

Why is housing policy in such a mess?

A call for a more strategic approach

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for Family Building Society

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Housing policy often seems a failure – with targets unmet, standards inadequate and affordability worsening. The last few months have been particularly traumatic because of rapid changes in macro-economic conditions – from a low interest rate, slow growth environment to one where households face far higher costs and a potential recession – generating greater uncertainty for all.

It is inherent that macro-economic pressures will dominate government policy but equally if things are to improve housing policy must be far more strategic and more robust in the face of economic change. Why is that so difficult? Arguably both because policy makers work in silos and because of housing fundamentals.

Too many policy makers – with too many objectives

At the national level, the Department of Levelling Up, Housing and Communities concentrates on housing supply, while the Bank of England and the Treasury set interest rates and available funding based on wider macro-economic objectives. The 'mini budget' was unravelled but at the cost to housing of much higher mortgage rates and tighter budgets including capital for housing. Other Departments also have their own agendas which impact directly on the capacity to meet housing objectives – such as the Department of Work and Pensions and the Department of the Environment, Food and Rural Affairs.

Locally, authorities have to cope with tensions between insiders – those already well housed – and incomers needing somewhere to live. These make it difficult to plan for new homes where they're most wanted. Additionally, often not enough off-site infrastructure, provided by other private (e.g. bus services) and public (e.g. schools) organisations, is put in place to support the new development – making development even less popular.

Housing fundamentals – demand and supply

Housing demand adjusts far more quickly to changes than supply. New build, even in a good year, expands the total stock of housing by less than 1% – so if demand goes up, prices increase to ration the available supply. When demand declines it tends to show up in lower levels of transactions before prices fall. But developers, seeing these signs, tend to cut back investment relatively quickly – as is already happening now. That lost supply cannot easily be made up, so pressures are already there to generate higher prices when the economy improves.

Yet politically it is so much easier to concentrate policy on demand where the impact is felt almost immediately than on supply where changes may take decades to generate fundamental change. Similarly putting more emphasis on optimising how the existing stock is used is seen as being too politically difficult even though the policies in place tend to discourage adjustment.

Inconsistent and incoherent policies

This complexity makes joined up thinking really important. Instead, much housing policy is incoherent with each intervention appearing to stand alone. Currently, this seems even more prevalent than usual with proposed policy changes taking no account of their overall impacts.

One obvious example is the proposed Infrastructure Levy. As currently defined it will be a charge on the sales value of completed developments and will be locally set and spent on local infrastructure and new affordable homes. If the same amount of funds were to be raised as currently through planning obligations revenues, even more than now (maybe 70% plus) would be raised in high valued

areas of the South of England – leaving areas in Northern England with large numbers of brownfield sites unviable. So, while the levy potentially raises additional funding, it also exacerbates regional and social inequality – almost the opposite of levelling up. Moreover, the funds are going to be stretched to include securing bio-diversity and nutrient neutrality objectives and may ultimately leave less for new homes.

Another area of potential incoherence lies with the proposed changes to private rented sector regulation. The Rental Reform Policy Paper emphasises the promised removal of Section 21, giving tenants longer term security as well as ways to improve the standards landlords must provide. Yet very little is being proposed to improve enforcement of these standards or to ensure tenants in default can be evicted reasonably easily. Smaller landlords in particular, who are already selling up in response to recent tax changes, see only an even more difficult operational environment, leading to more landlords leaving the sector and further increases in rents.

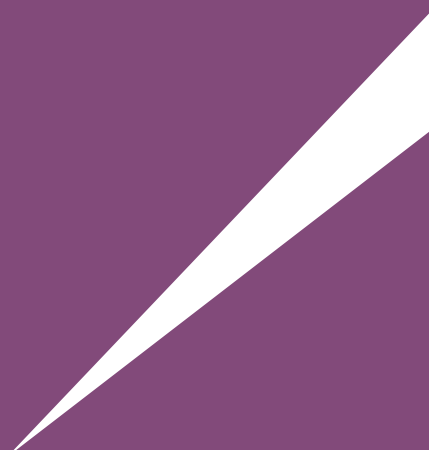
Home ownership and housebuilding

A fundamental objective of any Conservative government – particularly stressed by recent party leadership contenders – is to help people get ‘on the housing ladder’. Yet England, with 65%, homeownership has one of the lower rates of owner-occupation in Western Europe, despite introducing policies such as Help to Buy, and easier access to shared ownership and guaranteed mortgages to help new buyers. Worsening macro-economic conditions will make it even harder to produce a step change in owner-occupation.

Proposed changes to the National Planning Policy Framework in response to Conservative MPs concerns about nationally derived housing targets for each local authority suggest meeting needs is going to get even harder. The national target of 300,000 new homes is to be kept with proportions allocated to each local authority – but these are to be advisory only. Every authority would be free to set lower (or higher) targets based on local capacity and character. Given the general public perception that much new build is undesirable because it puts strain on local households and services this revised approach risks many authorities deciding on lower requirements in their local plans with no obvious way of ensuring that unmet needs can be met anywhere else. Other very significant changes programmed for the planning system will also take years to bed down. Given uncertainties both about the planning system and the economy, new supply is almost certainly going to fall. And if private housebuilding falls there will not be enough sales to generate the scale infrastructure levies needed to fund affordable housing, a scenario made worse by the likely cuts in government grants for housing associations who will not be able to plug the gap.

A way ahead?

Realism requires macro-economic concerns take precedence BUT to achieve housing objectives within this environment a more strategic and positive approach to housing policy is an absolutely necessity. This requires both cultural change in attitudes to new housing development and a common understanding between different parts of the government both national and local, the Bank of England, mortgage suppliers and housebuilders. Although this will be extremely difficult to achieve it must be attempted if housing is to get out of the current mess. Having set out the problems to be overcome, the next stage of our project will aim to set out a framework by which housing policies could become both more coherent and more acceptable. This will report soon after Easter.



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