



Britain's Great Housing Failure Whose fault is it anyway and what can we do about it?

A lecture by Lord Bob Kerslake at the Estates Gazette / Peter Wilson Lecture, hosted by Fitzwilliam College, Cambridge, on 25 February 2016.

Good Evening and thank you to the Estates Gazette for inviting me to give the annual Peter Wilson Lecture here in Cambridge.

I feel honoured to be only the second person to do so, following on from the legendary Lord Heseltine.

I also feel honoured also to be doing this lecture in memory of Peter Wilson and am delighted that members of his family are here tonight to hear it.

The title of my speech is quite provocative!

I am in fact just three days away from celebrating my sixty first birthday and keen to make it there in one piece!

So let me explain first why I have chosen it.

There are few who would argue that we are building significantly fewer houses than this country needs.

Moreover that we have been failing to do so for some considerable time now.

The Barker Review back in 2004 said that some 250,000 homes needed to be built every year if spiralling house prices and an increasing crisis of affordability was to be avoided.

That projected need based on population growth and changing household formation has, if anything, increased since then.

The Royal Town Planning Institute has estimated that there will be some 265,000 new households formed each year.

To meet this need and to clear the two million backlog of homes, the level of new supply needed to be over 300,000 per annum.

Actual housing supply has fallen woefully short of this.

The latest housing supply figures for 2014/15 show a 25% increase in net additional dwellings over the year before.

Good news, loudly trumpeted by the government.



However the new build completions figure of 155,000 is still lower than the 157,000 achieved in 2008/9.

We are still miles away from where we need to be.

The scale of the problem varies across the country but is most acute in London.

Here we can say without fear of exaggeration that we have a full scale housing crisis.

The cost of housing, both to own and to rent, is moving beyond the reach of ordinary Londoners.

When I agreed to chair the London Housing Commission in July last year, housing was an issue for London.

It is now the issue and set to completely dominate the mayoral elections.

The Commission published its interim report last December.

The facts set out in that report were stark:

- The average house price is now over £0.5m, 12 times average salaries.
- Prices are now nearly 50% above what they were before the financial crash.
- Rents are rising rapidly and well above pay.
- 80% of homes now being built are unaffordable to 80% of Londoners.
- To meet London's growing population, we need to build at least half a million homes over the next decade. In the last decade, we built just 194,000.
- Homelessness, use of bed and breakfast for families with children and overcrowding are on the rise again.

The condition of some of the private rented accommodation is quite appalling.

We all know in this room that a house is about a lot more than just bricks and mortar.

It is about our home.

The place we grow up in.

The place we start a family.

The place we belong to.

For those of us who have been fortunate to be brought up in a decent house, in a good neighbourhood, we tend to take it for granted.

When I got married and wanted to start a home with my wife Anne in London, we both had quite modest jobs I was an accountant, she was a researcher and there was no thought of financial help from our families.

Even so, it wasn't a question of whether we bought a house, but where.



Was it Chiswick or further out in Isleworth?

Today, both would be completely beyond the means of a couple in our position.

So I think we can say without much fear of contradiction that in in London and large parts of the country, including Cambridge, we have a major housing supply failure.

Indeed I do not think it is too much of an exaggeration to say that it is one of the biggest public policy failures of the last 40 years.

I say this as someone who was the first Chief Executive of the Homes and Communities Agency and then Permanent Secretary at the Communities and Local Government Department.

Mea Culpa!

Of course there are extenuating circumstances – the growth of population has made the challenge much harder – and the story is not the same across the country.

It is also important to recognise that it has not been for want of trying.

There have been many positive individual initiatives taken by governments of different persuasions to boost supply.

- The Kickstart initiative at the end of the last Labour government was vital in keeping the sector going following the financial crash.
- The introduction of Homebuy and then Help to Buy has sustained demand for new build.
- The development of the National Planning Policy Framework has had a positive impact on the number of permissions granted.

Taken in the round though, the cumulative effect of these initiatives has simply not matched up to the challenge.

Building new houses is not intrinsically difficult and indeed there have been points in our not too distant past when we have been able to build comfortably over 300,000 homes per annum.

