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A National Housing Fund to Build the Homes We Need

Phillip Blond, Philip Callan & Edward Douglas

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About the Authors

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About ResPublica

The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

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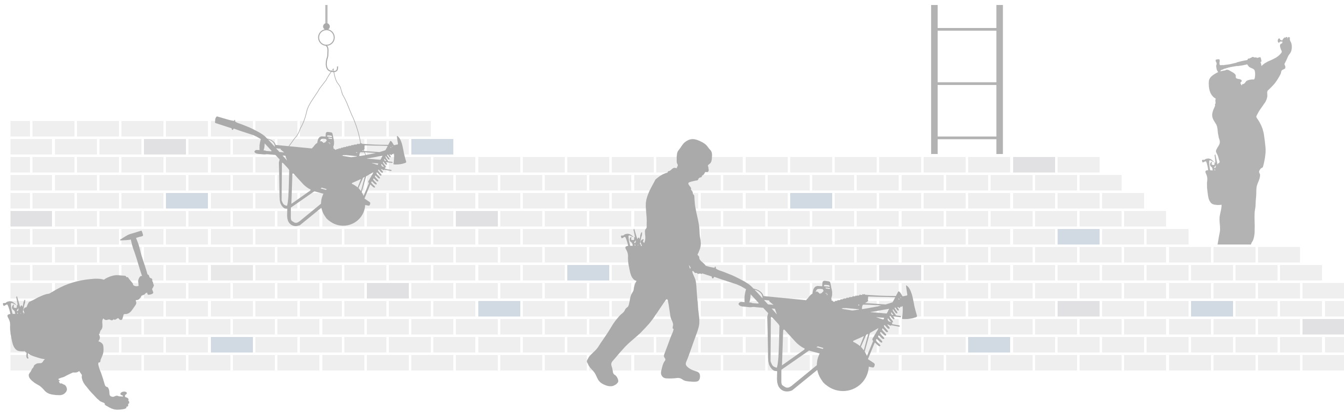
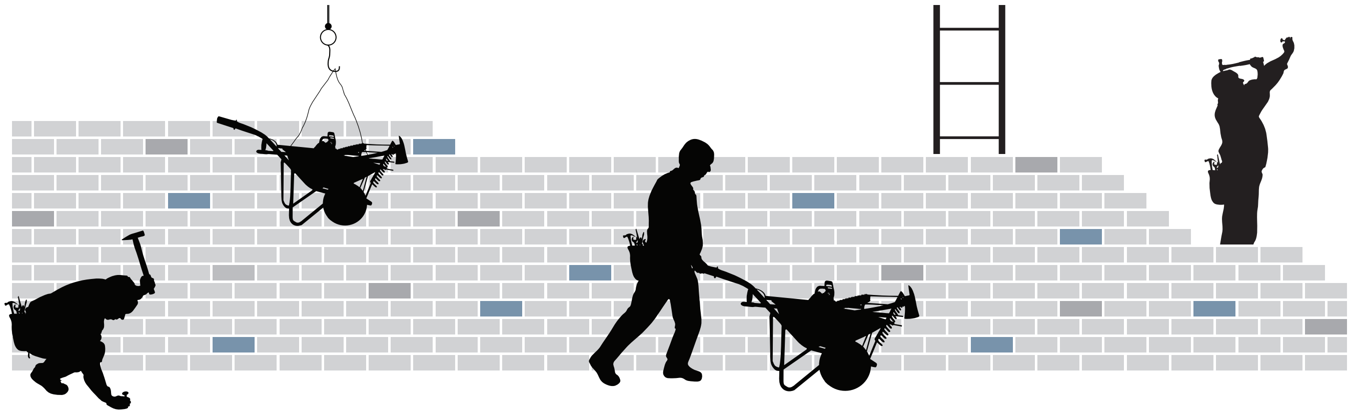




1. Introducing Our Proposal

"This report sets out our proposal for significantly boosting housing supply, by utilising government's ability to borrow at historically low rates and housing associations' expertise in letting and managing properties to achieve this goal."

Imagine if we could fix the housing market in England. This report sets out our proposal for significantly boosting housing supply, by utilising government's ability to borrow money at historically low rates and housing associations' expertise in letting and managing properties to achieve this goal.

Calling for £100 billion of investment over ten years, our proposal is for government to join housing associations in the creation of a National Housing Fund that will utilise government borrowing capacity through fully serviced loans to:

- Ensure a minimum of 40,000 more homes are built annually
- Boost public finances by £3.4 billion
- Create 180,000 new jobs in the construction sector
- Boost SME growth through certainty of purchase
- Create a financial instrument so that debt does not contribute to the deficit
- Support the wider construction industry through repeat investment.

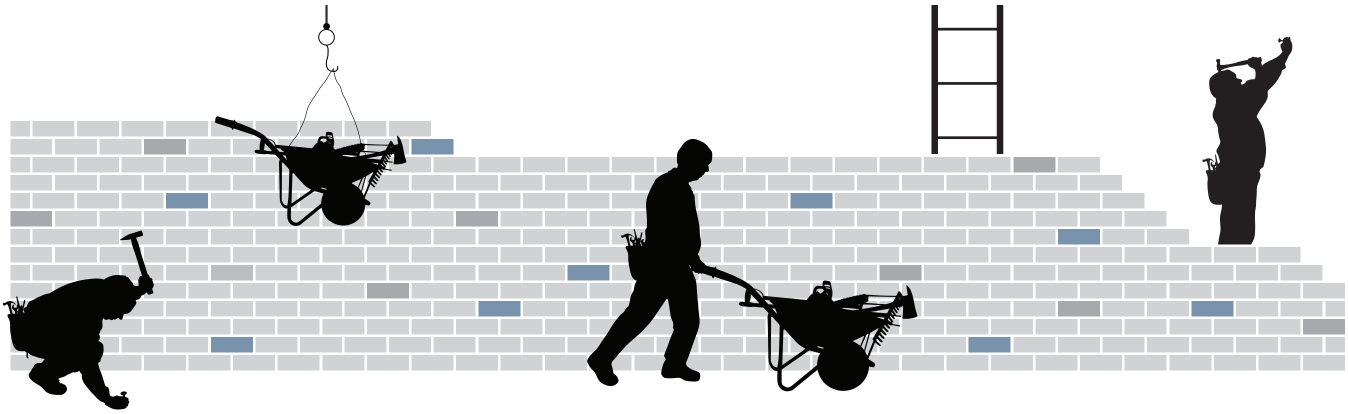
The report proceeds in four sections before offering a short conclusion:

Fixing a broken market:
Establishes the context in which our proposal is made.

