

The Housing Crisis: No easy fix?

Blog post by Senior Associate Johnny Luk, and Graduate Trainee Peter Wollweber, 7 July 2022

On June 9th, Boris Johnson made a landmark speech aiming to reset the UK policy agenda after months of ‘partygate’ headaches. The headline policy included plans to extend the Right-to-Buy reforms first introduced by Margaret Thatcher in the 1980s, allowing more people to buy their homes at a discount, alongside a slew of other measures to encourage more financial access to the property ladder.

Homeownership is critically important for the Tories, given 57% of owner-occupiers and 43% of mortgage-holders voted Tory against just 22% and 33% respectively for Labour in the last general election. Prime Minister Boris Johnson knows this and campaigned with a 2019 manifesto committing to build 300,000 homes per year by the mid-2020s.

How these challenges could be solved in the longer term might depend on who wins the next General Election. For the Labour Party eyeing government, their approach veers towards giving councils more power to build affordable and social housing, vital for their voter base, but success would depend on whether councillors follow through. Their other ideas include partially ring-fencing developments to first time buyers, capping the limit of foreign buyers and redefining what affordable rent is. The downside for these policies is how it further squeezes the commercial viability of housebuilders needed to enhance housing stock.

Systemic barriers mean meeting those housebuilding targets is proving difficult. Historically, no government has approached the 300,000 number since the 1970s and ministers are now downplaying the likelihood of ever reaching that goal. Long-term construction skills shortages, lack of land and the relatively small role of SME housebuilders all have a part to play, but a byzantine planning system is often identified as a key obstacle to new home provision.

Planning reform is a particular contradiction for the Conservatives. Despite its electoral importance, reforms must meet the immovable object of rural and suburban councils, often Conservative-held. In 2020, a government white paper proposed accelerating house building using a new zonal system of classifying land, with certain categories resulting in automatic planning permission. Local Conservative councillors, alongside plenty of rural MPs, who often tie their political fortunes to protecting green spaces, were aghast, and the policy was blamed for losing the leafy and previously safe Conservative Chesham and Amersham parliamentary seat to the Liberal Democrats in a 2021 by-election.

Those reforms have since been ditched and in September 2021, reformer Michael Gove was brought in as the new Levelling Up Secretary to resolve this 4D puzzle. Gove’s political skills can be seen in his decision to wrap reforms within the relative safety of the Levelling Up and Regeneration Bill, rather than be exposed in a standalone Planning Bill, alongside gentle assurances that local voices would be heard, including via ‘street votes’, vital to keeping Conservative MPs on side. Technocratic adjustments mooted include simplifying and standardising local plans and digitising

the planning system. Pragmatists may prefer this approach, weary of protracted fights that take years to deliver any change at all, but further progress will remain bumpy till the haggling between developers and government regarding post-Grenfell Tower cladding remediation is resolved.

Even if the proposed planning tweaks do percolate into new housing, it would take years for consumers to feel the difference. Hence why recent announcements tend to focus on broadening access to mortgages, including relaxing lending rules to expand the provision of high loan-to-value mortgages, and allowing housing benefit payments to go into saving deposits. A wider mortgage review is mooted for autumn this year, reporting on further ways the government could make the housing market more accessible, such as getting lenders to recognise the creditworthiness of more renters, and deepening the market in high loan-to-value and ultra-long fixed interest term mortgages. The latter is particularly important as higher interest rates make lending on homes more expensive for borrowers, even as they may limit the growth of headline prices.

The level of success will depend on buy-in from the wider sector. Regulators and lenders may be cautious about loosening existing controls on mortgage lending during economic headwinds. Right to Buy's success will rely on the consent of housing associations, with the government likely needing to commit significant funding to pay out for the large number of housing association properties backed by private sector debt. Right to Buy also faces issues relating to reducing the housing stock given the time it takes to replenish, even with an annual cap on sales and promises of like-for-like replacement for houses sold.

The industry should therefore be ready to engage, as policymakers from all parties are in the market to square the circle of building enough good quality, affordable housing and overcoming the planning obstacles that have dogged reformers for years. With 221,000 more households in the UK every year, and the current annual number of new houses being built barely just exceeding that, finding a viable policy solution is becoming more urgent than ever.