private landowners who will be unwilling to sell at what they will perceive as the low point in the cycle.

The agency will want to see these sites, along with others it acquires while land values are low, developed into what it regards as sustainable, attractive new communities. This will include not only homes of different types, sizes and tenures but the construction of new infrastructure: roads, light rail, guided bus systems, schools, workplaces, retail and leisure facilities.

The next few years will offer a further option for this newly formed agency – or indeed any pension fund or other investor that is prepared to take a long-term view. With land values at a low ebb, sites could be purchased now, equipped with infrastructure, and sold as parcels to developers when values have recovered, using the margin to fund the work it has carried out. A further objective could be to sell plots to a number of companies, using competition to raise build quality. This model appears to have worked successfully in the construction of new communities in other countries, such as Germany and the Netherlands. It may also prove vital as the Community Infrastructure Levy (CIL) may be unworkable in a climate of low sales rates and land values.

The profound change in the economics of development will lead to a number of other trends emerging within the industry:

- Organisations who can deliver commercial and infrastructure elements as well as lower cost housing on a larger scale will benefit from the conditions that emerge from the credit crunch. The contracting sector, with its wider skill sets and capacity for research and development, is well placed for this shift. It is also used to working with much lower margins than the volume house building sector.
- The need to provide and manage site-level or community-wide combined heat and power plants and other sustainable energy sources will make planning and management a necessity, bolstering the need for more diverse skill sets and a long-term view.
- There will be increased interest from international developers. They are very aware of how much the UK house building industry has lagged behind much of Europe in terms of new construction techniques. They believe that they can build the required number of greener homes better and at a much faster rate. It is only volatile land values that have prevented such companies from entering the British market. The next few years could offer them a window of opportunity. This will be as partners rather than landowners, as, unlike UK housebuilders, they are unwilling to take on the full level of development risk.
- Other organisations are already becoming interested in the potential for the development of new communities and settlements. Land Securities, the UK's largest commercial property company, recently bought Harlow North, the 10,000-home extension to the Essex town, in conjunction with Places for People, one of the UK's largest Registered Social Landlords. It is currently building 6,250 homes at Western Quarry within its vast Ebbsfleet Valley scheme in Kent, alongside three primary schools, a secondary school and a health and social care centre.
- Properties will be available on a wider range of tenures in response to a reduced ability and appetite to purchase. In particular, the development of investment units for rent, perhaps with an option to buy in certain circumstances, will enable higher build rates and less dependence on a volatile sales market. They will also provide secure long-term returns at rates that will appear far more attractive in a low base rate environment.

Registered Social Landlords

Registered Social Landlords (RSLs) were once almost entirely devoted to the provision of social housing. In recent years, they have taken on a new role. They have expanded into building open market homes for both sale and rent, using the profits to subsidise their main programme.

When the current downturn first emerged, many in the industry and Government commented that the RSL sector would help keep housing delivery on track. Most RSLs are debt free and have vast pools of assets. They are also becoming more commercially savvy, partially as a result of the recruitment of staff from house building firms.

It is now evident that RSLs have also been severely challenged by the downturn. Their private arms are equally affected by low transaction rates, while shared ownership and shared equity units are proving even more difficult to sell. Moreover, their income from social housing has dropped, as so much was dependent on mainstream development, which funded it through Section 106 agreements.

These problems could force RSLs to become more conservative. Certainly, a high profile failure could change the whole image and approach of the sector, still seen as ultra secure by the financial community. This would clearly have an impact on its ability to raise capital, particularly for open market development.

The RSLs do seem likely to be the recipients of significant amounts of public funds over the next few years. Already, they have been allocated capital to buy open market homes that other developers are unable to sell. If repossessions lead to a genuine housing crisis, funding for social housing will have to increase. The lack of debt in the sector may allow them to respond to any upturn faster than mainstream housebuilders.

If their healthier finances allow RSLs as a whole to emerge from the crisis relatively unscathed, they will have a crucial role to play in the development market. As a result of their charitable status and substantial asset bases, they are already able to take a longer term view and invest in more marginal locations. They have demonstrated an ability to provide a diversity of tenures including social rent, shared ownership, market rent and outright sale. In the near future, we could see the urban regeneration sector, at least on smaller sites, become dominated by the RSLs, if mainly as partners with other organisations.

Conclusion

The industry looks set to change radically over the next few years.

Given current land values, house prices and their trajectory, profit will only be realised towards the end of extensive projects. Consequently, investors and developers may have to adopt a longer term model that anticipates income streams over years or even decades rather than months, perhaps through providing rental stock or retaining freeholds. More attention will have to be paid to the quality in these large schemes.

Mainstream housebuilders are likely to play a reduced role in housing delivery over the next few years. Many may have sold off their landholdings and will have to resort to either small-scale development on their remaining sites or alternative arrangements such as joint ventures or even contracting-type operations. Those that remain asset-rich will become far more conservative, focusing on developing family housing in suburban or fringe rural locations.

Housebuilders, commercial developers, contractors, pension funds, social housing providers and the public sector will all contribute to the development process in the future, particularly on larger sites. In the short-term at least, there is likely to be a greater degree of Government intervention with the aim of pump-priming development and maintaining a reasonable level of housing supply.

This could be achieved by the HCA taking a more active role in the land market. The current market does offer a one-off opportunity for widespread land purchase by the public sector, with the view to providing better infrastructure and increasing the quality and quantity of housing provision. However, there is no reason why this land preparation role could not be profitably played by the private investment sector.

OPINION FORMER:

ALASTAIR STEWART

Construction & House Building Analyst, Dresdner Kleinwort

***Alastair Stewart** has been covering the building industry for 25 years.*

He entered the City in 1996, working in equities research, predominantly for Robert Fleming Securities and Dresdner Kleinwort. Under the construction banner he has covered housebuilders, contractors, support services companies and building materials producers and distributors in the UK, mainland Europe and Middle East.

He is a member of the Experian UK construction forecasting panel and is a monthly columnist to Estates Gazette among his extra-curricular activities.

How do you think the traditional housebuilder will change as a result of the current downturn?

We believe there could be fundamental changes to the structure of the house building industry and the way housebuilders operate as a result of the current downturn. The downturn could be very long, with severe pressure on housebuilders' cash flows leading to many company failures, especially among privately held companies and at best, distressed restructurings among some of the most indebted quoted companies.

Most developers have to varying degrees been selling their most attractive assets at discounts in order to generate cash and we believe that if debt is reduced sufficiently, there will be little in the way of assets. Lenders will become far more risk averse and this will put downward pressure on land prices, reduce growth prospects and fundamentally change the business model, particularly in respect to speculative risk.

As a result of the above, we believe that the business model going forward will be based on lower debt and shorter land banks. This would resemble more of a contracting turn on short-term land assets, with lower margins, rather than profits being largely generated by effective book gains on land purchases. This, however, would be lower risk and, arguably, could result in higher stock market multiples, albeit on lower profits or net assets. Longer dated land holdings would be done more in joint ventures with funders. The roles of land buying and building/selling could be separated.

Do you think we might see the emergence of new business models (e.g. build-to-let)?

The build-to-let model has been mooted often, but previously the large upfront capital commitments have encouraged developers to go for the quick return of selling completed units rather than the slower (but more sustainable) return of renting. Rock bottom land prices and the attraction of more sustainable returns could result in this model being taken up more widely but probably by property groups rather than mainstream housebuilders. We doubt that this will happen until there is clearer evidence of the market bottoming (not likely in the short-term in our view).

We do, however, believe that a more radical alternative for major developments would involve models based on the Private Finance Initiative (PFI). This could involve contractor/support services groups with funders and public sector stake holders. Instead of selling land, public sector bodies could be shareholders in special purpose vehicle concession companies, which would raise capital to build major mixed use developments. They would seek long-term equity returns from commercial sales, rents, grant revenue, land sales to third party private developers and most innovative income from management services covering private as well as social occupants. Equity stakes could be traded like any other PFI stakes. There is no reason why a private land owner could not enter into a similar structure.

Will the industry be more fragmented or more consolidated in a couple of years time?

More consolidated but due to widespread company failures rather than mergers and acquisition. Part of the mess that housebuilders have got themselves into has been through overpriced acquisitions. We see little appetite for a resurgence. To support this view, in three-and-a-half years of recession in US housing, there has not been a single deal that we are aware of.

Will other companies get involved in house building, such as the contractors?

Large property groups in the case of large, complex mixed use or build-to-let schemes. These groups plus major contractors in PFI-style models. Contractors are already big in new social house building.

If investors or institutions buy up much of the land earmarked for development, could this have implications for the industry?

There appears to be large demand for land from vulture funds – but little in the way of transactions. The large property companies could possibly secure more innovative funding and tax mechanisms. If they were to buy the land, there would be little interest in getting housebuilders, rather than contractors, to build them. The planning and sales functions would be useful but this could be achieved by headhunting departments of builders.

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HOUSING BRITAIN

The crisis in the house building industry is not just a problem for those involved in development. It also has grave social consequences. The drop in new build levels over the past year has already cast doubt on whether the Government's target of building three million homes by 2020 is achievable. If the industry remains in crisis, construction activity will remain low and a more profound housing problem will begin to emerge.

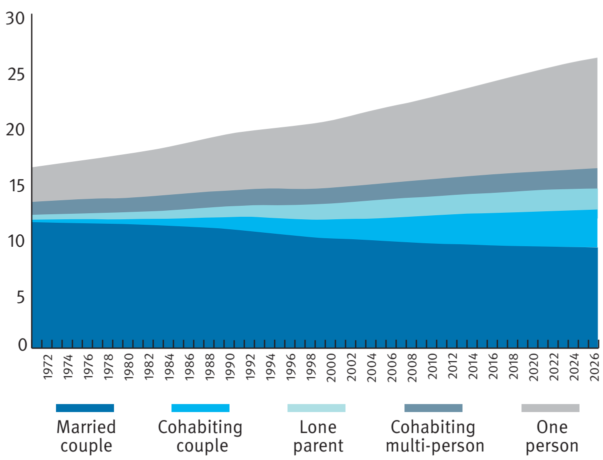
If Government projections prove to be correct, the virtual halt to house building activity comes at a time when the population, at least in theory, is growing at an unprecedented rate. According to the official figures, in 2026 there will be 7.9 million more people living in England than in 2006, as a result of high levels of immigration, low death rates and rising birth rates. However, the economic outlook has changed radically and these figures, which form the basis for Government housing targets, may no longer be valid.

Irrespective of the extent of future demand, there are other wider problems with British housing stock that need to be resolved. The past decade has seen an over provision of small flats in urban locations, which have not proved particularly appealing to owner-occupiers. Even if population projections prove overstated, there is clear need for more family housing in more appropriate environments. Where and how this can be provided – and how much is required – are questions that need to be addressed again by the Government, as our economic environment has changed so radically.

Figure 6

Household growth (England) actual and projected

No of new households (000's)



Source: Communities and Local Government (CLG)

Questioning the figures...

Government housing policy and its attention to newbuild numbers is driven by figures on household formation. These are even higher than those for population growth as a result of family breakdown, a greater number of single households and increased longevity, as Figure 6 shows. The 2006-based figures provided by the Office of National Statistics (ONS) projected that there would be over 5 million more households in England by 2026, a 25% increase in just over 20 years. Based on these statistics, an average of 262,000 new households a year would need homes.

Between 2001 and 2007, net housing completions steadily increased from a low of 115,000 in 2001 to 152,800 in 2007. Households were growing at an annual rate of 210,000 according to the then accepted projections, meaning that there should already be a substantial backlog of households who have not yet found their own home.

It seems that around 120,000 new homes will have been completed in 2008, with as little as 90,000 likely to be completed in 2009. Even fewer homes are likely to come to the market in 2010. The gap between household formation and the supply of housing has become wider over the past year as a result of the crisis in house building. This gap will not only continue to widen over the next few years – it will widen at a faster and faster rate.