Our solution – build homes for rent:
Introduces the National Housing Fund and its proposed structure.

Making it happen – creating and operating the Fund:
Addresses how the Fund will operate and the many benefits that will flow from its operation.

Addressing potential barriers:
Explores the potential barriers to the Fund's delivery.



2. Fixing a Broken Market

"The housing market is broken. Why?

Because we don't build enough homes."

The housing market is broken. Why? Because we don't build enough homes.

Four in five homes are built by the private sector, with developers only building at the rate at which they predict they can sell. Production mirrors economic sentiment; as a result, the number of new homes produced each year varies. As Figure 1 shows, over the last 35 years, production has averaged 150,000 homes against the Government's current target of 200,000 a year.[1]

With economic and political uncertainty, the level of housebuilding is now falling at the very time it needs to rise substantially. Developers are scaling back production to ensure they are not left with homes they cannot easily sell. Forecasts of the scale of the downturn vary but estimates suggest that around 80,000 fewer homes will be built between now and 2020 than was predicted 12 months ago.

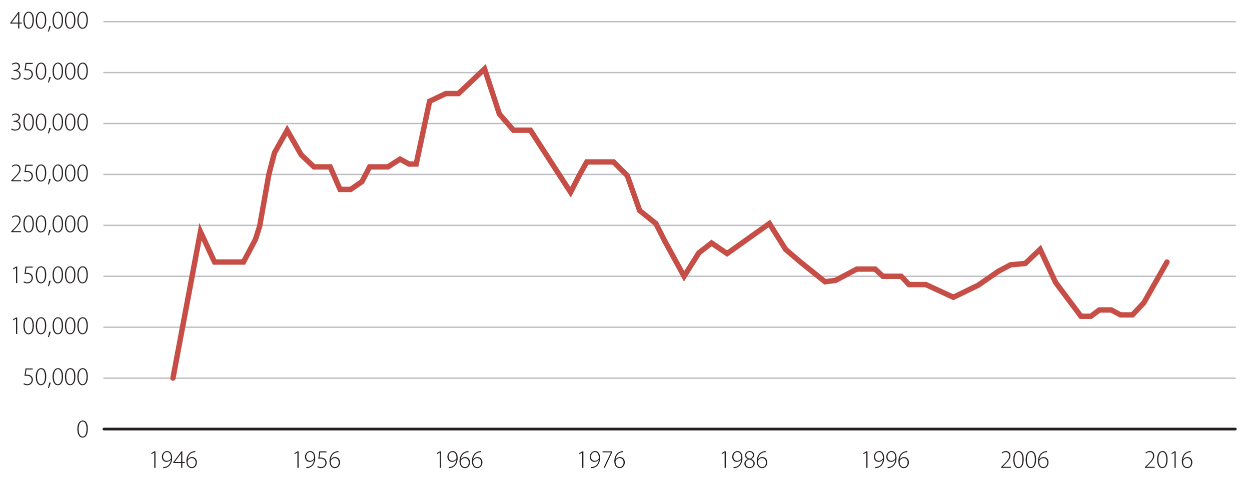
Every home that falls short of that 200,000 target pushes up demand and, ultimately, the cost of housing. Reports suggest that in London and the South East many households are spending 50% of their income on housing.[2] This is simply not sustainable.

The new government has been elected on a pledge to support housing associations and local authorities to build the homes we need:

> "We will never achieve the numbers of new houses we require without the active participation of social and municipal housing providers. We will work with them to improve their capability and capacity to develop more good homes, as well as providing them with significant low-cost capital funding. In doing so, we will build new fixed-term social houses, which will be sold privately after ten to fifteen years with an automatic Right to Buy for tenants, the proceeds of which will be recycled into further homes."
> *Conservative Party Manifesto, 2017*

There is a real opportunity for a cross-party consensus to drive this agenda in this parliament, with all the main parties committed to public investment in housebuilding:

Figure 1: House Building: Permanent Dwellings Started and Completed, by Tenure



Source: DCLG

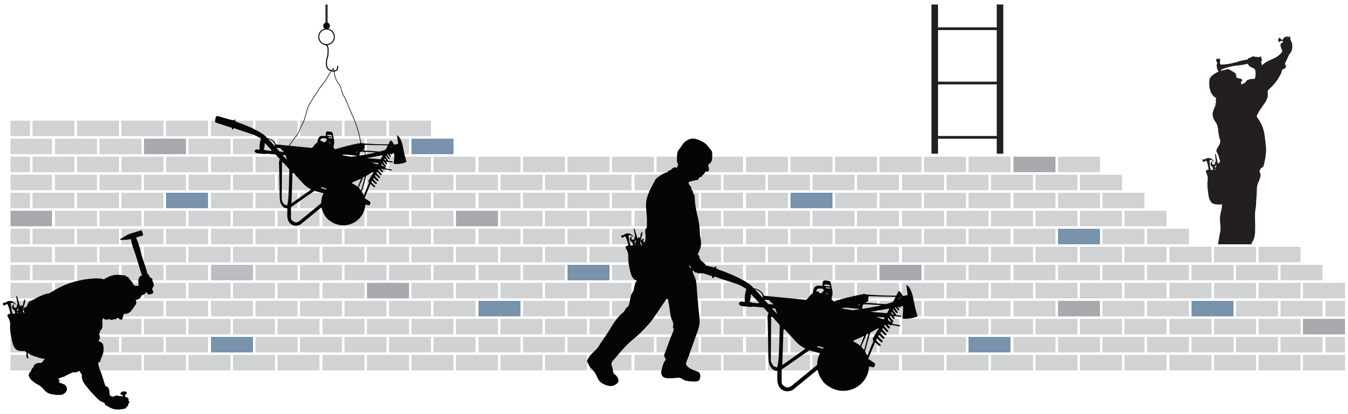
"It doesn't have to be like this. Labour will invest to build over a million new homes. By the end of the next Parliament we will be building at least 100,000 council and housing association homes a year for genuinely affordable rent or sale." *Labour Party Manifesto, 2017*

"We will … directly build homes to fill the gap left by the market, to reach our housebuilding target of 300,000 homes a year, through a government commissioning programme to build homes for sale and rent. We will ensure that half a million affordable, energy-efficient homes are built by the end of the parliament." *Liberal Democrat Party Manifesto, 2017*

How do we fix this broken market?

