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WHAT'S BEHIND THE HOUSING CRISIS?



- 125,000 homes completed in England for 2014-15, but 320,000 homes needed annually to improve housing strains.
- Over the last 15 years, the number of housing benefit claims for private tenants increased by 120% and the bill for taxpayers rose from £2.9bn to £9.3bn.
- Huge geographical disparities in housebuilding across London. Planning approval for 3,000 starts in Tower Hamlets, but just 75 in Kingston last year.
- 'Pink Zones' and Housing Association reform among measures needed to tackle housing shortage.

1. THE CHRONIC HOUSING SHORTAGE

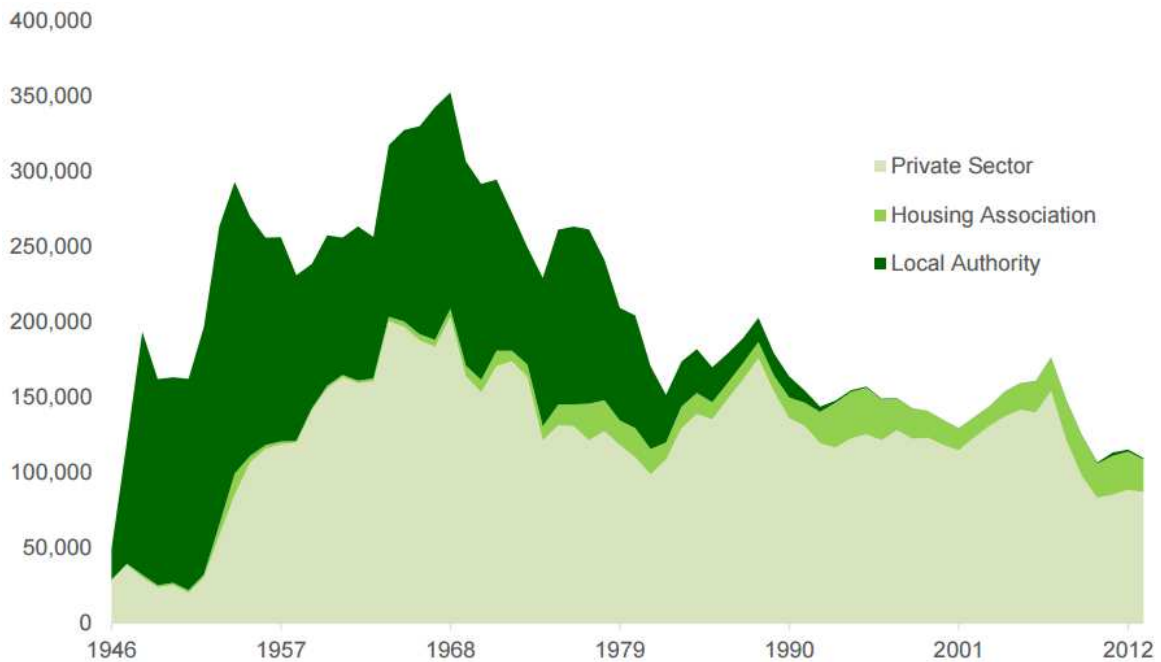
Successive Governments have presided over a fall in England's housebuilding programme, which has resulted in a chronic shortage of housing. Housing completions over the past few decades have declined dramatically, falling from a peak of around 350,000 per annum in 1968

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to just under 125,000 for the year 2014-15, according to the latest Department for Communities and Local Government (DCLG) figures.

Figure 1: Housing Completions in England [1946 – 2012]



Source: House of Commons Library

Increased demand for housing in England will require 245,000 to 250,000 completions a year from 2011 to 2031, according to the Town and Country Planning Association. This rate of building would merely satisfy future demands for housing. However, housebuilding since 2011 has not kept pace with this minimum requirement, with an estimated under-delivery of 400,000 homes from 2010/11 to 2013/14 – meaning that the building rate is less than half what is required.

If the Government sought to alleviate strains in the housing system, the number of annual completions would need to reach 320,000 homes a year, according to the Home Builders Federation. This level of building has only been achieved in four years since World War Two.