However, the situation might not be quite as desperate as these headline statistics suggest. It is worth acknowledging from the outset that current Government figures are not based on sophisticated predictions. They are crude projections of current trends. Housing targets are currently drawn from the ONS's 2004-based projections, when a growth rate of 20% was estimated. This is five percentage points less than the 2006 figure quoted above. The reason for the discrepancy is simple. In 2006 household formation was higher than in 2004, mainly as a result of increased immigration.

Migration trends are highly volatile. During the last downturn in the early 1990s, more people left the UK than entered it. In addition, the 1970s and the 1980s saw significant periods of negative net immigration, and, indeed, during the former decade household growth averaged around 140,000 per year. Such a situation could emerge again. There has been widespread coverage of the rather anecdotal evidence that flows from EU accession countries are beginning to reverse. This change in one of our main sources of recent migration will only become more marked if long-term economic prospects become increasingly positive in these countries and increasingly worse in the UK.

As immigration represents somewhere between a quarter and a third of the projected increase in household numbers, projections based on

Despite the boom in apartment development, the proportion of new build flats with three bedrooms has remained fixed at 1% for 20 years.

observations from 2008 and beyond could produce much lower estimations of household increases. After all, the prospects for the UK economy that drive immigration have changed radically. With hindsight, the three million target may prove to have been an over-estimation of need.

Nevertheless, increased longevity and the ongoing change to the traditional household structure will on their own push household numbers up by 150,000 per annum. The market requires some flexibility and there is a need to replace homes lost from housing stock. It seems that somewhere around 175,000 new units per annum will be required in England for domestic demand alone, although a prolonged period of net emigration might force this figure down.

It is worth considering whether the pressure on the market caused by these new households may be less intense than thought, as there is quite a lot of spare capacity in the UK's housing stock. In 2000, for example, each occupied UK home contained 2.3 people, an occupancy rate lower than all other European countries with the exception of Sweden and Denmark. Ireland and Spain, with whom our housing delivery rates have been unfavourably compared, had over three people per dwelling on average in the same survey. Admittedly, over the past eight years, the population of Britain has grown more than the housing stock. Yet it would take a population increase of almost 18.5 million and a complete standstill in building to bring numbers per household to the Irish or Spanish levels of 2000.

Nor do these relatively small households occupy homes that are particularly small. At 86.9 m^2 on average, they are fairly typical in size for a European country – slightly larger than in Belgium and slightly smaller than in Germany. This is not to deny the very real problem of overcrowding in certain areas, but it appears that the forces pushing household formation may be more variable and flexible than is often assumed. This may explain why some industry commentators interviewed for this report were sceptical about the relevance of these demographic projections to the housing market. It may also explain why rents have remained relatively static despite the alleged level of pent-up demand.

Nevertheless, even a conservative view on demand leaves us with the conclusion that under supply is a reality. New home delivery has rarely reached the 175,000 figure required to accommodate domestic demand alone and a large backlog has developed. The increasing age of first-time buyers alone provides evidence of under-supply. An increase in delivery is obviously needed, although the extent of what is required may be rather less than the Government has assumed.

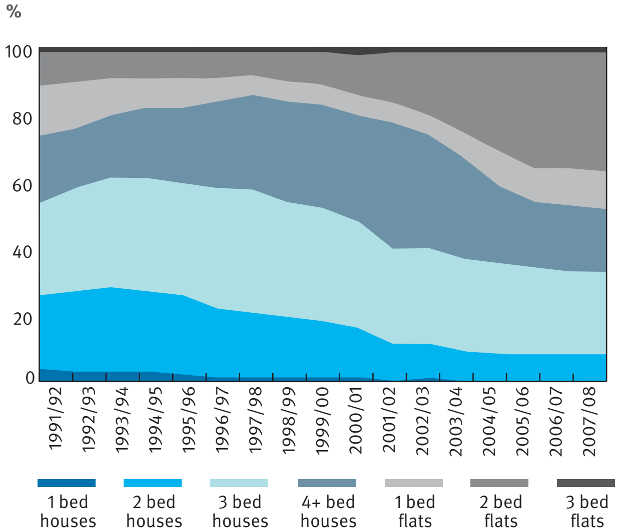
Comparing housing completions with household growth is a rather blunt measure of how well the nation's housing needs are being met. It tells us nothing about where homes have been built and their suitability for new households. These trends are important, as the past few years have seen a dramatic change in the type of new homes being built, particularly in English cities. The fact that some of these may not be suitable has probably further added to the number of potential households still waiting for an appropriate home.

The rise of the two bedroom flat

In 2001 only 21% of new homes in England were flats and maisonettes. Six years later, after the introduction of new targets for the use of brownfield sites and the density of dwellings within a development, this figure had more than doubled to 51%. In contrast, the proportion of detached homes had more than halved, from 38% to 12%. In London in 2007, 90% of new build arrived in the form of flats. In regions such as the East Midlands, where almost all new build has previously been delivered as houses, the share taken by flats had risen to almost a third. Clearly, as Figures 7 and 8 demonstrate, this is a substantial shift for a population known for its attachment to houses.

Figure 7

Housing completions by size and type



Source: Communities and Local Government (CLG)

Flats are clearly less popular in England and Wales than in most other countries in the world. The Commission for Architecture and the Built Environment's (CABE) 2007 report, "What homebuyers want: attitudes and decision making among consumers", suggested that an apartment is the preferred form of home for only 3% of the population.

Foreign visitors have often commented on the profound attachment to the house and garden and the general aversion to more communal forms of living. Even in the 1930s, George Orwell observed:

> *"The northern working people do not take kindly to flats; even where flats exist they are contemptuously named 'tenements'. Almost everyone will tell you that he 'wants a house of his own', and apparently a house in the middle of an unbroken block of houses a hundred yards long seems to them more 'their own' than a flat situated in mid-air [3]."*

[3] *Orwell, George – The Road to Wigan Pier (1935)*

This cultural preference for houses is evident from a comparison with other countries – including Scotland, where there is a strong tradition of family living in flats, as the spacious, grand apartments of Edinburgh and Glasgow's West End demonstrate. In sparsely populated Sweden, 51.9% of dwellings are flats or other 'multi-family' units; in France, it is 43.3%; even in the Netherlands, which shares the English preference for houses, it is 31.1%. In Britain, despite recent growth in new build flats, the proportion is only 18.7%. Only Ireland, with 8.6%, is less inclined to apartment living.

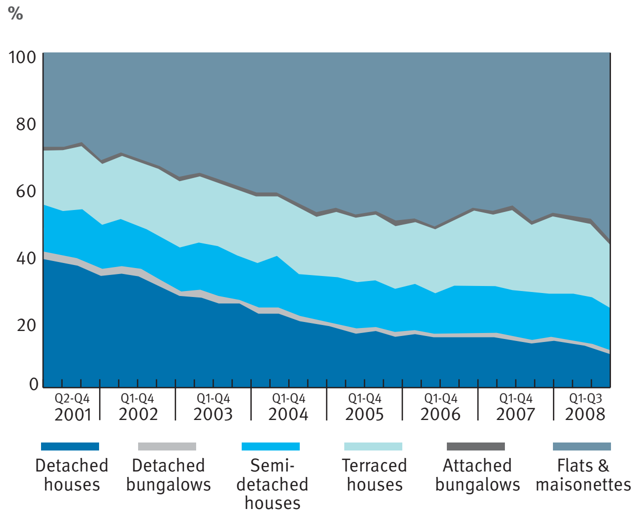
The CABE survey, published some 75 years after Orwell's comments, concluded that the detached house is the preferred residence for over 50% of the English population.

Of course, culture is not set in stone, but recent flat building is unlikely to have brought about a shift in living aspirations. One of the most marked characteristics of many flats built recently is their small size. Despite the boom in apartment development, the proportion of newbuild flats with three bedrooms has remained fixed at 1% for 20 years. Larger flats with four or more bedrooms are almost undetectable in the figures, so few have been built.

The only significant recent examples of large, family-sized flats in England are a limited number of luxury lateral flats in London's most expensive postcodes. Spacious family accommodation with three or more bedrooms is still provided almost entirely by houses.

Figure 8

Housing starts: house type



Source: National House-Building Council (NHBC)

The dearth of new houses and the emphasis on small flats means that the size of new British homes had fallen to 76 m^2 by 2004 (most recent figures), the smallest in Europe. This is barely half the size of the typical Danish newbuild at 137 m^2 and substantially smaller than the average new French home at 112.8 m^2.

Many of these flats were built for the investment or rather the speculative market. They were sold off-plan or in bulk to buyers who were solely interested in short-term capital gains. To maximise sales revenue, developers packed in as many units as possible into a given site – producing densities far in excess of the 30-50 dwellings per hectare demanded by Government policy. The two bedroom flat not only proved the ideal product for the burgeoning investment market – it also produced the highest margins per unit area, particularly compared to larger flats.

Given constraints on land supply, it was the only model that would justify the prices needed to secure sites. Even those aiming for higher standards found it hard to avoid this approach as they would be outbid by other developers whose calculations factored in smaller flats and greater delivery numbers. Eventually, rocketing land values led to the rise of the micro-flat, with an increasing number of developments built at super densities. There are examples of schemes built at 500, 600 or even over 1,000 dwellings per hectare.

Many new towns and outer suburbs suffer from being built at too low a density to support local services.

Without any minimum size restriction on market housing in the UK, and an increasing appetite among planners for urban high-rise blocks, there was nothing to stop the march to ever-higher densities and land values. As many hoped to sell off-plan or in bulk to buyers who were solely interested in short-term capital gains, insufficient attention was paid to size – or build quality, noise insulation, storage space, or access to shops, facilities or schools.

The lack of the long-term adaptability and flexibility of today's newbuilds could become a significant problem. Unlike traditional terraced houses, blocks of two bedroom flats cannot easily be modified to meet new and changing living requirements. Terraces can be converted into flats and back again. They can be used to accommodate sharers or families. Rooms can change function or be linked together. The same cannot be said of many of the flats built over recent years. The traditional town house has actually proved itself a triumph of true recycling and reinvention.

There is little sign so far that the Lifetime Homes standard will solve this problem, despite its purpose of ensuring properties are able to adapt to a family's changing needs. Many interviewees believe the Lifetime Homes requirement for additional space for the likes of wheelchair turning circles reduces more general living space. This is of little benefit to buyers of new homes. A better option would be the insistence on more flexibility, so that homes can easily and cheaply be converted for those with limited mobility.

What do people want?

Policy makers encouraged and secured an increase in the rate of newbuild construction after 2001 – but what has been delivered was narrow in style and flexibility. One of the few benefits of the current economic downturn is that it allows for a period of reflection to assess what type of housing ought to be built in order to meet people's needs.

It is a commonplace that English people like low density, low-rise, leafy suburbia. Studies of people's preferences in housing supports this assertion. What people want is a detached house and a large garden with space and privacy. The small flats built at high densities during the recent boom are clearly far from ideal for most homebuyers. Given the aspirations for how and where we want to live, the obvious solution would seem to be: allow more dispersed suburban development on greenfield sites and abandon density targets.

However, the real answer is not quite so simple. People also place a high value on access to facilities and amenities that can only be provided at a reasonable level of density. The popularity of detached properties is tempered by other key factors. There is recognition of the need for a good local school, transport facilities, convenient shops and leisure services. These are not always available in areas where most of the population live in large isolated homes.

CABE's report, *What Homebuyers Want*, concluded that a set of trade-offs lay behind the preference for a detached house in the countryside. It is not possible to live in a period house in a village and have access to a whole array of services on the front doorstep. It stated:

> *"While detached houses are the ideal…There is support for the sort of public 'goods' – local services and the like – that are only sustainable at higher densities[4]."*

This is not a new conclusion. Samuel Johnson in 1785 remarked to Boswell that:

> *"Men, thinly scattered, make a shift, but a bad shift, without many things… It is being concentrated that produces convenience[5]."*

In 1959, the American academic John Denton studied American suburbs and British new towns and concluded that they both rely on access to a city for their economic and cultural life[6]. In other words, low density locations rely on high density elsewhere.