1 DCLG, Table 244, House building: permanent dwellings started and completed, by tenure

2 Nationally, nearly one in seven private renters spends over 50% of their income on housing costs – see Local Government Association, "Rental logjam as one in seven private renters spend half their income on rent: LGA analysis", 3 July 2017 [Online] https://www.local.gov.uk/about/news/rental-logjam-one-seven-private-renters-spend-half-their-income-rent-lga-analysis [Accessed 10 July 2017]



3. Our Solution – Build Homes for Rent

"Our proposal goes a long way towards bridging the gap in the housing market by enabling at least 40,000 additional new rented homes to be built each year for ten years."

Our proposal goes a long way towards bridging the gap in the housing market by enabling *at least* 40,000 *additional* new rented homes to be built each year for ten years. These homes will transform the housing market, providing attractive, well managed homes for rent on family-friendly five year tenancies. Their production will supplement, rather than compete with, the output of the main house builders.

Creating a National Housing Fund

A group of leading housing associations will create a 'National Housing Fund' (the Fund) and invite government to join. The associations will collectively hold 50% of the shares in the Fund with government holding the other 50%.

The associations will be responsible for letting and maintaining the properties, while government will provide funding through the raising of government bonds and on-lending these to the Fund.

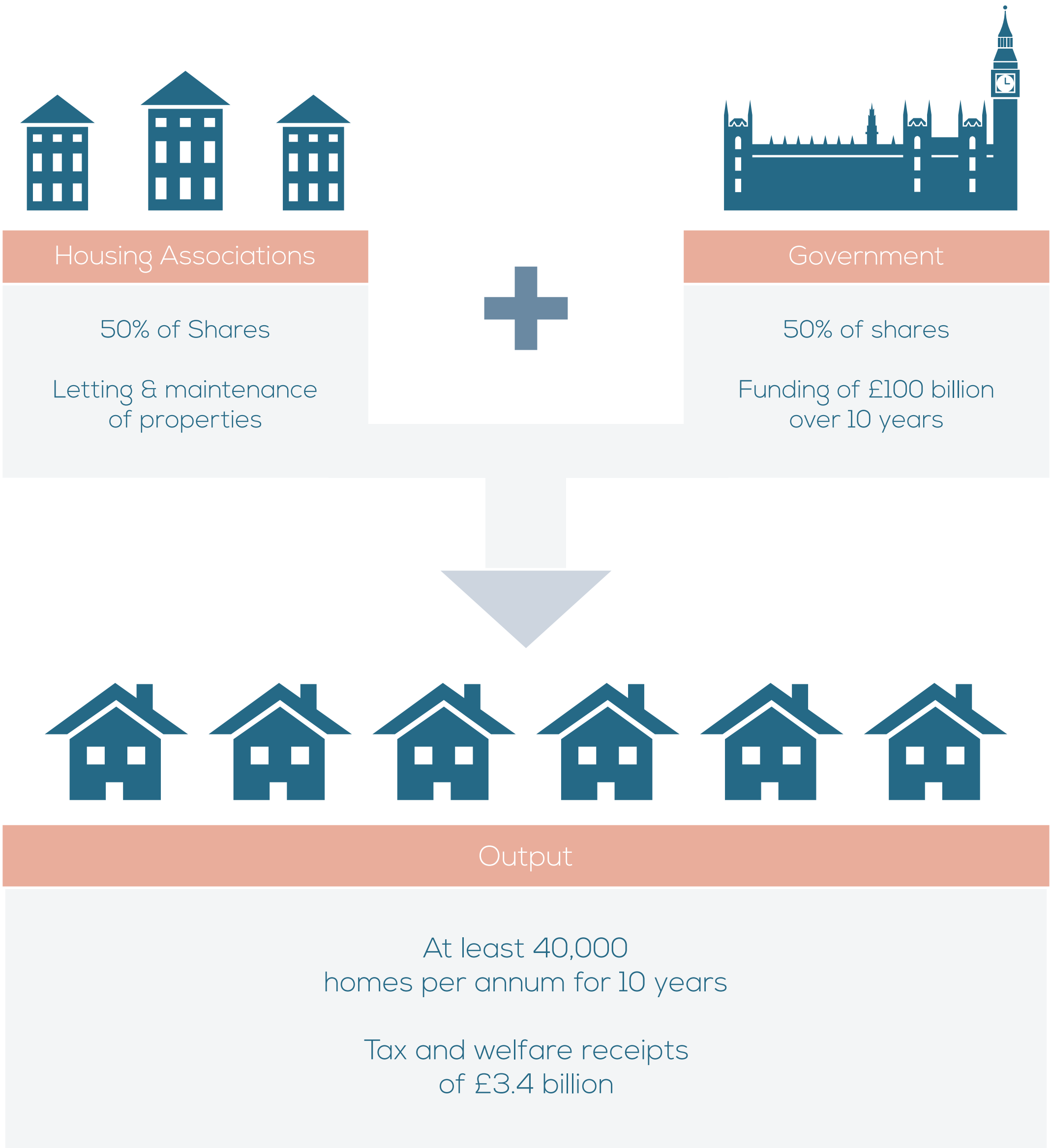
It will operate under a standard company structure with its own executive team and board. As the shareholders, government and the associations would oversee these appointments and the creation of the Fund's business plan.

Our proposal envisages government borrowing and on-lending £100 billion to the Fund – split into ten annual tranches of £10 billion. For simplicity we describe how the initial tranche will be utilised and serviced; it is envisaged that each subsequent tranche will be utilised in the same manner.

The Fund will be responsible for paying government's interest costs and eventually repaying each tranche of the loan. We envisage that government will issue 50 year-gilts with a cost below 2%.