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2. WORRYING TRENDS IN HOUSING

Table 1: England Dwellings by type [2000 – 2014]

	Owner Occupied	Rented Privately or with a job or business	Rented from Private Registered Providers	Rented from Local Authorities	Other public sector dwellings	All Dwellings
2000	14,600	2,089	1,273	3,012	101	21,075
2001	14,735	2,133	1,424	2,812	103	21,207
2002	14,846	2,197	1,492	2,706	112	21,354
2003 ⁴	14,752	2,549	1,651	2,457	104	21,513
2004 ⁴	14,986	2,578	1,702	2,335	83	21,684
2005 ⁴	15,100	2,720	1,802	2,166	82	21,870
2006 ⁴	15,052	2,987	1,865	2,087	82	22,073
2007 ⁴	15,093	3,182	1,951	1,987	75	22,288
2008 ⁴	15,067	3,443	2,056	1,870	74	22,511
2009 ⁴	14,968	3,705	2,128	1,820	74	22,694
2010 ⁴	14,895	3,912	2,180	1,786	66	22,839
2011 ⁴	14,827	4,105	2,255	1,726	63	22,976
2012 ⁴ ^R	14,754	4,286	2,304	1,693	75	23,111
2013 ⁴ ^R	14,685	4,465	2,331	1,682	73	23,236
2014 ⁴ ^{R^P}	14,709	4,588	2,343	1,669	64	23,372

Source: *Department for Communities and Local Government*

The stock of Local Authority property has fallen from around 3 million to just under 1.7 million over the past 15 years. There has been a corresponding increase of nearly 1.1 million in housing from private registered providers (housing associations). This, however, fails to offset the loss of Local Authority properties, leading to the UK's social housing stock falling by around 300,000 over 15 years.

The fall in local authority properties is associated with Right to Buy sales and transfers of property to housing associations. The decrease in the overall stock of social housing is due to the number of housing association completions falling short of local authority properties being sold via Right to Buy. Completions of new housing association properties have been relatively modest, reaching nearly 24,000 in 2014, according to the [\(DCLG\)](#).

The failure to maintain social housing stock is partially responsible for an increase in housing waiting lists. From 1997 to 2011, an additional 800,000 applicants were on social housing waiting lists, taking the total up to 1.8m. The waiting list has since fallen to 1.36m, but this is mainly attributed to councils disallowing some applicants from applying for social housing.

Owner occupation has flat-lined in absolute terms, remaining at around 14.7m dwellings over the period. However, relative ownership levels have plunged, with a particular fall in ownership observed for the younger demographic. Office for National Statistics figures suggest 60% of 25-34 year olds owned their own home in 2001/02, compared to just over 40% currently. Over this period, average house prices increased from around £80,000 to nearly £200,000.



Figure 2: House Price Index Values, UK all dwellings from Jan 2004 to Sep 2015



Source: *Office for National Statistics*

The private rented sector has observed strong growth, increasing by 84% from 2000 to 2014. This trend has been accompanied by a dramatic increase in housing benefit claims. For the UK as a whole, the Department for Work and Pensions estimate that the number of private sector tenants claiming housing benefit has risen 120% from 771,000 to 1.7m from 2000 to 2014, suggesting the lack of social housing is leading to a marked increase in welfare payments. Over the same period, spending on housing benefit to private tenants has increased from £2.85bn to £9.32bn.

3. INCREASING DEMANDS FOR HOUSING

Population growth and the continuing fall in the average household size are set to be the key drivers of additional housing demand in the UK.

Migration is the most important variant in projections about growth of the number of UK households, according to the Migration Observatory. The Migration Observatory cites DCLG analysis from 2013, which assumes that net immigration accounts for nearly 40 per cent of the annual increase in households. Since 2013, net immigration has increased from 209,000 to 318,000, meaning that the impact of net immigration on the number of households is likely to be more pronounced than this figure suggests.

DCLG also estimates that the average household size will fall from 2.36 in 2012 to 2.21 in 2037, adding further demand pressure on the UK's housing stock. The fall in household size is being driven by increases in lone households, which are set to rise from 34% in 2008 to 41% in 2033.

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Part of this is accounted for by family breakdown, which is estimated to add 52,000 a year to UK housing demand.

There are additional localised demand factors on UK housing. For example, foreign investment is having a notable impact on London's prime housing market. Analysis set out by the Institute for Fiscal Studies highlights that 69% of new builds in prime London in the two years to June 2013 were bought by non-UK nationals. The effect of this is strongest on prices in prime London locations, but there are likely to be wider knock-on effects that put upward pressure on prices further down the housing market.

Nearly 1.6 million residents in the UK have second addresses located in the UK, with around 11% of these being categorised as holiday homes, according to the Census 2011. This compares to 28 million dwellings in the UK as a whole, suggesting that second home ownership is not a major component of housing demand in the country. However, in certain localities such as Cornwall – where it is estimated that 5% of properties are second homes – pressures will be observed on housing stock.