[4] *What homebuyers want: attitudes and decision making among consumers (CABE, 2007)*

[5&6] *Quoted in Jacobs, Jane – The Death and Life of Great American Cities (1961)*

Density and desirability

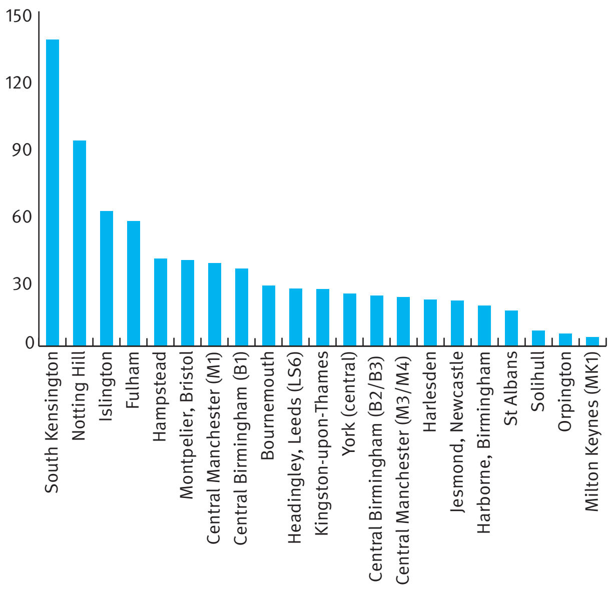
Indeed, the country's most expensive and desirable locations are not actually low-rise, low density suburbia, as the surveys might superficially suggest. Jesmond in Newcastle, Clifton in Bristol and Kensington and Chelsea in London are among the most expensive locations in their respective regions. All three are relatively high density – the latter, in fact, contains the highest density of homes in the country. Unlike many of the high density developments of recent years, these locations offer spacious dwellings. The fact that they are also set within architecturally attractive environments, within easy reach of the cultural and economic opportunities of the city means they offer the exact trade-off that many people find appealing.

Conversely, not all low density areas are popular. Large areas of Greater Manchester, Merseyside and the West Midlands are relatively dispersed yet suffer from a host of social problems. Many new towns and outer suburbs suffer from being built at too low a density to support local services. London is also ringed by an area of crumbling 1930s suburbia suffering from a lack of transport links and facilities. There are many examples of districts in this 'doughnut' that have effectively de-gentrified over recent years.

Figure 9

Gross densities in selected English postcode districts

Dwellings per hectare



Source: Knight Frank

There is a further issue with many of the flatted schemes developed over recent years. They have not actually resulted in high density neighbourhoods, at least in comparison to popular parts of London, as Figure 9 demonstrates. Residential sites in many city centres are relatively isolated. Substantial land is occupied by car parking, roads, derelict sites and commercial space. However, densities have been taken to very high levels on individual schemes, resulting in an overcrowding of dwellings in these dispersed islands. Consequently, residents feel little of the benefits that should be accrued as a result of relatively high density living – benefits that are very obvious in more established areas.

Popular areas of central and inner London offer an alternate urban layout to these recent schemes and are in fact mostly built at higher densities. The streets are narrow. Houses are tall and thin and laid out in long terraces that maximise ground cover and face well-used pavements. There is little empty, unused space. Instead there are well maintained, well used and large areas of public space, such as Hyde Park and Holland Park. The appeal of this urban layout is something that CABE (among others) recognises:

> "*the image of the Georgian or Regency city – where densities are far higher than most new housing – could be a more effective model in producing positive associations with the densities required to sustain more successful neighbourhoods* [7]."

Given the Government's emphasis on higher density developments, it is surprising that there has not been an increase in the number of terraced homes built, which has remained at around 20% of all newbuilds for the past decade. Admittedly, in parts of the country this form of housing has a public relations problem, conjuring up images of Coronation Street rather than Eaton Square. Indeed, 'town house' tends to be preferred to 'terrace' in the marketing literature.

Even in the northern and midland cities of the UK, there are areas with sought-after terraced homes: Didsbury in Manchester, parts of North Leeds, Newcastle's Jesmond, and Moseley and Harborne in Birmingham. In many parts of southern England, relatively dense Victorian suburbs are more popular and expensive than areas consisting of semi-detached and detached housing of a later period.

The architect Richard Rogers called for a revival of this form of housing eight years ago in Cities for a Small Country. He noted[8]:

> "*In popular areas they are the most sought after properties. They house between one and two hundred households per hectare [net] in streets that are popular, compact and adaptable to new uses …terraces are convertible, re-usable and good for families and single people alike, offering a sense of both privacy and social contact: a particularly British creation.*"

Rogers added, pointing to the terraces of Notting Hill in West London and Barnsbury in North London, built at a net density of 100 dwellings to the hectare:

> "*If people could live in the modern equivalent of a spacious but densely-structured Georgian terrace, with tree-lined streets and squares, beautiful buildings and public spaces, close to good schools and public amenities, with access to public transport and with a strong sense of community and security, the benefits of city*

[7] *What homebuyers want: attitudes and decision making among consumers (CABE, 2007)*

[8] *Rogers, Richard and Powers, Anne – Cities for a Small Country (Faber and Faber, 2000)*


Vathorst, an urban extension in the Netherlands

living would become clear. This must be our ultimate goal — to bring people back to the heart of our towns and cities."

London also offers plenty of other Victorian and Edwardian examples of suburbs that contain terraces mixed in with semi-detached and detached villas that remain popular to this day: Clapham, Hammersmith, West Hampstead and East Dulwich, to name just a handful. All are built at densities that meet or exceed current Government aspirations. Furthermore, they owe much of their popularity to the rationale for their original development: the homes are built within a ten minute walk of a station.

It is remarkable that both these Georgian city areas and Victorian railway suburbs seem to comply with Government aspirations for community and sustainability far better than many new developments. They are orientated around public transport. They are relatively high density, while offering family accommodation with gardens – and importantly, most remain extremely popular.

Whether in regeneration schemes, urban extensions or new settlements, an examination of these perennially popular areas is vital if we are to respond successfully to the next housing upturn and provide more of the homes that people actually want. It is a great lost opportunity that the policies introduced by Government, ironically partly based on Rogers' advice, have not produced more than a handful of new districts along these lines during the recent development boom.

Given that sustainable transport, efficient land use and family housing are priorities, why has planning policy and the development industry not partnered to produce new examples of these suburbs?

After all, in the Netherlands, where housing preferences are remarkably similar to England, large numbers of new homes have been built in attractive new communities such as Vathorst, outside Amersfoort. They are, like England's most successful, expensive and popular neighbourhoods, mostly based around the town house model.

This does not mean there is no role for larger, more liveable flats with better amenities, particularly in high-demand locations. Admittedly, the scale of potential demand is uncertain, as so few have been built. This may change, and there are some signs that younger people are beginning to aspire to large-scale lateral living. There are clear advantages in living on one floor for some groups.

When asked why they do not like the idea of living in a flat, many people point to the lack of space and the probability of living in a high-crime area. Needless to say, these are not intrinsic characteristics of an apartment – but the fact that so many English flats do have these problems may explain why it is less accepted as a living form than in almost every other country in the world.

Within a number of key schemes in London developers are already planning larger flats – some with three or more bedrooms which are suitable for families. Apartment living is already more established in the capital and there are a large number of foreign workers who often prefer large amounts of lateral space. Clearly a high quality environment and leisure opportunities appealing to a wide age group are both crucial in making this kind of urban living more popular. Similar schemes could be successful in cities such as Bath, Norwich, Bristol and York, where fringe of city centre locations are already attractive to families, and, perhaps, as part of a wider regeneration scheme in other centres.


The Walkable Garden City (MJP Architects)


The Walkable Garden City (MJP Architects)

There is increasing interest in understanding how to develop attractive new communities or suburbs with a mix of dwelling types, with many looking to the successful Victorian railway suburb as a potential model. The architect Sir Richard MacCormac has examined what he calls sustainable suburban designs using as his starting point a comparison of two areas of Milton Keynes: Wolverton, a Victorian railway suburb predating the new town, and the much more recent Greenleys district.

He noted two main differences: street layout and what he calls 'space left over after planning'. In Wolverton, houses overlook the streets and pedestrians move around easily without having to wait for a gap in the traffic. In Greenleys, no houses are actually situated on the distributor road. Instead, they are arranged in cul-de-sacs branching off from this central route, which presents a barrier to pedestrians as a result of the amount and speed of traffic. Unsurprisingly, walking is far less commonplace than in Wolverton.

More strikingly, in Greenleys, 40% of the entire area is empty space, unused for gardens, roads or houses (space left over after planning). This figure drops to zero in Wolverton. This Victorian railway suburb is built at around 50 dwellings per hectare, whereas the modern housing estate of Greenleys is built at around 12.

MacCormac has produced a number of walkable garden city prototypes based on his analysis. They combine green space with an efficient layout and a density of 50 dwellings per hectare. This figure is important as research suggests that regular transport links are only viable if there are 5,000 dwellings within a ten minute walk. This is the maximum time for which most people are prepared to walk to get on a bus or train. The results will surprise those who think that reasonably high density always leads to grey neighbourhoods and blocks of flats. At least one potential model for new development along these lines in the UK is green, leafy and spacious.

Conclusion

Population projections and predictions of housing need probably overstate the case, particularly with the UK economy in crisis. However, even if emigration begins to exceed immigration, more homes are needed as build rates have lagged behind household formation for so long. The vast numbers of one and two bedroom flats built over the past few years have not fulfilled the need for spacious housing in attractive neighbourhoods, further adding to the need for better homes.

Clearly the quality and quantity of housing delivery must be increased. A different development paradigm may be required if this is to be achieved — but it does not follow that we should return to the low density housing schemes of the recent past. On the other hand, if apartment living is to have a future, it must arrive in a more spacious form.

Our Georgian and Victorian neighbourhoods, with their mix of townhouses, villas and flats, could offer a better model for future development at densities that support successful communities and local services. The future lies not in homogeneous blocks of small flats but in an updated version of our own traditions, from the garden square to the town house and the mansion flat. There are already models being developed along these lines, such as Richard McCormick's walkable garden city.

In our discussion of the changing building industry, we have provided predictions of how the residential development sector will emerge from the downturn. If the Homes and Communities Agency takes a greater role in land promotion, or if long-term investors and contractors begin to take an interest in the sector, the conditions are being created for the development of new communities along these lines.


Hammarby Sjöstad, Stockholm

THE GREEN AGENDA

Houses account for more than a quarter of the UK's carbon emissions. Making our homes more efficient and sustainable has understandably begun to take a central role in Government policy. Our mild climate and a readily available fuel supply have meant that insulation has never been as important as it has in much of the rest of Northern Europe. There are substantial challenges ahead if we are to make our homes more environmentally friendly.

Reduced land and house prices will have a significant impact on the industry's ability to comply with Government aspirations for all development to be zero carbon by 2016. Housebuilders are increasingly sceptical that the higher levels of the Code for Sustainable Homes can be achieved. With profit margins far tighter, this scepticism will increase.

Major projects to build new communities offer an enormous scope for the development of new green technologies. This is an area in which the UK has lagged behind competitors such as Germany. Large scale schemes are opportunities for innovation with the potential involvement of many different parties to share risk. Local power generation, a key part of reducing carbon emissions, has more chance of succeeding in these larger developments than in piecemeal sites. It is vital that the Government provides some financial incentives here. Research and development as well as practical application could have major benefits for British expertise in the emerging and important sector of environmental technology.

Such efforts will only be successful if settlement patterns are adopted that will discourage excessive car use and encourage walking, cycling and the use of public transport – something that is reflected throughout this report. Reduction in levels of congestion, improved quality of life and environmental benefits will only come with the adoption of new urban models.