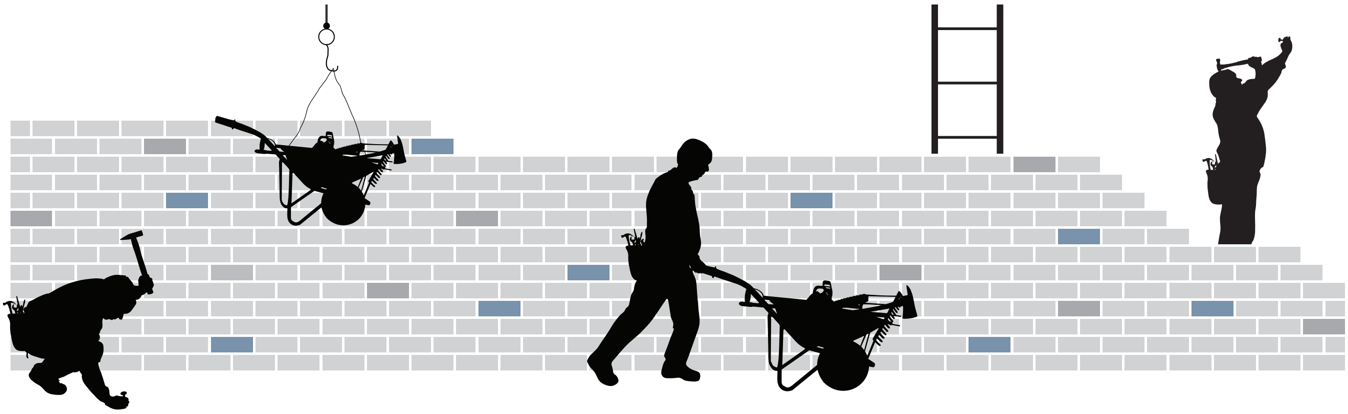
The rental income of the Fund will meet the cost of government's interest payment as well as all aspects of the letting and maintenance of the homes. Over time, the *net* rental income will generate a growing surplus that can be used to build more homes.

Creating a National Housing Fund



The Fund will drive the construction of a minimum of 40,000 homes each year. It will work with developers across the country, specifying what types of homes it will buy. It will then agree to buy these homes when they are completed. Homes will generally be built to order.

These pre-purchase agreements will remove any sales risk and enable developers to build at a quicker pace. They will also liberate small developers, providing them with certainty of income and enabling them to secure funding on more favourable terms.



4. Making It Happen – Creating and Operating the Fund

The National Housing Fund is a low cost, time-limited government intervention to fix the broken housing market. How would it work?

Speed: The Fund would make a quick impact, contracting with developers to acquire new homes within six months of its launch. In its first year, it would work at pace, acquiring unsold properties and working with developers to build-out existing schemes to help avoid a market slowdown.

Unlocking major sites: The Fund will unlock large sites where planning approval has been granted as a result of the new planning guidance.[3] The certainty of sales will underpin the infrastructure investment required to open these up to development.

Acquisition: A team would be appointed to oversee the acquisition of properties from developers, agreeing space and quality standards for the homes acquired and the price to be paid on the delivery of the completed homes. It will then enter into contracts across the country for new homes. The first £10 billion tranche of investment will therefore see new homes delivered over 18 months. The Fund will not take any development risk.

Policy: A Board will be appointed by the housing association members of the Fund. With government input, this Board will oversee investment criteria to determine the type and location of homes to be delivered. For example, the Fund could let 5,000 homes at a rent linked to the government living wage; make 5,000 available to purchase in five years' time at today's price; or let 5,000 at submarket rent to enable tenants to save for a deposit.

Enhancing developer capacity: The Fund will work with SME developers and identify the type of homes and locations where it will look to acquire homes. It will enter into pre-purchase agreements with these developers that enable them to proceed and secure funding to deliver the homes. The Fund could also work closely with housing association developers.

Tenancies: The new homes will be available to rent under the type of long-term, family friendly tenancies that government is seeking to support.[4] Tenancies will typically be set at five years and provide clarity on how rents will increase, giving certainty and stability to renters.

Supporting routes into home ownership: The Fund can support home ownership by offering some homes under a Rent-to-Buy tenure, with prices fixed at the move-in date and available to buy after five years. With house prices predicted to rise by 13 per cent over the next five years, this would represent a substantial discount to help people enter home ownership at zero cost to the public purse.[5]

Management: The housing associations will provide the Fund with a comprehensive management and maintenance service, utilising their skills as effective managers of large rented property portfolios.

Homes: Homes acquired by the Fund will be reflective of the wider housing market, buying into existing schemes and planned developments. It will, however, look to influence size and facilities, seeking to secure properties that will remain attractive to rent or own given its enduring interest in these homes.

Location: The Fund will operate nationally, providing homes throughout England, with actual distribution reflecting demand and the availability of sites. The geographical spread will impact on the number of homes delivered, with annual output ranging from 40,000 homes if weighted to the South East; to 75,000 homes if weighted to the Midlands and the North.[6]

Value: The Fund will be value and cash positive, apart from in the first year as it bears the set up costs of acquisition and stamp duty. Assuming that all properties are let at a median market rent, the cumulative net rental income could reach c. £2.5 billion by year 11 based on current rental forecasts. If there is no rental growth in the first five years the cumulative net rental income could reach c. £1.75 billion. This demonstrates the financial robustness of the Fund. Additionally the underlying value of the portfolio may increase; for example, average annual growth of 2.4% results in the value of the Fund growing to c. £12.2 billion by year 11.[7]

No call on public investment: The Fund operates without a call on public investment, only the utilisation of borrowing capacity. The net income it would generate could be used to: build more homes; offer a range of discounts on rents; or, provide incentives to move to ownership.

Funding: The Fund will be financed by low cost long-term (50-year) finance, which government would secure and on-lend – £10 billion per annum for 10 years. Government will explain the Fund's structure and the time limited nature of the role that government will play enabling the market to price the debt accordingly. The Fund will be responsible for servicing this debt and securing it against the homes acquired, paying the interest costs from its rental income, and finally repaying the debt at the end of each 50 year term. After 10 years, the Fund will be self-sustaining and no further government intervention required. Cumulative net rental income (assuming that it is not invested in additional new homes) could repay each £10 billion tranche within 30 years.