From the early 1950s until quite late into the 1970s, supply pretty consistently topped 300,000.

Private sector delivery was strong, with the relaxing of credit restrictions and the increased desire for homeownership.

However the dramatic growth in public funded and commissioned housing was the most significant factor.

Looking back at this period has led many policy makers to see the solution to be a massive public sector led programme of new build.

Not all of the new housing built during this period was good though.



Indeed I spent a good deal of my time in Sheffield demolishing the 1960s tower blocks that had been built to such acclaim.

The other period when housing was high during the interwar years.

This was a time when the planning controls were much more relaxed and the private sector dominated.

The relaxed planning controls in the 20s and 30s came at a price though. Ribbon development, insufficient infrastructure and low densities were all features of this time.

So while it would be over simplistic to say that we have had a golden age in the past, we did manage a level of new supply then that seems to completely defeat us now.

Why is this and who is responsible?

In true Agatha Christie fashion I will go through the most likely suspects:

Firstly, the planners (and the planning system).

I recently did the RTPI Annual Nathaniel Litchfield lecture which might reasonably have been called 'some of my best friends are planners'.

Housebuilders and developers have not been shy of criticising planners as being too slow, too unpredictable and too out of touch with commercial reality.

Local Authorities and their planning officers have responded by pointing to the large number of permissioned sites – equivalent to 261,000 new homes in the last year.

If only these were being built out they say, the problem of supply would be sorted.

The difficulty for planners in making their defence though, is that the story varies enormously from council to council.

And in central government you are only as good as your last anecdote.

So pretty much every couple of years we get another piece of legislation designed to streamline and speed up the process, and further tip the balance in favour of approving development.

This has had some positive impact on the rate of approvals but not really shifted the dial in terms of new starts.

My firm view is that this approach has run its course.

Instead of clobbering local authorities and the planning system, we need to invest in growing their capacity and capability and then properly holding them to account for performance.

Our second most likely suspect is the housebuilders.



The sector has become too concentrated on a small number of large housebuilders.

They are sitting on land and controlling the rate of supply to maintain high prices.

Despite seemingly endless support from government in the form of Help to Buy and infrastructure loans, the sector has failed to respond.

Interestingly, I understand that there is increasing frustration with the sector at the centre of government, with mandatory build out rates being privately threatened unless they raise their game.

It is true to say that there have been significant structural changes in the housebuilder market over the last three decades, with an increasing concentration of supply on a much smaller number of providers.

In 1990 there were 12,000 registered SME housebuilders.

By 2015 this had fallen to 3,000.

In 2008 small and medium sized builders were responsible for 44,000 completions.

By 2015, this had more than halved to 18,000.

Notwithstanding this concentration, I believe that suggestions of cartels and a deliberate attempt to control to supply are wide of the mark.

The larger housebuilders suffered a 'near death' experience during the 2008 crash and are still rebuilding their balance sheets.

They have been fortunate that the stock market has provided them with capital to do this – something not open to SME builders who were previously reliant on bank funding.

However, their focus has understandably been as much about adding value as it has been on adding numbers.

They have increased and will further increase supply.

But we should all be very realistic about how quickly that will happen and how far they will go.

The mistake here lies in placing an over reliance on build for sale and putting too much responsibility on private housebuilders to deliver the necessary growth in supply.

This in turn derives from a complete failure to understand the business development and risk model of housebuilders in a sector that is utterly dependent on the success of the wider economy.

My third suspect is the landowners.

I want to distinguish here landowners who are either house builders or developers and have bought the land for purposes of development and those who simply hold land for its own sake.



The accusation here is that they acquire and hold land in the expectation of rising land values and are unwilling to release it for development.

At one level they might respond that they are simply responding to an existing market, not creating it.

However I do think that there are three important issues here.

Firstly, the delay that this can create in progressing assembly sites and development. Thus I would strongly support the government's plans to simplify CPO powers.

Secondly, the bidding up of land values comes in part from a gamble on how much will be required to be paid through

Section 106 agreements and CIL. Reducing this uncertainty significantly increases the prospects of reaching agreement on land values and enabling development.