Achieving the green agenda through better urban design does not entail concentration of development in city centres, close to workplaces and in blocks of high-rise flats. It requires attractive, spacious, family-orientated housing to be developed at reasonable densities that can support community facilities and new transport links. Questioning sacred cows such as the green belt may be needed to do this. Developing new communities on the edge of cities may lead to shorter journey times, less car use and lower levels of congestion as people no longer have to commute from further away if they are to live in the home of their choice.

However, while the upgrading of the existing stock should be of greater concern to central Government, the construction of more environmentally friendly housing and communities is the single greatest long-term challenge facing the development industry. In the shorter term, however, the industry is battling to survive. There are record low levels of housing development and too many inappropriate recent schemes.

The Future of Residential Development is mainly concerned with these issues, although we recognise the overwhelming importance of environmentally friendly housing.

OPINION FORMER:

DR OLIVER MARC HARTWICH

Former Chief Economist, Policy Exchange

Given that prices are now falling rapidly in the UK, do you think you would change the conclusions of any of the Policy Exchange reports on the country's housing sector?

No, I wouldn't change any of the conclusions. In fact, we have always said that apart from making house prices rise in the long term, the other problem with the planning system is that it makes the market very volatile. Boom follows bust, but the general trend is for prices to increase. It's not difficult to understand why. If supply is limited, changes in demand will directly impact on price in both directions. If supply is more flexible and follows price signals, then rising prices will lead to more building. This will reduce price spikes, while falling prices will lead to reduced supply, thus stabilising the market. In the UK, however, this mechanism could never work due to the planning system.

With so many problems in the financial services industries, will London still need to grow outwards?

Unless you believe that Londoners are perfectly housed today, you should still build more in London. Demographic pressures will remain in any case, regardless of what happens to the City.

How can we convince the country that we need to build on more farmland?

By showing the population what a difference a better built environment makes to your quality of life. There is no need to live in small flats when 90% of the country is not developed. And most people still prefer to live in a house with a garden. Building this is possible, but it takes a bit more land.

Housing delivery in the UK is dropping to record lows. What do you think the long-term implications of this will be?

It will be disastrous. The industry is losing capacity and the little capacity that is left will be bound up in the Olympics project. Once economic circumstances go back to normal (which could take quite a long time for the UK), the industry will face a massive backlog in housing demand and a very limited ability to meet it. The next house price boom is already programmed into the system.

***Dr Oliver Marc Hartwich** is a Research Fellow at the Centre for Independent Studies, Australia's largest independent think tank. Until October 2008 he was the Chief Economist of Policy Exchange, and the UK representative of the German think tank Institut für Unternehmerische Freiheit (Institute for Free Enterprise).*

Previously, he worked in the environment programme for International Policy Network, a London-based think tank. Before that he researched land-use planning and housing policies in the UK, Ireland, Australia, Germany and Switzerland for Policy Exchange. He co-authored four studies on these issues: Unaffordable Housing – Fables and Myths, which was named think tank publication of the year by Prospect Magazine; Bigger Better Faster More – Why some countries plan better than others, Better Homes, Greener Cities, and The Best Laid Plans – How planning prevents economic growth.

Do you still think everyone in the north of England should move to Oxford, Cambridge and London and those cities should expand? Or was this an unfair representation of your views in the media?

No, we never said that. All we said was that some people will probably prefer to move to London, Oxford and Cambridge and that should be made possible by building for them.

The little capacity that is left will be bound up in the Olympics project.

A NATION OF HOMEOWNERS

One of the most significant economic and social trends of the post-war period in Britain has been the steady rise of homeownership. Although the rate of increase has varied from Government to Government, it has remained consistently positive until recently. Leading politicians of all parties have reaffirmed their commitment to increasing homeownership and building a property-owning democracy. This has been backed up by opinion polls proving that the majority of Britons want to own their own home.

The past few years have seen a radical shift in this long established trend. Homeownership levels have begun falling — albeit from high levels — while younger people are showing marginally less enthusiasm for owner-occupation. The current downturn, if intense and prolonged, could produce a radical shift in tenure preference, if only in the short-term. This is something that both developers and Government need to prepare for.

Owner-occupation and policy

Until the late 1970s, the increase in owner-occupation was accompanied by the continued expansion of council housing. The private rented sector, which once accounted for over 90% of Britain's homes, almost vanished, with its stock becoming either socially rented or owner-occupied. Institutions voluntarily sold many homes in response to the introduction of rent controls. Many others were compulsorily purchased by local authorities.

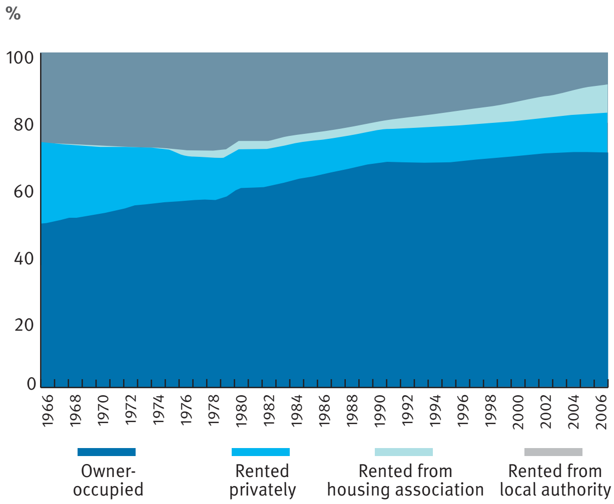
The Conservative Government led by Margaret Thatcher, which came to power in 1979, brought about the first radical post-war shift in British housing policy. As a result of the right-to-buy initiative, swathes of social housing became owner-occupied and homeownership levels soared. As councils were not allowed to recycle the funds into construction, social housing numbers began to decrease markedly.

This era also saw the birth of the Registered Social Landlord (RSL). As housing associations became the recipients of Government grants, their construction programmes were significantly expanded. These associations took over many former council houses, a process that continues today. These changes can be seen clearly in Figure 10 opposite.

In 2004, another shift began to occur. This is one that could, with hindsight, appear almost as significant, despite receiving relatively little political or media attention. Overall homeownership in England peaked at 70.5%, and then began to fall for the first time in decades, dropping to 70.2% in 2006.

Figure 10

Tenure Type (England)



Source: Communities and Local Government (CLG)

The drop in homeownership began earlier and was most marked among younger age groups. In 1988, 41% of 20-24 year olds, 64% of 25-29 year olds and 72% of 30-34 year olds owned their own home. By 2004, these figures had fallen to 20%, 50% and 64% respectively. With this marked decline in owner-occupation among younger people, the private rented sector had begun to grow again.

This has confounded yet another Government target, one that was made explicit in its response to the Barker Review in December 2005. It pledged to "extend homeownership towards 75%," arguing that the alternative was accepting "growing inequalities and disadvantage" with further implications for the economy. There was no mention of the private rental sector, even though it was the only sector to be growing in relative terms.

The main reason for the advocacy of homeownership is clear – people appeared to want it. There was another more strategic rationale, however. Owner-occupation was assumed to be linked to rising wealth (although, according to the Joseph Rowntree Foundation, around 50% of those in poverty own their own homes). Furthermore, homeownership was felt to be linked to the quality of a neighbourhood. If people had a stake in their home, they were more likely to look after their immediate environment.

Shared equity and shared ownership

In response to the difficulties experienced by many first-time buyers, the Government launched several schemes aimed at helping them access the housing market, most notably shared ownership. Applicants can buy a proportion of a home, while paying rent on the remainder, with the option of buying progressively more of the property in the future. RSLs and some private developers have been encouraged to offer shared ownership and shared equity products.

These initiatives have had some success. Annual take-up of shared ownership and shared equity (where rent is not paid on the non-owned portion) has increased from just under 4,000 in 2003/4 to over 10,000 in 2007/8.

However, with between 350,000 and 500,000 loans to first-time buyers agreed each year (at least prior to 2008), it is clear that these options are not yet a significant force in the housing market. There is also evidence from the Joseph Rowntree Foundation that very few in shared equity arrangements do staircase up to full ownership.

The current downturn has led to mortgage providers becoming far more conservative and less willing to lend on shared ownership or shared equity schemes. Off-the-record conversations suggest that many institutions continue to view these loans as distinctly sub-prime.

This has had severe repercussions for sales rates on shared equity and shared ownership stock. Figures from the Housing Corporation released in November 2008 suggest that 45% of RSL properties built for low-cost ownership have remained unsold. Many housing associations are asking if they can convert these properties to social or intermediate rent; both of which are now more in demand than shared equity.

The resale market here is unestablished and something of an unknown quantity. It may well be that it will be more affected by the downturn than the mainstream market. Holders of these products are already less likely to move than those in owner-occupation or social or private rented accommodation. More may find themselves trapped into their homes, unable to move for family reasons or to find alternative employment if they lose their jobs. Reverse staircasing by selling shares back to the RSL might be possible but this is an untested area. It will be interesting to see how the sector copes if large numbers of people choose this option.

There are many in policy and Government who believe that shared equity will increase dramatically over the next few years. The increasingly risk averse banks will be unwilling to lend at the level of multiples required to buy a home. Consequently, it will be necessary for other parties – the Government, the private sector, perhaps the banks themselves – to make up the difference. This may be necessary if loan-to-value ratios remain beyond the reach of first-time buyers because of low savings rates. However, it is difficult to envisage a rush for shared equity while prices are falling. Potential applicants can simply wait. Many will save larger deposits in the hope of eventually owning outright.

Recent schemes such as Your Choice HomeBuy and Open Market HomeBuy may prove more successful, as they are much closer to full owner-occupation. They allow the purchase of newly built market homes with the help of a Government-funded or Government-backed equity loan, and help both the struggling housebuilder and first time buyer. However, they are limited in size. They could be expanded but this would prove expensive and controversial. It would leave the Government open to charges that it is subsidising homeownership for a relatively affluent group or attempting to prop up house prices.

> A prolonged period of negative equity on an unprecedented scale could severely damage the attractiveness of homeownership.

Homeownership and renting

In the face of the current recession, what will happen to homeownership? Previous house price crashes had little effect on the relative level of owner-occupation. In fact, they continued to rise.

This time could be different. Prices have risen faster and for longer than ever before. A prolonged period of negative equity on an unprecedented scale could severely damage the attractiveness of homeownership, particularly if combined with high levels of repossessions and bankruptcies.

Even before the credit crunch, opinion surveys suggested that the appeal of homeownership was decreasing among younger age groups. One of the most obvious reasons is that people increasingly feel disenfranchised by the market – having little hope that they could ever afford to buy. This could become even more pronounced over the next few years as the disadvantages of homeownership for those without a great degree of financial security become more apparent.

Those most affected by the downturn will be younger, less affluent people who joined the housing market by borrowing large multiples of their income in the belief that prices would only go up. If they suffer a prolonged period of negative equity, their peers could view renting in an increasingly favourable light.

It is perhaps positive that the Government did not extend homeownership to 75%, as many more people would be in severe difficulties. As one interviewee pointed out, housing is the only investment that does not come with a mandatory warning that its price can go down as well as up.

The Government's pledge to increase the level of homeownership will be increasingly difficult to maintain as the downturn continues. Policy needs to shift towards supporting a wider range of tenures to suit various life stages, lifestyles and incomes. A positive narrative about renting may emerge; one that describes the flexibility and lower risks of renting to younger and more financially insecure households.

The popularity of the rental sector will increase over the next few years for practical reasons. While many younger people will undoubtedly retain a desire to buy at some point, the pressure to get on the ladder at any cost will subside if prices decline or remain flat for a protracted period. In most parts of the country, mortgage costs are still much higher than rents for the same property, at least for those without substantial equity. Prices will have to fall a lot further before this changes.