New jobs: Around 180,000 new jobs will be created in direct construction and support trades. A proportion of the new jobs will be taken up through the training and re-training of the currently unemployed and apprentices.[8]

Boosting public finances: These jobs will generate additional tax receipts and reduce the welfare bill. Stamp Duty will be paid on the acquired homes and Council Tax receipts generated against these. The table opposite shows the gains that could be delivered and then repeated for each subsequent tranche of investment.[9]

Over the 10-year investment period, government could expect to receive around **£3.4 billion** in tax and welfare savings – a substantial return for providing the Fund with borrowing capacity. Around £2 billion of this gain would be generated in the first 18 months.

Income	
Stamp Duty Land Tax	£450m
Income Tax	£594m
NICs	£900m
Council tax	£650m
Corporation tax	£615m
Savings	
Unemployment benefits	£180m
Total	**£3.4bn**

Reinvesting for the public good: Government could choose to reinvest this windfall surplus in a number of ways. For example, it could be used to increase the existing investment in the 2016-2021 Affordable Homes Programme by 125%.[10]

Government exit: For each of its ten annual investments, government will sell its shares at a nominal value to the associations in year 11. From this point, government will cease to have any responsibility for the repayment or refinancing of the debt in year 50 (or sooner). The Fund will be required to hold assets, cash or other reserves from this point to fully meet the costs of the eventual repayment with no further call on government for the outstanding loan. Investors who hold these government gilts can take comfort from the Fund having a projected total value of c. £15 billion in year 11.[11]

Financial instrument: After government's exit in year 11, the Fund will operate as a wholly market-driven solution. With government released from its obligations in this way, it will be classified as a financial instrument from the outset; thus ensuring that although government debt will have increased, this increase will not be counted against the deficit.

Impact on Public Sector Net Debt: Public debt stands at £1.7 trillion and is projected to rise to £1.9 trillion by 2020-21.[12] The Fund will add to the volume of debt but the net effect, after the headline tax gains and welfare savings, is forecast at around 0.35% for each £10 billion tranche. This could be further reduced by the utilisation of windfall receipts to house families in temporary accommodation and the wider gains that flow from a functioning housing market.

3 DCLG (2016) *Planning practice guidance* (Online). Available at: https://www.gov.uk/government/collections/planning-practice-guidance [Accessed 10 July 2017]

4 DCLG (2017) *Fixing our broken housing market*, p.19 (Online). Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf [Accessed 10 July 2017]

5 See page 18 of the accompanying JLL report

6 ResPublica (2016) *Going to Scale: Going to Scale: How a National Housing Fund Can Unlock Britain's House Building Capacity*

7 House price forecasts taken from the accompanying JLL report - see page 18

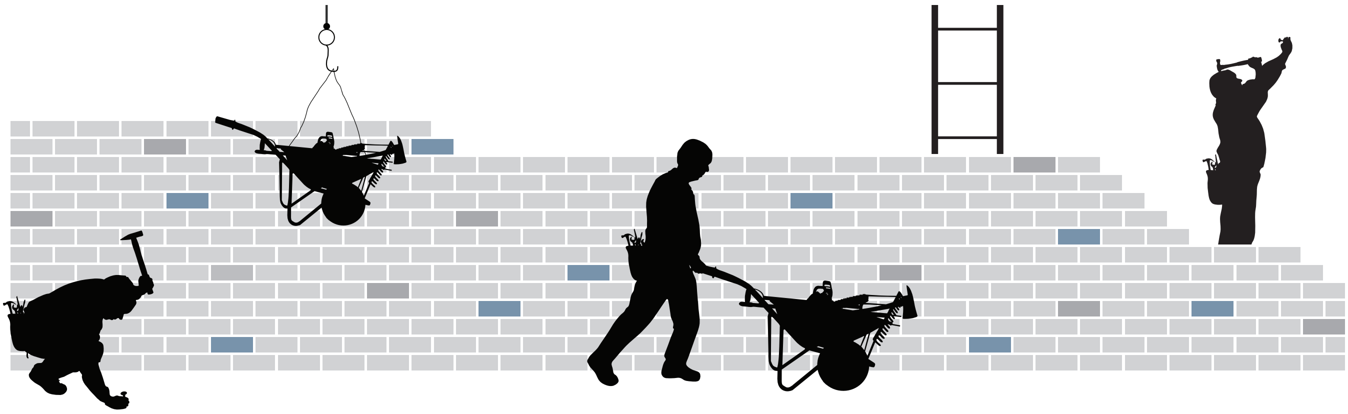
8 See page 25 of the accompanying JLL report

9 This is a conservative estimate based on 40,000 homes, the lower end of what we estimate the Fund could deliver. See section 5, pp. 17-29 of the accompanying JLL report for a full breakdown of these scenarios.

10 This is worth £2.7 billion for the period 2016-2021, and is supporting construction of tens of thousands of affordable homes. See https://www.gov.uk/government/collections/shared-ownership-and-affordable-homes-programme-2016-to-2021-guidance

11 For a full breakdown, see section 5, pp. 17-29, of the accompanying JLL report.

12 Office for Budget Responsibility (2017) "Economic and fiscal outlook – March 2017" [Online]. Available at: http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2017/.



5. Addressing Potential Barriers

"We have designed the Fund to provide not just housing numbers but to forge a path to sustainable capacity growth too."

The potential barriers to building more homes have been well-documented, with skills shortages and land availability amongst the most commonly cited. These have been highlighted recently in the government-backed *Farmer Review*[13] of the construction labour market, and the Communities and Local Government Select Committee's report on capacity in the housebuilding industry.[14]

We have designed the Fund to provide not just housing numbers but to forge a path to sustainable capacity growth too. In this section, we look at possible barriers to delivery, and how we have designed the Fund to overcome them.

Skills

Gaining access to enough skilled workers is a repeated barrier to increasing delivery. Various reports highlight the dependency on migrant labour and the ageing of the current workforce, including the recent *Farmer Review*.

Reliance on migrant labour is not a new phenomenon; it has been present throughout the last 200 years or so, starting with Irish labourers who helped build canals and railways. The cyclical and uncertain nature of the housebuilding industry exacerbates the workforce problem, deterring investment in apprenticeships and causing many to seek alternative employment as the market turns down – and reluctant to return when the market improves.