Thirdly, there is at present no cost penalty for holding developable land for long periods. This is why I would favour the proposal set out in the Lyons report and recommended by the LGA that local authorities should have the powers to charge council tax on permissioned sites where development has not taken place after a reasonable period.

My fourth suspect is the public at large.

For a long time, the principal reason cited for why development did not happen was the 'nimby' factor.

People were in favour of new housing generally, but not in their backyard.

The quickest way for a local councillor to become an ex local councillor was to show their support for a new housing development and they voted accordingly.

In some cases, local residents had a point.

The development put forward was of poor quality.

They were often the last to know what was being proposed.

There is often a degree of naivety on the part of housebuilders in this.

For example, they have often complained to me that it is impossible to get decisions out of local councils just before their elections.

To which my response was, why not pick another date to get your decision!

However much this has been an issue in the past I think that it is rapidly changing.

Firstly, because of the NPPF and Local Plans there is a much greater onus on planning committees to give approval.



Secondly, because the best housebuilders and developers have got better at understanding good placemaking and engaging local communities.

Thirdly, because neighbourhood planning has allowed local communities to work through the issues of new supply for themselves.

Fourthly, and in my view most importantly, the people are coming to realise that it is all very well them owning a home but what about their own children and grandchildren?

The shortage of housing has gone beyond a set of big numbers to affect real people's lives.

My fifth, and final suspect is the government.

We are now I think, apart perhaps from the butler, getting nearer to the real villain here.

It is not, as I said earlier, that successive governments haven't tried to increase supply.

Indeed there have been a never ending succession of initiatives, almost too many to count.

It is also fair to say that have had to contend the impact of a rapidly growing population and the ups and downs of the economic cycle, including the 2008 financial crash.

However they have collectively failed to take a long term strategic approach that treats housing as a vital part of our national infrastructure.

Such an approach needs straddle the election cycle and build consensus across the political parties.

It also needs to recognise that don't have just one housing market in this country, but many.

In some parts of the country, there are jobs but no houses.

In others, houses but no jobs.

Prices have still to return to their pre-crash levels and the focus should be on economic rather than housing growth.

One size does not fit all.

The Housing and Planning Bill, currently in committee stage in the House of Lords, is a textbook example of what concerns me about how government approaches housing policy.

It has some good things in it, such as improving CPO and tackling rogue landlords.

But its central purpose is not to increase supply, but to advance one form of tenure home ownership at the expense of social rented housing.

To achieve this, it gives the Secretary of State extensive centralising powers, in complete contradiction to the government's professed localist approach.

Quite apart from the issues of equity, I have real concerns whether it makes economic sense.



When the financial crisis hit in 2008, private housebuilding fell off a cliff.

I saw this for myself as the Chief Executive of the Homes and Communities Agency.

The only housing getting built at that time was social housing.

Putting all our eggs in the sales basket will leave us much more vulnerable to a downturn, just when the economic forecasts are beginning to look less favourable.

Having described the crime and gone through the usual suspects, I want to come to the drawing room scene.

It is possible to meet this country's housing needs.

However we have been a long time getting into this position and it will take us a long time to get out of it.

Central government has the prime responsibility for setting a long term strategy for housing, but it should look to local leadership to take the lead in its delivery.

Economic rebalancing will over time help to reduce the pressure on London and the South East but it most certainly will not remove it.

We need to build more housing of all types and tenures market sale, market rent, shared ownership, social rent.

And we need every part of the housing sector local authorities, house builders, developers, housing associations to step up and play their part.

In particular, we must to invest in a major new programme of public housebuilding alongside a substantial growth of the institutional private rented sector.

We should strengthen our planning departments, giving them the flexibility to charge economic rates for their services in return for better performance.

There is plenty of scope for more development. But we need to take a more robust approach to the release of public land and the density of development.

Nowhere is the above more relevant than in our capital city.

The London Housing Commission reports on 7th March.

Expect some radical and challenging proposals from us.

But at least I will have made it past my 61st Birthday!

Thank you for listening.