This change in attitude to renting is paralleled by a new interest in residential investment among institutions. The funds are taking a very close look at the sector. They have long been averse to re-entering this market. Perceived turbulence in pricing, low yields, difficulty in putting together a portfolio of adequate size and intensive management requirements are the reasons most often cited. However, the conditions of the next year or so could address the first two of these concerns. As a result, institutions could become a force once again in the British rental market.

The uncomfortable flip side to higher levels of forced sales and repossessions is that institutions will have an opportunity to acquire portfolios of reasonable sizes. More importantly, yields may begin to look more appealing. With rents currently in decline, the speed of house price falls means that yields are rising. This is as a result of the rapid growth of new stock caused by owner-occupiers choosing to let their property. Rents are likely to remain resilient due to the demand produced by those opting to delay purchase.

In markets where prices have already fallen sharply, especially parts of the newbuild market, gross yields of almost 10% are already possible. Returns at this level are sure to attract funds, assuming that sufficient stock is available. Indeed, as base rates drop towards zero, even low returns will seem far more attractive for investors.

Build-to-let

A more obvious way for institutions to capitalise on the changing housing market is build-to-let: institutions or developers hold new build property long-term and benefit from the rental income. This has so far only really been applied in the student accommodation market. It has proved a lucrative business model, producing yields that are proving more resilient than those in many commercial property sectors as well as the rest of the residential market. There are already signs of the model being applied more widely, with some organisations involved in student housing considering similar accommodation for graduates working in London.

There is increasing enthusiasm for this model for a wider variety of housing. It is already a significant feature of other housing markets, notably in the development of some apartment blocks in US and European cities. These schemes, which feature large flats by recent British standards alongside facilities such as swimming pools, are a popular choice for many people before they move on to homeownership.

The Government's pledge to increase the level of homeownership will be increasingly difficult to maintain as the downturn continues.

Historically, low rental yields have prevented this model from emerging in the UK. However, if the newbuild sales market remains moribund, this model could prove the best option for institutions and other investors looking to capitalise on low land values, particularly if yields continue to rise. Offering a large percentage of new homes for rent could offer a better and more secure return than relying on the sales market. Furthermore, securing a tenant is a much faster and more definite process than house purchase, and turnover in the sector is far greater. Consequently, it could help the Government in its long cherished aim of increasing home building rates.

Holding stock remains anathema to housebuilders. Their trader business model relies on buying land, building only so many units as will sell quickly, and then selling them before moving on to the next site or phase. The City values listed housebuilders on the size of their land bank, sales rates and the interaction of the two. It is difficult to see how it could change this model to incorporate an investor approach.

However, some privately owned housebuilders will be in a better position to be more radical. The pension funds are aware of the potential for significant long-term returns in the build-to-let market, particularly as part of a wider programme involving the development of a whole new community or urban extension. The risk could be spread by offering a range of tenures and engaging in joint ventures, perhaps with housebuilders, RSLs, contractors, or even local authorities.

Nevertheless, there is substantial scepticism as to whether this model could deliver large amounts of family housing. Most interviewees for this report believe that there could be some scope to develop smaller units in urban settings for single people or younger couples. There is a strong view that owner-occupation will remain the main mode of tenure for families and more settled individuals. It is firmly seen as a cultural

trait, rather than something people choose logically as the most secure and financially rewarding option. As such, it will not be affected by fluctuations in prices.

A culture of renting

However, culture is not unchanging and attitudes to ownership have shifted throughout the 19th and 20th centuries. Homeownership was higher in the 1870s than at the outbreak of the First World War in 1914. In the 1930s, most people rented from institutions. In the 1950s, council housing had a relatively good image, before it became synonymous with high-rise flats and the sink estate.

Homeownership clearly has had very significant advantages for those with financial stability. It is an excellent tax-free long-term investment, albeit one subject to periodic crises. It provides the retired with a free place to live, once a mortgage has been paid off. This wealth can be passed onto children, subject to inheritance tax.

In many countries with a well-developed rental culture there is a much more conservative mortgage market, which makes buying a more difficult and expensive affair and increases the appeal of renting.

This appeal is enhanced in many countries by legal and financial frameworks that make it a more attractive option than in the UK – typically some guarantee of stable rents and security of tenure. Leases lasting years, even decades, rather than months are typical in a country such as France.

Renting will not become a viable long-term option for British families unless such options become more widespread and the mortgage market does permanently exclude large numbers of people. The valuation paradigm that insists that homes are worth more if they are vacant is behind much of the short-termism of the current rental market. Landlords are unwilling to accept longer commitments, as they may lose money if they wish to sell within the lifetime of the lease. This has typically been likely given the rapid gains experienced in the British housing market over the past few years.

Such attitudes do appear to be changing. Portfolios of properties are now being valued on rental yield (as in the commercial property market), but it is still a contentious issue among valuers. Overall, there is little appetite to shift power to tenants and offer them more security. If more people rent, this may be something that is ultimately forced on landlords.

Homeownership does appear to be deeply embedded in the British psyche and, unless prices fall for a protracted period, is likely to remain the ultimate goal for most people. Over the next few years, developers may find that people want to choose from a palette of options that maximise flexibility while still leading to ownership. Some developers of large new communities may decide to retain the freehold interest as a way of managing their long-term interest, selling only the leaseholds to homebuyers.

Renting will continue to become more acceptable but is only ever likely to develop into a medium term option – one taken while prices are in decline, when buyers are saving for a deposit, or when flexibility is of the utmost importance. For example, those choosing to rent may be able to buy at a fixed price later in the cycle. They may be able to staircase up to full ownership via a shared equity arrangement if the market is too highly priced for them. On the other hand, developers could guarantee to buy back the property (or a share of it) at a certain price (or on certain terms), returning it to the rental market. This would provide a degree of security for both mortgage provider and occupier.

Indeed, this is already happening to some degree. Rent-to-buy schemes are an emerging feature of the housing landscape. The tenant is given priority to buy at a later date, and in some cases, rent is refunded within a given timescale.

The Government could provide a tax-exempt savings fund for first-time buyers.

The Government could also provide a tax-exempt savings fund for first-time buyers, perhaps topped up by some level of grant proportional to the amount saved. There is a very good model for this in Australia, where first-time buyers can open a tax-efficient *First Home Savings Grant* to which the Government contributes 17 cents for every dollar deposited up to an annual ceiling of $5,000. In addition, they also receive a *First Home Owners Grant* of $14,000 regardless of financial status – with the sum increasing to $21,000 for new builds.

Social housing in crisis

The demand for social or intermediate rented housing is likely to increase substantially over the next few years. There will be far more people requiring this safety net as mortgage payments prove harder to meet and unemployment rises. However, this sector is already much smaller than in previous downturns and is already oversubscribed. This will become more of a problem over the next few years. Even less social housing will be delivered as it is so dependent on the fortunes of the wider development market through Section 106 agreements.

The Homes and Communities Agency (HCA) has already authorised the development of entirely rented developments. The funding required to bridge the supply gap by this means is enormous and there are, as yet, no signs of any substantial increase in housing grants.

One possible solution would be a Government-backed version of the rent-to-buy scheme. Units could be developed for letting at the intermediate level (70%–80% of open market rent) with the help of some grant. At some point in the future, all or a share of a property can be sold on the market with the renter being given priority to buy. The grant could potentially be recycled. This would also be a reasonably efficient way to ensure that there is not an open market housing shortage when the prices begin to rise again, particularly in areas with a high degree of population mobility such as London.

More radically, the introduction of a planning class that allows developers to build homes for social rent that can be sold or rented on the open market at a later date would provide a larger incentive for far higher numbers of units to be built. Lower levels of planning obligations could offset the need for additional housing grants.

Such arrangements could attract investors looking to capitalise on a future housing boom, while receiving secure income in the form of a social rent. They could provide some desperately needed additional, if temporary, social stock to mitigate the severe housing crisis that could emerge over the next few years.

Such an approach to social housing will require a shift in attitudes and the end of blanket security of tenure. There are also a number of issues that will need to be addressed and resolved. These include what occurs at the end of a tenancy if the family in question no longer qualifies for social housing. In some cases, the occupier may already have moved to market housing; in others, reversion to market rent may be plausible. If neither is possible, the occupier might have to move to other social housing, which might still be in short supply. Such a model would also necessitate the introduction of some form of means testing, which would be politically unpopular.

Conclusion

Ever-rising levels of owner-occupation have been one of the great themes of post-war politics – but over the last few years homeownership has dropped for the first time in decades. Younger people, in particular, are increasingly unable to join the property ladder. This has led to the development of shared ownership and shared equity schemes, which appear to be particularly affected by the downturn in the wider housing market.

The appeal of renting has dramatically increased over the past year, and this will continue while prices continue to fall. If the sales market does not recover rapidly, and mortgage finance remains difficult to obtain, renting may become a more medium-term option – although tenants may demand the option of eventually moving into ownership.

This change comes as the appeal of investing in rented residential property appears to be increasing. With prices falling, yields look more attractive, particularly as base rates are falling towards zero. Indeed, building-to-let may become a reality – lower returns over a longer time period may be the only way to achieve profits in the development industry over the next few years. However, it is likely that this will come in the form of rent-to-buy, with tenants given the eventual option of purchase, perhaps at discounted rates.

There will be a greater need for rented housing as a result of increased number of repossessions. The social housing safety net is smaller than in the past and radical measures, such as ending security of tenure and allowing new build social stock to be sold at some point in the future, may be needed to increase its size and effectiveness

This increased demand for renting and possible increase in interest in residential investment could prove a boon for the Government and the Homes and Communities Agency. If institutions become involved in funding new-build rented housing, this could allow the rapid development of new communities along the lines described in previous sections, as higher build out rates will be possible. It could also help keep housing delivery numbers at a reasonable level, particularly if availability of mortgage finance and willingness to purchase remain low for a longer period than expected.

OPINION FORMER:

RT HON NICK RAYNSFORD MP

Former Housing Minister

What do you think needs to be done now to ensure homes still get built and the industry does not lose too much capacity?

The Homes and Communities Agency will need to target investment so that housing and regeneration schemes can proceed and maintain capacity. We need to explore options such as rent now, buy later to help those who currently cannot raise mortgage finance. Ultimately the restoration of a properly functioning housing market will depend on a resumption of mortgage lending with competitive interest rates.

Do you foresee an increased role for the public sector over the next few years? If so, why?

Yes, for the reasons set out above. The sector is needed to help support regeneration and development work and maintain capacity. Public sector investment should facilitate mixed developments that might otherwise not proceed. We should not return to the patterns of single tenure estates, which characterised much 20th century housing. Housing associations and local authorities should not be seeking to substitute for private developers. Nor should they be buying whole estates of privately developed homes for social housing.

Will the volume housebuilder become an endangered species?

No, but some may not survive the current downturn.

Do you think planning policy will become more or less strict over the next few years? Should we relax restrictions on greenfield development?

Some aspects of planning policy may be eased, but in other respects, particularly with regards to sustainability, strict planning requirements will need to be maintained. I can see no justification for relaxing restrictions on profligate greenfield developments.

***Rt Hon Nick Raynsford MP** has been the Member of Parliament for Greenwich and Woolwich since 1997 (Greenwich 1992-1997). He joined the Government in 1997 and held responsibility for housing, planning and construction as well as being Minister for London. He was Minister for Local and Regional Government in the Office of the Deputy Prime Minister from 2001 to 2005. He was made a privy councillor in the 2001 New Year's Honours. He left the Government in 2005.*

He is Chairman of the Strategic Forum for Construction and Deputy Chairman of the Construction Industry Council. He is an Honorary Fellow of the Institution of Civil Engineers, the Institute of Structural Engineers, the Royal Institute of British Architects, the Royal Town Planning Institute, the Royal Institute of Chartered Surveyors and the Chartered Institute of Housing. He is President of the Labour Housing Group, the National Home Improvement Council, Youthbuild and the Constructionarium, and a Vice President of the Town and Country Planning Association. He is Chairman of the NHBC Foundation, the Fire Protection Association Council, the Centre for Public Scrutiny and the London Open House Supporters at Large Group. He is Chairman of Rockpools and a non-executive Director of Hometrack.