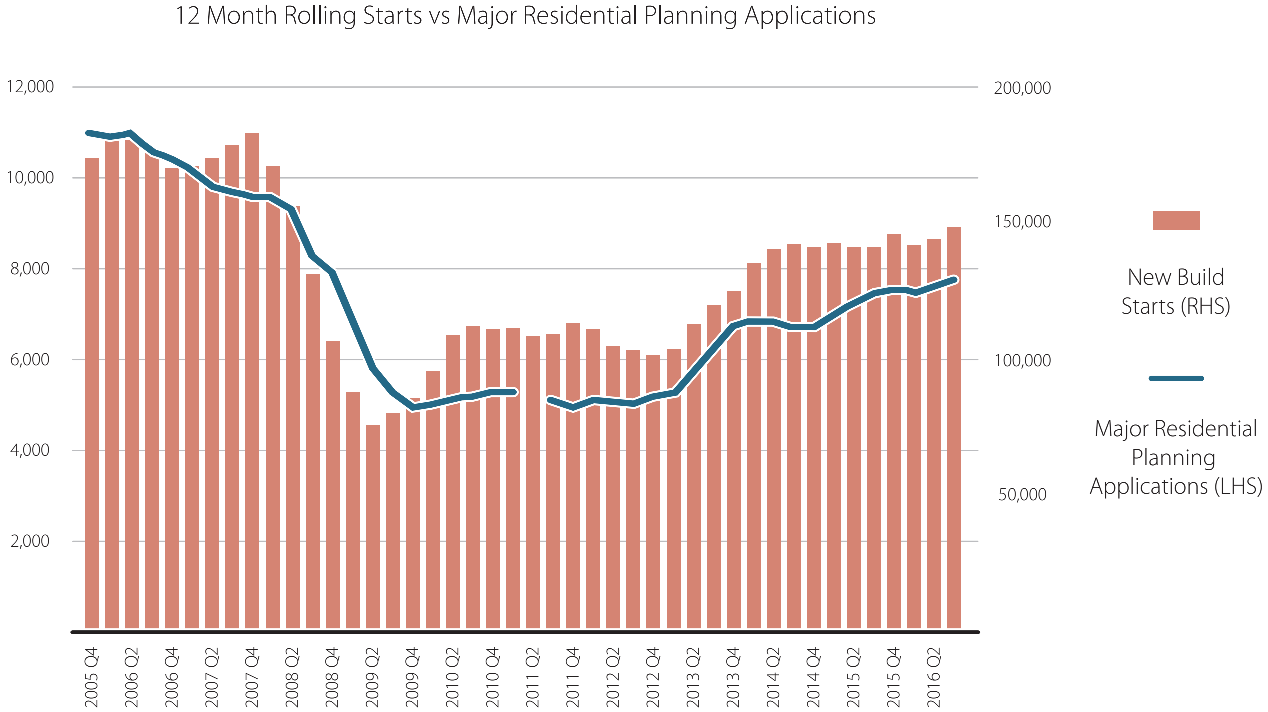
The Fund will provide the certainty the market requires, spurring capacity growth, mainly through an expansion of SME builders, and crucially acting as a buffer when the sales market deteriorates. The Fund's repeated investment over the next 10 years will enable investment in additional apprenticeships and weaken the cyclical nature of the market that undermines workforce stability.

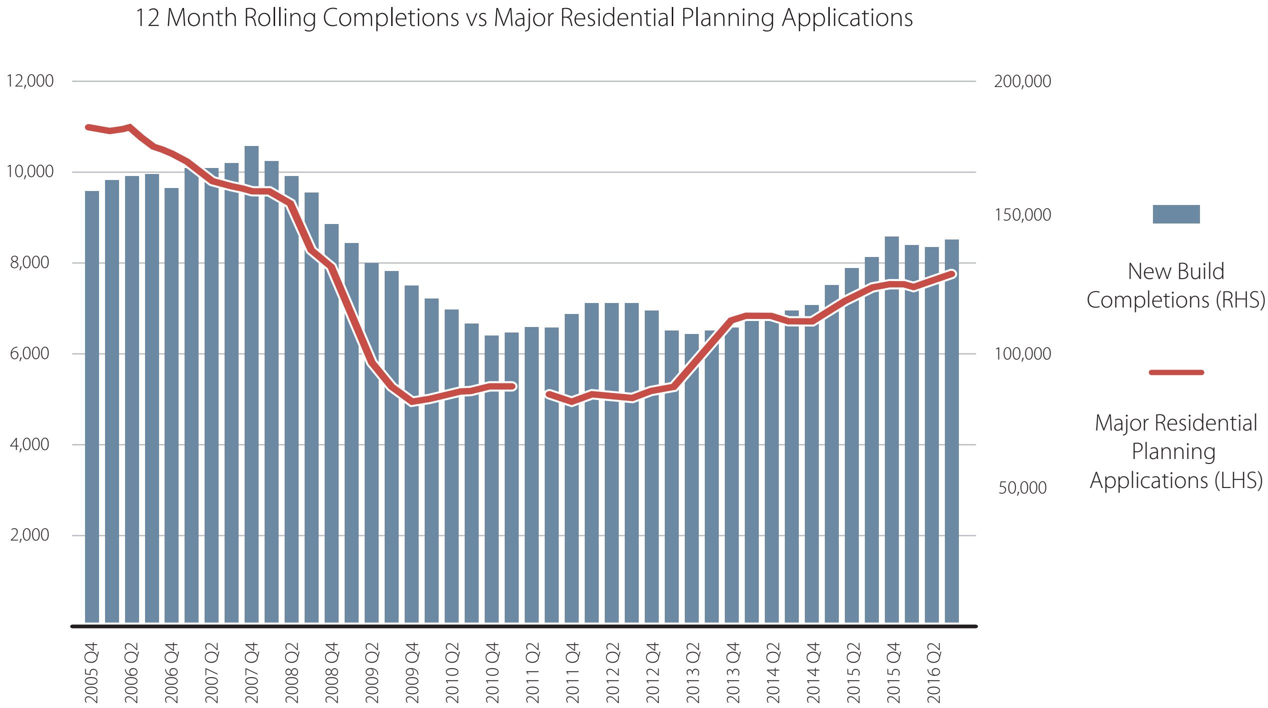
It is only through sustained, consistent investment in housebuilding that our skills gap will be bridged.