4. CONSTRAINTS ON SUPPLY

The Government has made progress on boosting housebuilding in England, increasing net annual additional dwellings by 25 per cent in the year 2014-15 for England. This provides evidence that the Government's simplification of the planning system in the National Policy Framework of 2012 is having some positive impact. However, the number of completions is still well below what is required to meet future annual demand.

There appear to remain issues with the UK's planning system. The Home Builders Federation has recently said that the planning system remains *"far too slow, bureaucratic and expensive."* There are also significant geographical disparities in housebuilding. In London, for example, 13 inner London boroughs gave planning permission for 11,970 new homes compared to just 8,000 of the 20 Outer London boroughs. The difference between certain London boroughs is particularly striking. For example, the London Borough of Tower Hamlets gave permission for 3,000 starts whereas Kingston only granted 75 last year.

Construction of housing association properties remain modest, with completions only reaching 22,030 in 2013 compared to a housing waiting list of nearly 1.7m in that year. This highlights the need for additional incentives to promote more investment from housing associations.

Reports of so-called 'land banking', whereby developers hold onto land after being granted planning permission, appear to have only a moderate impact on UK housing supply. The Office of Fair Trading in 2008 concluded that *"the evidence presented to the OFT suggests that homebuilders are not delaying building on permissioned land to an extent that would appreciably affect the rate of delivery of new homes."* After five years, the Local Government Association said that the number of homes that had been "land-banked" actually fell by 23%.



5. RECOMMENDATIONS

Introduce 'Pink Zones'

Annual house building completions in England reached 125,000 over the last year, lagging behind the 250,000 required to keep up with rising demand. The Government needs to promote a planning system that is lighter and more streamlined to keep up with these pressures. The Government should identify "Pink Zones" where a simplified planning regime could be implemented, allowing developers to bypass many regulations and boost building in these zones. Support for these zones needs to be mobilised from landowners, local authorities, residents, employers and builders.

(See CPS Pointmaker "[Pink Planning](#)").

Reforms to Housing Associations

The level of building by Housing Associations is currently very modest, reaching around 24,000 for the year 2014. The Government needs to promote a system that incentivises housing associations to invest in greater levels of housing stock. The Centre for Policy Studies will be examining ways of achieving this over the coming months.

Investigate Geographical Disparities

There are huge disparities in the level of housebuilding. For example, the London Borough of Tower Hamlets gave permissions for 3,000 starts whereas the London borough of Kingston only granted 75 last year. The Government should examine why these disparities exist, and produce a strategy to redress these imbalances.

Free up Public Assets for Building

Ministers should review whether it can increase its current target of releasing public land for up to 150,000 homes during this parliament. Public bodies such as the Ministry of Defence are large landowners and some of its assets could be utilised for greater house building across the country. In London, Transport for London owns 5,700 acres across more than 3,000 sites, of which over two thirds are in Zones 1 or 2 where there is huge demand for housing and commercial development.

Promote Business Use to Residential Use

The Government previously introduced temporary development rights, allowing offices to be converted into to new homes without the need for planning permission. These rights were set to expire in May 2016, and the Government must ensure that these development rights are made permanent. Ministers should also examine ways of ensuring that eased regulations to convert retail into residential are working effectively.



Boost Apprenticeships in Construction

It is estimated that only 12,000 apprenticeship starts were done in construction for 2014/15 – down 25% since 2010/11 – which compares to 23,000 in customer service. The apprenticeship programme has observed an excessive growth in service based apprentices, with little improvement in the non-service based sectors. The apprenticeship programme needs to boost apprenticeships in construction as well as other industries that require a skilled workforce. Furthermore, the Government must ensure that the new Apprenticeship Levy does not adversely affect construction sector training.

(See CPS Blog [“Time to Reform the Government’s Apprenticeship Programme”](#)).

Controlling Immigration Levels

The Government is unable to control many factors affecting the level of population in the UK, including the rate of births, life expectancy and levels of emigration. However, Ministers do have some control over the levels of immigration, which will be a key variant in future demands for housing. The Government could dampen future demand for housing by moving towards its target of reducing net migration to the tens of thousands.

6. MUST BE READ

- [Housing Out of Reach for extra 350,000 in England](#) – FT
- [Suburbs lag behind inner London boroughs in housebuilding drive](#) – Kasmira Jefford

7. MUST BE READ ON CAPX

- [Rent control policies are ineffective, unjust](#) – Adam Millsap
- [How to fix Britain’s broken housing market](#) – Thomas Aubrey

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Centre for Policy Studies

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