OPINION FORMER:

GRANT SHAPPS MP

Shadow Housing Minister

Grant Shapps MP *was born and educated in Hertfordshire, attending Watford Grammar School. He studied Business in Manchester before returning home to found his own printing company, aged 21. It is a business that thrives to this day. He was elected MP for Welwyn Hatfield in 2005, and later that year became vice-chairman of Conservative Party Campaigning. He became shadow minister for housing in June 2007.*

He has researched and written various reports on homelessness, During 2008 he helped the modern day Conservative Party follow in the footsteps of Ian MacLeod – who founded homeless charity Crisis in 1967 – by joining David Cameron to launch the Conservative Homelessness Foundation at Crisis HQ in London. The new Foundation will work with the Conservative Party to develop policies aimed at eradicating rough sleeping and addressing the wider issue of homelessness.

What do you think the Government should be doing now to ensure that housing development does not grind to a halt?

The UK Government needs to understand that in order to ensure an effective supply of housing they must move away from their Whitehall-driven centralised targets. The added expense facing developers is stopping house building across the country. They are fighting communities that are having developments forced upon them without any infrastructure, incentive or support. The huge Homes and Communities Agency budget needs to be properly and imaginatively utilised in these difficult times to help house building continue and to maintain the skills base of the industry.

Should the density directive be rethought?

Yes. It leads to the development of housing entirely unsuited to families and may mean that many people are forced to live in cramped and unsuitable conditions. Density targets are not just a problem with new development. Garden-grabbing is also affecting people's quality of life and the character of communities across the country and needs to be stopped.

Is there a case for development on greenfield sites? Why are the eco-towns misguided, do you think?

We must continue to develop the many brownfield sites that are still available for development. Future house building needs to use local authorities and local democracy to shape where it goes and how it looks.

We are very supportive of genuinely environmentally friendly housing schemes built with the support of communities.

Problems with eco-towns started with the Government’s approach to selecting prospective eco-town sites. The Government, unsurprisingly, decided to rest on its trusted top-down Whitehall-driven approach. It selected locations seemingly by random (often in the middle of the countryside), away from the necessary infrastructure and services needed to support such development.

Since the sites were shortlisted, the whole enterprise has become a farce. Before Christmas a Government statement revealed that the plans were unsustainable. Only one of the twelve proposals remaining is actually considered environmentally friendly according to the Government’s own consultants. This followed work done by the Government’s own team of environmental inspectors, who had found that of the 15 proposed eco-town sites selected by ministers, nine had no real public transport element meaning that inhabitants would have to rely on cars.

We believe that there is a better greener alternative that would create hundreds-of-thousands of new homes by working in conjunction with local communities rather than against them. The secret lies in the Northstowe example. It is due to deliver 9,000 homes in a more sustainable way than many of the Government's chosen sites. The new residents will get a proper modern public transport system – a guided bus – and this new town will have sprung up years ahead of the bureaucratic Whitehall-dictated alternative. We will take this blueprint and will work with communities to deliver it across the country.

Why have you called for the Government’s housing targets to be scrapped?

Because they don’t work. They might have guaranteed a good press day for the Prime Minister and Housing Minister of the day but they have not led to any greater numbers of homes built during ten years of boom. In fact this Government has built less housing of every type in the last ten years than under the previous two conservative administrations. The arbitrary central targets don’t work because they impose top down targets on areas without involving and working with local communities. The most recent housing minister seems to have acknowledged this by U-turning on the targets and calling them ambitions!

How can we ensure more family housing is available?

Scrapping density targets and allowing communities to build the homes that they need rather than imposing targets on them.

RETHINKING POLICY

Severe challenges face the British housing market. Throughout *The Future of Residential Development*, we have shown how the house building industry is being devastated by the current downturn and made some predictions as to how it will emerge from the current crisis.

We have pointed to the still growing demand for homes, especially as so much recent development appears not to have provided the sort of properties that people want and need. We have demonstrated how many existing areas are better exemplars of sustainable communities than many new schemes.

We have predicted that people's attitudes to homeownership may change over the next few years. Renting may become a more acceptable medium-term choice. However, if we are to provide for likely demand in this area, incentives may be needed to develop rental accommodation and to provide flexible schemes that allow tenants to move into homeownership in the future.

This final section of The Future of Residential Development examines how Government policy can adapt to this new landscape. Its main focus is planning policy, examining how this can be changed to allow more acceptable, yet sustainable, development – and facilitate the long-term investment by either the private or public sector in attractive, balanced new communities.

Many popular Georgian and Victorian parts of Britain are built at the density specified in recent planning guidance.

The density problem

Many commentators have blamed the over provision of small flats and the general lack of choice and quality in the market on Planning Policy Guidance 3 (PPG3) and Planning Policy Statement 3 (PPS3), two successive documents on planning for housing development.

A closer read of both policies reveals that PPG3 only specifies a net density of between 30 and 50 dwellings per hectare; while PPS3, which replaced it in November 2006, specifies just 30, adding that it expects a range of densities across developments.

This density range is not particularly high. Many popular Georgian and Victorian parts of Britain are built at this density. As Sir Richard MacCormac has demonstrated, it is perfectly possible to build attractive, leafy family housing at 50 dwellings per hectare. At 30, even more spacious living is possible, as long as the site is efficiently developed and 'space left over after planning' is minimised.

It is obviously unfair to blame schemes that have produced densities in the hundreds per hectare on a policy that calls for them to be at a fraction of this level. Planning authorities have clearly allowed densities higher than those specified in these planning documents, without reference to the density of the local setting. But the problem does not lie solely with councils – it lies with the system as well and a more general shortage of development land.

The number of units built on sites had to be maximised to justify the prices paid for land during competitive bidding. This increased over time as debt became more available and land values increased. Developers felt forced to reapply for planning consent for ever higher densities to ensure their profit margins remained intact. Many felt sure that the buy-to-let boom would guarantee a sale.

Meanwhile, councils were keen to encourage flagship developments and city living, and, until recently, were not minded to intervene. With no minimum size restrictions, there was no national policy to stop them or the developers in question.

The public sector is more than aware of the need for a wider variety of housing types. Policy interventions are already being explored that are likely to prove highly controversial among developers. A more prescriptive approach to planning is anticipated with an increasing demand for a mix of densities. There are even suggestions that minimum unit size standards will be imposed. The London Mayor is considering this and the Homes and Communities Agency (HCA) has already introduced guidelines for housing schemes it is involved in.

Given the oversupply of very small units, the industry might be best advised to introduce voluntary minimum space standards as best practice. In the absence of an agreement or any improvement, more binding regulations may be introduced.

There is, however, one particular problem with the density target. It has usually been applied at the scheme rather than neighbourhood level. Consequently there are many examples of developments at very high density within low density contexts, particularly on the edge of city centres. The directive needs to be applied at a wider level to ensure that homes are built at a moderately high density at a more macro scale, with fewer gaps in the urban fabric.

As it stands, the density target should help to provide houses that make efficient use of a site and minimise 'space left over after planning'. As long as it is applied across a large enough area and with sufficient flexibility, it should help develop the sorts of schemes that mirror our most successful and desirable neighbourhoods.

It is clear that the problem has roots elsewhere – most notably in the restriction of greenfield development and the inflexible focus on the reuse of brownfield land. Councils became overly keen to maximise the numbers of units delivered on such sites, which allowed them to fulfil targets for both housing delivery and brownfield use. It was also politically convenient, allowing them to reduce the level of development in politically sensitive suburban and fringe rural locations.

The other related cause is the overly restrictive application of green belt policy. This has prevented cities from expanding outwards and has pushed land values upwards in urban locations, forcing developers to maximise density. But there are other implications of both policies, which we explore in the next section.

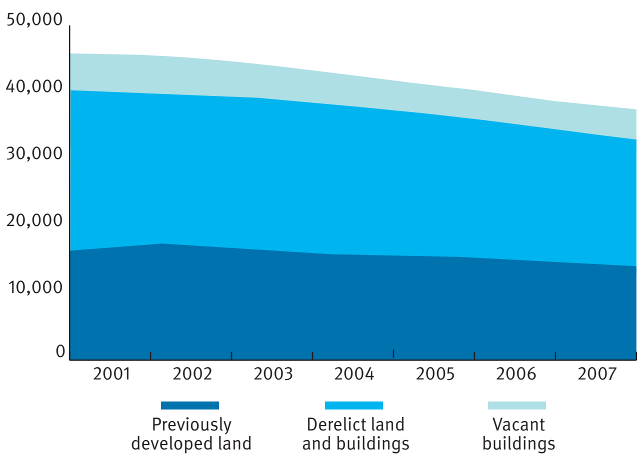
Brownfield first?

The presumption that brownfield development is good and greenfield is bad has been with us for over a decade. The idea that we should reuse derelict urban land, rather than build on open farmland is, to most people, an eminently sensibly idea.

When the policy was first introduced in the mid 1990s, there was an embarrassingly large amount of derelict land in urban areas. This wasteland was the end result of the deindustrialisation of the 1970s and 1980s. Most of the prime sites have now been developed. (In cases where development has been completely inappropriate, some may come back to the market).

The supply of brownfield land has been significantly depleted over the past decade, as Figure 11 demonstrates. Much of what is left is land that is difficult or expensive to recover and build out. This is particularly the case in higher demand areas in the south of England. The dramatic drop in land values will make these sites even more problematic. In many cases, the costs of reclaiming and preparing this land will exceed the value of the site itself, particularly if very low density housing is proposed.

Figure 11
Availability of brownfield land for residential development
hectares



Source: Communities and Local Government (CLG)

Of course, it remains entirely reasonable that the Government prioritises the use of previously developed sites, particularly those well-served by transport links and close to employment centres. Indeed, moderately high density development along the lines described earlier might still allow recovery costs to be covered in certain locations.

For non-prime sites, intervention will be required by the HCA if the Government wants to see development happen. This does not necessarily have to involve gap funding. These sites will be cheap to obtain over the next few years. The model described earlier of buying them, equipping them with infrastructure and selling to developers, using the difference in value to fund the works, could work in certain more marginal cases. For the most problematic sites, conversion to high quality green space could be a more worthwhile use.

Unfortunately, the largest supply of brownfield land is found in former industrial areas in the north, where demand is limited. The real pressure for development is in the south and east of England, where the supply of brownfield land is already smaller and insufficient to provide for future needs. It is clear that, unless more greenfield land is released, prices will become more unaffordable in the longer term. Densities in these urban locations will be forced to even more unacceptable levels. Over time, this will become a problem in the north and Midlands as well as the high pressure areas in the south-east.

The green belt is a much older policy, dating back to a different planning era. Our largest conurbations, such as London and Birmingham as well as smaller historic cities such as Oxford and Cambridge, were to be prevented from growing and merging into surrounding areas. All future growth was to take place in a number of discrete, stand-alone new towns. The size of all these settlements, old and new, was regulated by a green belt of agriculture and leisure.

The green belt has clearly had successes in concentrating economic activity in city centres and preventing the excess of suburban sprawl that can be seen in countries such as the United States and Australia. It is also clear that, along with the brownfield first policy, it has helped to drive the regeneration of many provincial cities. There have clearly been mistakes, but it would be difficult to argue that the city centres of Birmingham, Manchester and Leeds are less attractive and prosperous places than ten years ago.

However, the growing call for the review of green belt policy around the country's most rapidly growing cities is not surprising given the availability of land and where demand is. Think tanks such as the Centre for Cities, the Social Market Foundation and Policy Exchange have been leading this argument. Most are claiming that the restriction of development land forces up prices and increases commuting times and congestion.

Changes to existing policy would allow for the development of a number of well-connected sustainable urban extensions along the lines suggested earlier in this report. Prices would not only be arguably more affordable but the number of people who are unable to find their ideal home near their place of work would be reduced. Environmental benefits such as reductions in car use would follow.