Construction capacity

The onsite construction workforce represents only a proportion of the resource input required to develop a home. Construction can be delayed or costs increased through the shortage of

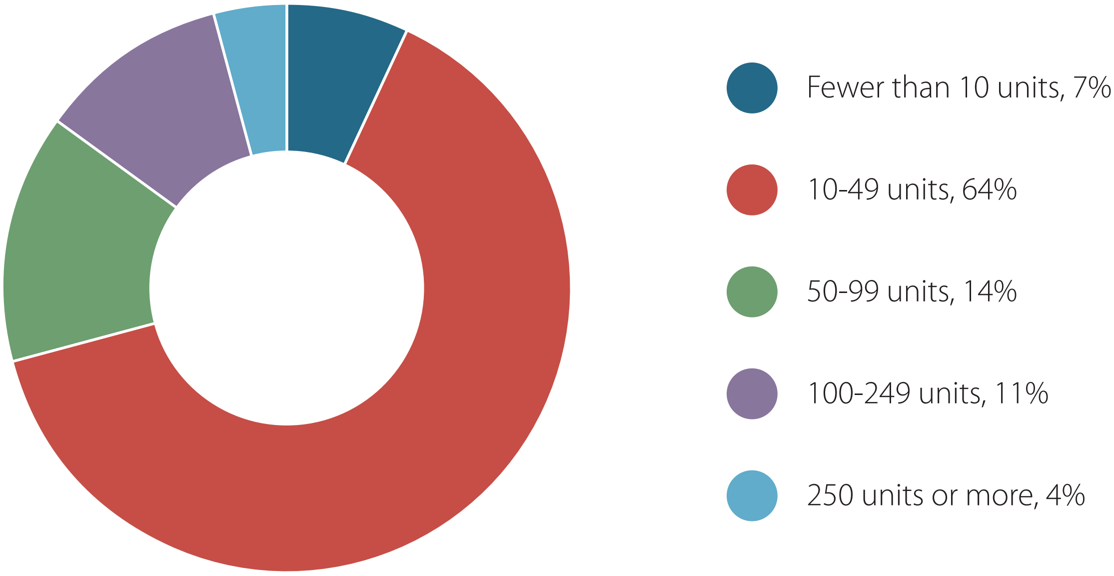
Figure 2: New Build Construction vs Major Residential Planning Applications





Source: DCLG

Figure 3: Proportion of Unimplemented Schemes by Development Size



Source: Local Government Association

components and support trades essential to deliver new homes, which is why this issue was the subject of the recent inquiry by the Communities and Local Government Select Committee in Parliament.[15]

The *Farmer Review* highlighted that consistency of demand is a vital condition for capacity growth and innovation in housebuilding, and recommends a comprehensive pipeline of demand in the new-build housing sector.[16] The Fund would present a repeated, long-term investment in housing, giving developers, suppliers and factories the confidence to invest in their capacity.

Land availability and price

There is sufficient land available to build many more homes. Government's changes to the planning system have substantially increased the number of consented sites, with a 25% rise in unimplemented planning permissions between 2013 and 2015, and 15 quarters of consecutive growth in granted permissions – with 382,000 applications granted in 2016.[17]

This has corresponded with a growth in output and suggests that more sites will be brought forward as developers enjoy certainty of sales. As Figure 1 shows, the level of planning applications tends to correlate with the volume of construction starts and completions. The Fund will reinforce this trend, as the certainty of its investment will help to unlock sites.

However, analysis of unimplemented planning permissions shows that much of this growth has focused on larger developments and that 10-50 unit sites are not being developed at a pace, as Figure 2 shows. This is the natural market for SME developers and the Fund will provide the resources to enable them to unlock these sites. There are currently unimplemented planning permissions in place for nearly 200,000 homes on smaller sites, which could provide five years' worth of land supply for the Fund.[18]

SME delivery

Government recognises that one way to increase supply would be to reverse the decline of small and medium size builders.

> *Small builders have been declining and were hit hard by the recession. The number of homes registered by small builders is down from 44,000 in 2007 to 18,000 in 2015 demonstrating the potential for growth. Government will help this sector to grow and develop again.*[19]

In the last few decades, the number of SME developers has shrunk. Much of this decline was triggered by the 2008 financial crisis and the subsequent actions of banks to call in loans and restrict future lending. SME developers are often required to provide 50% or more equity to obtain development funding. This ties up scarce capital, inhibits land banking and reduces the return on capital employed. Collectively, these factors restrict the SME market and discourage development.

Half of respondents to the most recent Federation of Master Housebuilders (FMB) housebuilder survey cited lack of finance as a major constraint on housebuilders' ability to build more homes.[20] Although government has introduced initiatives to aid access to finance, these still assume open market sales and therefore do not address the vagaries of the sales market.

The Fund's use of pre-purchase agreements will enable SME developers to underpin the sourcing of traditional funding, reducing the capital they have to commit and boosting their capacity to develop more homes at a quicker pace. This will provide a genuine catalyst for SME growth.

Reclassification of housing associations

Government is currently seeking to deregulate housing associations as a result of the Office for National Statistics' decision to classify them as public sector bodies. However, the Fund will be structured to avoid impacting this classification, as it will not subject associations to government control across any of the indicators contained in the European System of Accounts (ESA 2010).[21]

13 Farmer, M. (2016) *The Farmer Review of the UK Construction Labour Model*, Construction Leadership Council [Online]. Available at: http://www.cast-consultancy.com/news-casts/farmer-review-uk-construction-labour-model-3/.

14 Communities and Local Government Select Committee (2017) *Capacity in the homebuilding industry* (HC46, 2016-17).

15 CLG Select Committee (2017) *Capacity in the homebuilding industry* (HC46, 2016-17).

16 Farmer, M. (2016) *The Farmer Review of the UK Construction Labour Model*, Construction Leadership Council [Online]. Available at: http://www.cast-consultancy.com/news-casts/farmer-review-uk-construction-labour-model-3/.