Unfortunately, the green belt has become sacrosanct. Media reaction demonstrates how politically charged this issue is. Several of our interviewees – among them politicians and planners – conceded that it was politically impossible to significantly reform the policy. The backlash from the electorate and media at both a local and national level would be extreme.

It is not difficult to find examples of how an overly zealous application of green belt policy has negative consequences for both town and country. One city that is particularly suffering from a carefully guarded and tightly drawn green belt is Oxford. It has a long history of restricting expansion and effectively transferring its requirement for new housing to the smaller settlements of Abingdon, Witney, Banbury and Bicester. Partly as a result of the restriction of development in the city, its house prices are now among the highest outside London.

Sadly, in these smaller settlements, amenities have not grown in tandem with population and housing growth. Transport links to Oxford city centre are poor. Neither Witney nor Abingdon have rail stations. Traffic problems in the city have intensified and it is now recognised as having one of the worst congestion problems in the country.

In many other European countries, Oxford would have been permitted to expand through the provision of new, relatively dense suburbs on the city boundaries. New tram or railway networks would have been put in place. Shops, schools and hospitals would have been built. The land would have been sold for development on the basis of a restrictive master plan that developers could not change through planning applications. The city would have extended outwards in a sustainable way, effectively through new versions of the railway suburbs described earlier in this report. Fewer people would feel the need to commute from distant towns and villages by car.

In contrast, Oxford's rival to the east has adopted many of the characteristics that we see in the best examples of European urban planning, The new settlement at Northstowe in Cambridgeshire is just one strand to Cambridgeshire Horizons. This development plan drawn up by the City of Cambridge and South Cambridgeshire Council will help create new, relative dense suburbs on its city boundaries.

There are plans for 10,000 homes in a new urban quarter to the east of the city, as well as 3,000 new homes in the north-west and a further 3,000 to the south (around the village of Trumpington). A further 900 homes are planned for the northern fringe at Arbury Camp. These new settlements will be characterised by open spaces, pedestrian paths, cycle routes and new public transport services, as laid down in the

Richard Harvey - The Courtyard Terrace (© PRP Architects)

Quality Charter for Growth agreed for the area. A new guided bus way along the A14 to St Ives will help reduce congestion along this route.

The Cambridgeshire plans are not perfect. Public transport provisions in new settlements in many European countries would be provided at a much higher level with tram lines or metro routes. But it remains an example of the sort of development we should be pursuing. The city could provide a paradigm for future growth in the UK – as long as we are willing to challenge, in the right cases, the collar of the green belt.

Urban extensions, not new settlements

In 2007, the Government announced the intention to build ten exemplar eco-towns around the country, inviting bids from developers. The fifteen shortlisted sites were announced in April 2008 and the proposals have since been subject to intense scrutiny. The panel chosen to examine them argued that all but one failed to meet environmentally sustainable criteria. Most were identified as too distant from employment centres and had poor transport links. They would almost certainly increase congestion and car use. Most of the industry experts we interviewed agreed. At the time of writing The Future of Residential Development, this Government programme had an uncertain future.

One of the great contradictions of the eco-town programme is that the models it claimed to be inspired by – Hammarby Sjöstad in Stockholm, or the expansion of Freiburg in Germany – were urban extensions rather than discrete new settlements. Recent research by PRP Architects, Urbed and Design for Homes has demonstrated that best practice from Europe fits the former category. In every case new homes have been built where there is existing access to transport infrastructure, employment and the facilities of existing conurbations. It is now increasingly accepted that, in cities such as Cambridge, the Government should be focusing on sustainable urban extensions along these models.

In industrial cities such as Birmingham, where housing demand remains high but there is still a large number of developable brownfield sites (such as the redundant Longbridge plant), regeneration remains a distinct possibility. New, sustainable urban villages or communities could be developed.

Many such sites – both greenfield and brownfield – were not eligible to become eco-towns because of the somewhat dogmatic insistence that these towns must be stand-alone settlements. It seems what is needed are new versions of the Victorian railway suburbs described earlier in this report.

Given that the green belt remains sacrosanct in many locations around the country, there is an alternative: a more sustainable, denser version of the garden city model. These new settlements would be closer to existing cities than the eco-towns, and built along existing or new public transport routes. There are good examples of how such new settlements could work. Arguably, the Randstad in Holland, or parts of Germany, follow this model: a number of relatively dense, moderately sized settlements connected by train and tram lines. People commute quickly and easily from relatively rural environments. It may not be the ideal, but it may be politically achievable.

All these solutions require a more significant investment in infrastructure earlier in the development process, something that the British have historically found difficult. As mentioned earlier, current low land values do offer the HCA, as well as private sector investors such as the pension funds, an opportunity to invest in this area. The costs will be at least partly covered by the value uplift when the land market returns to strength. The increased enthusiasm for renting and build-to-let offers the possibility of returns in the shorter term, as well as allowing higher build out rates. This one-off opportunity should not be missed.

Radical thinking

One of the most useful projects that planning and housing ministers could undertake would be to research the physical environment of Britain’s most successful districts, from Edinburgh New Town to Kensington, from Clifton to Jesmond, as well as selected Victorian suburbs. This research would ask what aspects of building or highway regulations or planning policy would prevent these extremely popular and desirable homes being built today.

One interviewee mentioned that Hammarby Sjöstad would be impossible to build in Britain because it contravenes several key tenets of planning and building regulations. This landmark urban extension in Stockholm is mentioned more than any other in the literature as an exemplar of new development.

It is clear that the road layout preferred by Highways engineers remains one of the main problems. The model of cul-de-sacs and distributor roads that has been so prominent since the 1970s needs to be totally revised. Not only is it a barrier to the efficient use of land: the spine roads are prone to congestion. They also prove a poor focus for the development: they are rarely home to shops and services and are problematic for pedestrians. This arrangement creates a large amount of unused ‘space left over after planning’ that is of little amenity use to anyone.

The best examples from Europe and our own traditions offer quite a contrast: narrow streets with lowered pavements that discourage speeding and favour pedestrians, together with housing layouts that maximise eyes-on-the-street (a proven factor in the safety of a neighbourhood). Space left over after planning is minimised. If there is a central spine, it contains shops and services and acts as a community centre, rather than merely an escape route for cars. Admittedly, the Department for Transport's Manual for Streets, released in 2007, makes this a more plausible approach, but several of our interviewees suggested that poor road layouts are still a feature of new developments.

There are examples of excellent developments around the UK, from Cambridge's award winning Accordia to Poundbury in Dorchester. Here developers and planners have worked together with skill and determination to find a route through regulations to deliver a high quality product matching that found in more traditional successful districts. These skills and this determination are rare commodities. When the easiest route is to deliver an average product that ticks the right boxes, we ought not to be surprised that this is what occurs most of the time.

One of the great contradictions of the eco-town programme is that the models it claimed to be inspired by were urban extensions rather than discrete new settlements.

It is notable that most European countries tend to involve local Government far more in the land acquisition and preparation process. It is not unusual for developers to be forced into joint ventures with Government. In some countries land is acquired by Government, prepared and equipped with infrastructure, and then sold on to developers. The uplift in value between existing and future uses is used to finance the process. In the Netherlands, many sites have been reclaimed from the sea or marsh and are therefore already in public hands.

This may begin to occur on a wider scale in the UK. A high percentage of the land supply over the next few years will come from the public sector, which may be added to if the Homes and Communities Agency takes advantage of low land prices to embark on an acquisition spree. This will offer opportunities for more control over design and layout, as has already been demonstrated on some sites owned by the agency.

This process need not be confined to the public sector. Any investor with long-term horizons – whether a pension fund, a philanthropist or an enlightened landowner – will be in a position to drive this process. There will be benefits not just from land returns but from the development of a range of dwellings for rent or some form of ownership, perhaps in partnership with councils, developers or housebuilders.

The new Community Infrastructure Levy (CIL) is designed to finance new infrastructure. It is a simple enough concept: the infrastructure required for an urban extension, say, is audited and costed. This is then divided by the number of houses or commercial premises that will be built and a figure per residential unit or commercial floor space is obtained. Developers then pay this according to how much of the overall scheme they are building. This mechanism was designed in a climate of high land values and house prices. With these both declining rapidly, CIL may prove to be completely unworkable. With many schemes looking in serious financial trouble, any additional costs will further reduce the likelihood of any movement.

In many cases, CIL may with other regulations force land values below zero (or at least to a point where landowners are not prepared to sell). Indeed, if development becomes genuinely impossible within current models and the housing crisis becomes a top priority, then the Government may find itself reaching for more draconian measures, such as some form of compulsory land purchase or land value taxation. This sort of intervention may seem unlikely, but the nationalisation of banks would have seemed a complete fantasy a year ago. Consequently, landowners as a group need to remain proactive in bringing land forward, perhaps considering the new models discussed above.

British housebuilders have historically competed to obtain land and planning permissions that maximise value; usually, the product itself has been secondary. (In the right location, anything will sell.) The idea that someone could buy a site and apply for successive planning consents of higher densities, that produce more value is anathema in many other countries.

It is clear that the planning system needs to become a process that simultaneously gives more certainty to the developer while enforcing stricter design and build standards. More widespread use of master plan or zoning documents that cannot be altered once agreed may go some way to achieving this.

In the near future at least, the indications are that housebuilders will not have a great deal of interest in urban regeneration schemes. Large scale urban extensions may also prove too long-term and strategic. Their focus is likely to be on medium sized suburban and rural-fringe sites. Consequently, the Government may need to find new partners for large scale housing delivery. If the private sector does push forward urban extensions, it may well be that new types of developer emerge as a result of the application of long-term investment models.

Nimbyism, councils and land supply

Nimbyism (or Not In My Back Yard) is sometimes portrayed as being akin to a deep psychological disorder. It is prominent in England, where housing pressure is most acute. In many instances it is a perfectly logical reaction to development. New homes, particularly in rural areas, often reduce the value of existing homes.

Comprehensive infrastructure is rarely provided in the British tradition. New homes simply place additional burdens on road and rail, particularly if they are some way from centres of employment (as in the Oxford example). If new residents are working in distant locations, they are also unlikely to help to support community facilities such as shops or post offices, but will still compete for services such as education and health. There is also the widespread dislike of the aesthetics of new development, which is felt to lack the sense of place of older buildings.

England is Europe's most developed area. As a Town and Country Planning Association (TCPA) report[9] explains:

> "*No other European country has the same concentration of development. The Netherlands and the Rhine-Ruhr corridor are similar in density but their scales are more related to the three south-eastern regions of England. Countries like Germany, France and Italy, which are of a similar scale, do not have the same pattern of continuous overlapping metropolitan areas and emergent super-cities. Their city-regions are more discrete.*"

[9] *Town and Country Planning Association – Connecting England (2005)*

England does have some very beautiful countryside. Many so-called nimbys may be driven by this rather than the protection of their house prices. Many other densely populated areas of Europe, such as the Netherlands, do not have same the degree of variation in topography and the same extent of rural vernacular architecture, which may partly explain the lower level of opposition to development.

Part of the problem, though, is that local democracy takes account of the views of those who own homes in a particular area, while paying no attention to those who are excluded from ownership. There is clearly a need to take action to counteract the anti-development instincts of many homeowners. Clearly the image of new housing needs to be improved. More new developments need to have a sense of place that refers to the local vernacular as well as better overall design qualities. Space left over after planning that contributes so much to a sense of sprawl needs to be reduced.

What is needed most is new infrastructure, especially transport links. If residents were promised a more frequent railway service, a new tram line, more hospital capacity, a new school, would attitudes to development change?

Ultimately, financial incentives are needed if existing residents are to accept new development. Councils and their voters have to deal with all the disadvantages of growth while gaining none of the advantages. The increased revenues from council tax are redistributed by central Government across the country. There is some truth to the view that, if councils were given access to the increased revenue streams of a larger population, then they would be more willing to accept housing growth.