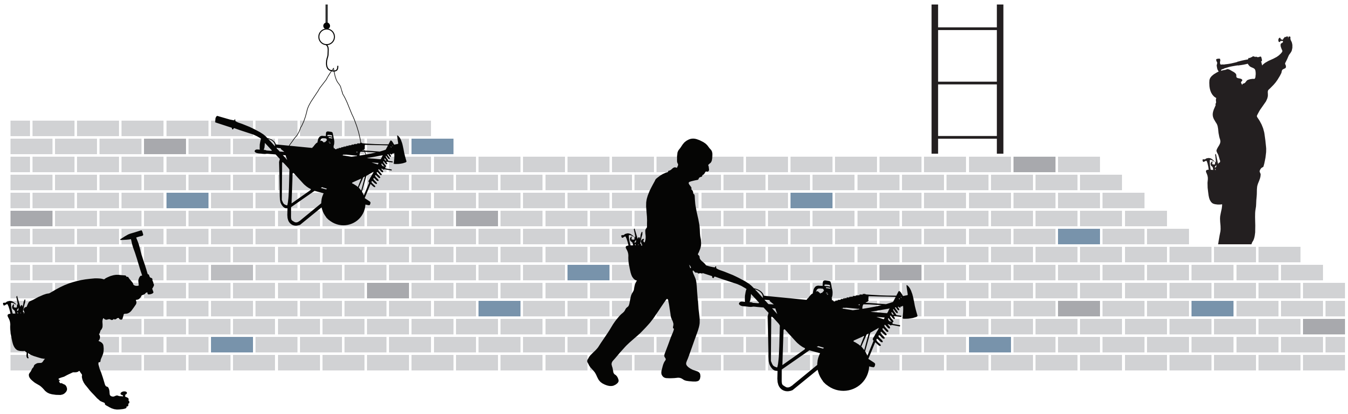
17 DCLG (2016) *Planning Applications in England, October to December 2016* [Online]. Available at https://www.gov.uk/government/statistics/planning-applications-in-england-october-to-december-2016.

18 Local Government Association

19 DCLG (2017) *Fixing Our Broken Housing Market*

20 Federation of Master Builders (2015) *Homebuilders' Survey 2015* [Online]. Available at: resources.fmb.org.uk/docs/FMBHouseBuildersSurvey2015.pdf

21 Available at http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334. Sections 2.38 and 2.39 are of most relevance.



6. Conclusion

"In contrast to other initiatives..., our proposal seeks to utilise government borrowing powers for a time-limited period while generating significant returns to the public purse in the process.

Our proposal mirrors the approach of both main parties in the 1950s and 1960s – borrow at historically low rates of interest and invest in building the rented homes we need.

In contrast to other initiatives currently deployed to boost housing supply, our proposal seeks to utilise government borrowing powers for a time-limited period while generating significant returns to the public purse in the process.

The new government is committed through the Conservative manifesto to supporting a new public housebuilding drive, and there is an overwhelming parliamentary majority for action. The National Housing Fund is the way that government can realise its ambitions for fixing Britain's housing market so that it works for the many.

By enabling the construction of nearly half a million rented homes over ten years (a figure that could be even higher depending geographic balance of new homes), the National Housing Fund will, through the repeating nature of its investment, lay the foundations for the construction industry to sustain a higher capacity of output into the long-term.

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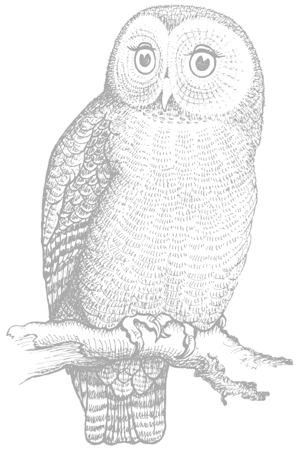

Prosperity

The UK has some of the highest levels of wealth concentration in the developed world. It has an economy where most mature markets are dominated by a small number of players and the barriers to entry are far too high. It is not an exaggeration to suggest that in many areas, from energy to banking to groceries, the UK has a monopolistic rentier rather than a market economy – a system in which certain individuals or small groups gain market dominance and excessive returns through anti-competitive practices. This conspires against innovation and is detrimental to the small and emergent businesses that generate growth and spread prosperity. Added to this, our education system, by specialising too early and often in the wrong areas, fails to produce students with fully rounded skill-sets. We are simply not equipping our future workforce with the means to safeguard our, and their, economic future. This is one reason why the real value of wages in proportion to growth in GDP continues to stagnate or fall. Our long-term productivity dilemma is a function of market capture and the effective de-skilling of the population.

We believe that shared prosperity cannot be achieved by simply tweaking the market. Britain needs significant demand and supply-side transformation, with new visionary institutions re-ordering our economy. We need long-term solutions that give power over wealth and assets, not simply handouts, to ordinary people. Central to this process of economic empowerment is an ethical, practical and adaptable education that gives people the skills to build their own businesses, or develop their own talents, rather than a conveyor belt to a service industry of low wage and less return.

New financial institutions to promote small business lending are required, and this involves smaller, more specialised and decentralised banks that can deliver advice as well as capital. We wish to explore ways in which all financial transactions can be linked to a wider social purpose and profit, which itself needs a transformation of the legal framework within which economic transactions take place. We believe that the future lies in the shaping of a genuinely social market which would be in consequence a genuinely free and open market. Internalising externalities and creating a level economic playing field in terms of tax paid and monopolies recognised and challenged, remains beyond the scope of contemporary governments to deliver. Such a vision requires new concepts. The viable transformative solutions lie beyond the purview of the current visions of both left and right in the UK.

Prosperity *Prosperity* *Prosperity*

All parties agree that we need to significantly increase the number of homes we are building every year. In this timely follow-up report to last year's *Going to Scale*, the authors show how, through a National Housing Fund, the new government could fix Britain's housing market so that it works for the many.

The report shows that a National Housing Fund would significantly boost housing supply by utilising government's ability to borrow money at historically low rates, and housing associations' expertise in letting and managing properties.

Supported by new analysis and modelling, the report details the substantial economic and social benefits that a National Housing Fund would deliver. The report finds that the Fund, in ensuring at least 40,000 more homes are built a year, would boost public finances, create new jobs around the country, boost small developers, and grow construction capacity through repeated investment.

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