The local electorate, in turn, could envisage the benefits of accepting new homes, whether in the form of a lower tax burden or higher expenditure. It might even persuade existing homeowners to campaign for more suitable, well designed new housing, rather than voting against any development at all.

The conurbations and their hinterlands

Across the north, in parts of the Midlands and in pockets throughout London, regeneration, rather than the need for urban extension, remains the issue. In many of the core cities, part of the problem is a lack of high quality, desirable communities and housing. Consequently, many more affluent people (even in more prosperous cities such as Leeds) choose to live in the suburban fringe or in rural areas or market towns.

There are exceptions. These include established and desirable residential areas in inner suburbs outside London, such as Edgbaston (Birmingham), Jesmond (Newcastle) and Didsbury (Manchester). There are also areas of London that have spontaneously regenerated over the past ten years: parts of Hackney or Southwark, for example.

There needs to be more understanding of the gentrification process and why certain suburbs have remained attractive, while other parts of a conurbation continue to decline. These areas are extremely important. They could act as catalysts for a wider renaissance in these cities, as well as providing a model for the sort of new developments and environments that might entice people back to urban areas. The regeneration model of the past few years – mixed-use with high numbers of small flats – has not performed this function. Building the mix of dwelling types found in existing successful areas is likely to be a better route to producing a genuine urban (or rather inner suburban) renaissance.

If residents were promised a more frequent railway service, a new tramline, more hospital capacity, a new school would attitudes to development change?

There is also anecdotal evidence that many such areas (particularly those outside London) are actually beginning to suffer as a result of the continuing exodus to rural areas. This is perhaps because of a historic tendency for policy to concentrate on city centres and treat all suburbs as a homogeneous mass. There is remarkably little understanding of the dynamics affecting the housing markets of different parts of our main provincial conurbations. It is obvious that the range, quality and setting of homes in a city will have a big effect on its economic success, not least through its attractiveness to mobile workers. Perhaps there is a need for greater ambition in the range and type of housing product provided. Lifestyle and environment offered can then begin to compete with that available in more distant locations.

There is an additional problem likely to emerge during the downturn. In the north, in particular, there are large numbers of poor quality terraced homes built during the 19th century. They were built to house workers from industries such as mining, steelworks and shipping. This is one of the reasons for the poor image of this type of accommodation above the Trent. Some of these areas were deemed to be failing and awarded Pathfinder status in the 1990s and have subsequently seen a revival in demand. This may prove to be illusory, however. Booming house prices attracted buy-to-let investors and desperate first-time buyers to these areas. With the amateur investment market in trouble and prices falling, they may become low demand areas afflicted by market failure once again. Policy makers may be forced to choose between managed decline and wholesale reconstruction and rebuilding.

City leadership and the planning profession

One of the clearest themes to come out of our interviews for The Future of Residential Development was that the planning profession is woefully underfunded and understaffed. The urbanist profession on the continent may appear to be equivalent but has a much higher status than that of British town planners. Indeed the difference in ambition is summed up by the different scales and types of settlement that each name suggests. Town planning is regrettably not a profession that many ambitious young people are drawn to. As one interviewee noted: "...the opportunity for creativity is hidden under mundane municipality."

There is a danger that the current decline in applications could lead to substantial job cuts in planning departments throughout the country – as well as a freeze on recruiting graduates. This must be resisted. It could lead to even greater staffing problems in the future.

The importance of visionary and dedicated planners cannot be underestimated. They are a feature of many areas that are developing along attractive and sustainable lines, such as South Cambridgeshire. Leadership from elsewhere in the council is important. Increased devolution and power at local levels will help drive the emergence of such figures, but the process needs to continue. The success of any other reforms as recommended in this report is partly dependent on it.

There is likely to be more pressure to expand our most successful cities outwards in a sustainable way.

Politics, house prices and owner-occupation

One of the problems at the root of the current housing and development industry crisis is the public and political desire for rising house prices. It produces consumer confidence. It stimulates the remainder of the economy, while creating a feel good factor for 10 Downing Street. The myth that extremes of house price inflation are desirable should be demolished – moderate growth is ultimately more sustainable and beneficial. Likewise, there needs to be the acceptance that significant price increases will be followed, ultimately, by significant falls.

More stable property prices should be the general aim, perhaps through the encouragement of more prudent lending policies or the inclusion of house prices, rather than mortgage costs, in official measures of inflation.

As George Soros[10] noted in a recent article:

> *"The trend consists of an increased willingness to lend and a rise in prices. The misconception is that the value of the real estate is independent of the willingness to lend. That misconception encourages bankers to become more lax in their lending practices as prices rise and defaults on mortgage payments diminish. That is how real estate bubbles, including the recent housing bubble, are born. It is remarkable how the misconception continues to recur in various guises in spite of a long history of real estate bubbles bursting."*

Of course, ensuring greater stability will also require an increased level of supply, as the Government has long insisted. But, policy makers need to look beyond homeownership or at least see it as an ultimate rather than proximate goal for most people. It remains an excellent long-term investment but one that seems to be highly volatile in the shorter term.

Incentivising the development of homes for rent will have more chance of substantially increasing housing supply, at least over the next few years. Advocating this does not mean denying homeownership to those who desire it. It means facilitating real and meaningful additions to the housing stock, while providing accommodation to those who do not yet feel ready to buy.

[10] *Soros, George – The Crisis and What to do about it – New York Review of Books, Dec 4 2008*

Each housing bubble is in part created by the perception among younger buyers that they must get on the ladder at any cost or the goal of owner-occupation will be forever lost. In countries where homeownership is at lower levels, such as Germany, cycles of house price inflation and deflation are less pronounced or even absent. Access to the market is also governed by much more cautious and conservative lending practices. This may provide a lesson for the UK mortgage and housing sector.

A switch in policy focus from the promotion of homeownership to a more nuanced approach is needed. Recent events have proved that it is irresponsible and socially damaging to encourage people into homeownership at any cost. It is no longer a risk-free option. A wider range of home types offered on different tenures is arguably the best option moving forward.

Shared equity has been the main alternative tenure for the past few years. Its disadvantages are now more apparent. It is likely that it will remain unpopular while prices continue to fall. If the Government wants the sector to expand when the market recovers, it needs to bear in mind that:

- Lenders need to be convinced that they have more security in such loans than in conventional house purchase, as the housing association provides far greater guarantees.
- Shared equity is less flexible than other forms of tenure. It seems that it is very difficult for people to move out of it, whether they are looking to move to full ownership or relocate for employment or family reasons.
- Despite being labelled low-cost homeownership, shared equity can actually prove more expensive than either owner-occupation or open market renting, particularly as holders are committed to paying rent at a fixed level until they move or staircase out.

The recent growth in renting demonstrates that, given the right conditions, people are happy to delay homeownership. The industry and Government should use this trend to ensure that build rates are increased and that long-term interests are able to take a role. They can profit from a long-term income stream that has become more valuable as prices drop and interest rates head towards zero. This would be provided by a more strategic approach to developing the urban extensions and new city communities that Britain needs.

Conclusion

There is no historical precedent for the conditions that currently exist. House prices had never risen so quickly or for as long as in the ten years until 2007. They have never fallen as quickly as they have over the past year. The adjustment will be prolonged and painful. Repossessions are increasing against the background of a post-war low in social housing stock.

Whether for those looking to buy or companies wanting to build, finance has become almost impossible to obtain. Developers, also wary of low sales rates, have become unable or unwilling to construct homes. Yet the gap between household and housing numbers continues to grow.

The fact that the financial system and several banks came close to collapse and had to be rescued by the Government has opened the door for a greater role for the public sector in many areas, including land acquisition and development. This has been reinforced by the perceived need for Government action globally to avoid a worldwide depression.

Clearly, the residential development industry has entered a period of intense change. The public sector will take a more proactive role in development, at least for the next year or so, but will be looking for collaboration with the private sector. Low land values may require and enable it to invest in infrastructure and site preparation.

New business models need to be employed, if profit is to be realised. New organisations will become involved in building homes and communities, such as pension funds and contractors, and a more long-term view on returns will be necessary. Renting has become more popular and will remain so in the medium-term. It offers new opportunities for income streams.

There is likely to be more pressure to expand our most successful cities outwards in a sustainable way, while continuing to regenerate our industrial areas. Some housebuilders will adapt to the new climate — others will retreat to more secure, suburban, family-orientated schemes.

Policy frameworks and business practices that have been commonplace for the past decade have not provided the quality and quantity of homes required. The current crisis offers an opportunity for both public and private sectors to build a new consensus that caters for the housing needs of the country.

Business as usual is no longer an option.

OPINION FORMER:

PROFESSOR SIR PETER HALL

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Professor Sir Peter Hall *is Professor of Planning and Regeneration at the Bartlett School of Architecture and Planning, University College London and President of the Town and Country Planning Association. From 1991-94 he was Special Adviser on Strategic Planning to the Secretary of State for the Environment, with special reference to issues of London and South East regional planning including Thames Gateway and the Channel Tunnel Rail Link. In 1998-99 he was a member of the Deputy Prime Minister's Urban Task Force. From 2004 to 2008 he was Chair of ReBlackpool, the Blackpool Urban Regeneration Company. He is author, co-author or editor of over 35 books on urban and regional planning and related topics – most recently, London Voices London Lives, published in 2007. He received the Gold Medal of the Royal Town Planning Institute in 2003, the Balzan International Prize in 2005 and the Sir Patrick Abercrombie Prize of the International Union of Architects in 2008.*

How do you think the density directive and the brownfield first policy need to change to take account of how people actually want to live?

There is no real need to drive net residential densities up much above 40 dwellings per hectare because of the argument put forward by Raymond Unwin (one of the architects behind Letchworth Garden City) in 1912. That is, the overall density gain rapidly erodes because of the need to accommodate other uses such as roads, schools, clinics and shops, which are population related.

The one exception is that if people want really close access to transport, shops and so on and don't need gardens, then you can have pyramids of higher density around transport hubs. This was the basis of the Urban Task Force (UTF) diagram that everyone cites, but it was all in the *Generalplan* for Stockholm (1952) as applied in Vällingby, Farsta, etc.

On brownfield, there is no real case for a target of more than 60% of development as per the original UTF report. We don't need that land. Of course, you should use rural brownfield wherever available, but it may need new transport links (for example, those airfields north of Cambridge: Oakington, Wyton, Alconbury).

What should the Government be doing now to get more homes built?

Find a new development and financing mechanism! The paradox is surely that the underlying market fundamentals haven't changed that much: what has gone wrong is again the financing mechanisms that have seized up. The Government clearly hopes its initiatives will unlock this.

Do you feel that we should be building new settlements or urban extensions to cater for housing need? If so, what form should they take?

I'm now convinced that urban extensions to medium sized towns on the Freiburg model are the best way, but with important exceptions where you have heavily constrained cities (Oxford and Cambridge) where satellites beyond the green belt, connected by excellent public transport and scenic bikeways, can be a good model (those airfields again!)

This really represents a reinterpretation of (Ebenezer) Howard's social city built on his inter-municipal railway, but they have to be within a firm sub-regional model. Simply inviting developers to propose isolated rural eco-towns cannot produce optimal results.

How important is transport to making new homes sustainable? Is there such a thing as sustainable suburbia?

Not merely important but vital, as the German examples show. The important thing is that public transport has to be (and has to appear to be) a better prospect than driving the car! However, we need a variety of approaches. Trams on the German, and now the French, model are excellent but costly. BRT (Bus Rapid Transport) is emerging as an attractive (and possibly cheaper) alternative in many parts of the world. It doesn't have to be guided; Ottawa, Bogotá, Quito and Brisbane are excellent examples of the unguided approach.

Which places around the world do you think offer the best examples of how to develop new homes and communities?

Freiburg (Germany), Stockholm (Sweden) and Amersfoort (Netherlands). They're either brownfield redevelopment or (in Freiburg and Amersfoort) urban extensions.

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