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## Step 3: Build More and Better Housing

### 1. What we want to achieve

Core Cities want to help deliver more and better homes for more people. We can host a large amount of the nation's increasing housing need, which will ease pressure in the south east and in green belts. We want better value for public money and to shift funding from Benefits to Building; we estimate that over the current three year spending cycle of Government, £90 billion will have been spent on housing benefits, and only £6.5 billion on building social housing.

The Core Cities wish to play a major role in providing the new housing that the country needs over the next 25 years. Making this happen will require fundamental changes to the way in which national housing programmes and policies are delivered.

Core Cities can provide a large amount of the national housing need. This will ease the development, resource and infrastructure pressures in the South East and in green belts. The Core Cities can do this because they have growing economies, pro-growth economic strategies, extensive infrastructure capacity, and transport networks that link people with employment.

The cities need more of the right housing in the right place to support their economic growth. Local economies will also benefit directly from construction contracts, jobs and apprenticeships. Furthermore, new homes are more energy efficient and so also help to tackle fuel poverty and reduce carbon emissions.

### 2. Why change is needed

***The UK is in the midst of a housing crisis.***

We have not been building enough new homes in recent decades and this has worsened in the past five years. There is clear evidence of market failure with resource and infrastructure pressures falling on the south east and greenbelt. The house building industry requires different incentives to increase output, which needs to double. A solution will require intelligent interventions and incentives from the state. Core Cities want to be a major part of the solution.

***We are not achieving value for the public money that we spend on housing.***

Between 2011 and 2015 we will spend over £90 billion on housing benefit, compared with only £6.5 billion on housing programmes. Housing Benefit is out of control: the largest increases are in Greater London and among those in work. This substantial public spending is increasingly a subsidy for low pay employers and private landlords. Housing Benefit payments need to be used to incentivise quality in the private rented sector and should not artificially increase the market price of rents.

### Step 3: Build More and Better Housing

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But Housing also needs to be more of a spending priority. Government spends a quarter of one per cent (0.2%) of public expenditure on housing programmes; an average of £1.6 billion a year (2011-15) from a UK total of £687 billion (2012).

Government funding for housing is complex, piecemeal and misdirected. There are around 36 housing funds and programmes directed from London for the rest of the country. Core Cities will require similar types of devolution to those given to London to deliver the best local solutions to housing need.

There is an increasing national problem of affordability in the private and rented sector. Price rises are fuelled and sustained by increasing demand and an insufficient supply. Add to this low earnings growth and the general cost of living crisis and we are making housing unaffordable to more and more people.

#### ***The Core Cities can make a real difference for the nation***

The capacity of the biggest cities to provide solutions to the national housing crisis should not be underestimated. Globally, there has been an increasing trend towards urban living, and mirroring this, the biggest cities in England have all grown over the last decade. Demographic changes are forcing change in housing markets. The growth in lone households has been substantial, and suburban housing estates are not well suited to accommodate this particular growing demographic. The cost of car commuting from distant suburbs to city centres is increasingly expensive and unsustainable.

Many of the largest Core Cities have struggled with a legacy of large swathes of poorer quality terraced housing and unsuccessful slum clearance estates. But where there is a better mix of housing and amenity, the Core Cities host some of the most dynamic city-suburbs in the country. Locations such as Edgbaston, Chorlton, Jesmond and Clifton are examples of city-suburbs that are economically and socially thriving.

The boom in the building of apartments and higher density residential property in and on the edge of city-centres has transformed the demographic profile of inner-cities. Recent research by Experian demonstrated that within a 1km radius of (core) city-centres are some of the most dynamic population profiles in the UK. Unemployment is very low, the proportion of professional and highly educated people is very high, and the level of private renting is very high.

This has created a supply of people, additional to the existing population, who may well choose to live long-term in the Core Cities, which will translate into increased future demand for new private houses or potential new tenants of higher quality rental properties as they come on stream.

A challenge for cities is that during the peak of the property boom a number of poorly executed apartment schemes were constructed in and around city centres, some of which financially failed. This is likely to cause some challenges for investors seeking to raise bank finance to support development. It is expected that a viable commercial market for high-density urban housing will return in due-course, but that the market next time around should focus on higher quality in both build and design, a more diverse range of property on offer and better and professionalised building management regimes.

There are countless examples of second tier cities in Europe and the USA that are highly successful, and make a major contribution to national economic life. There is no good reason why the Core Cities of England should not play an ever increasing role in national economic life, and be places that future generations increasingly choose to live and work.

### **3. Core Cities offer and proposal**

The Core Cities wish to play a major role in providing the new housing that the country needs over the next 25 years. Making this happen will require fundamental changes to the way in which national housing programmes and policies are delivered. Core Cities have identified three principal steps that government can take to empower cities to deliver.

#### **1. Core Cities Joint Housing Investment Board and local Single Housing Investment Plans**

Develop a menu of devolved measures and programmes co-designed between Core Cities and HCA. Each city will then develop their own local Single Housing Investment Plans which will be locally accountable and flexible.

Core Cities wish to collectively work with the government and the HCA to co-design a Core Cities specific menu of devolved measures and programmes to sit within Single Housing Investment Plans for each city, with local accountability. This will develop a better national response to the unique opportunities that the cities present as well as providing cities with the flexibility to develop locally responsive plans that are supported by a menu of national policies and resources.

Cities are in the best position to identify their local housing priorities and opportunities, and can take greater accountability for delivery, with increased access to powers and resources to drive change. This will transform the quality, quantity and pace of delivery of new homes across Core Cities.

The transfer of housing powers and assets to the Greater London Authority has driven improved outcomes in London, transferring resources and freedoms to enable local politicians to design interventions that address the city's unique housing needs. Circumstances are different in London, and indeed within each Core City, so what works in one place won't be right for another. That's why we are not asking for a 'one size fits all' blanket approach to change, but rather bespoke arrangements, co-designed as a menu of options with HCA, on which cities can build.

Core Cities recognises the importance of diversity in urban housing markets. It is not a case of promoting solely brownfield development, or certain property types over another. The focus is to ensure that high quality choices exist for people at all different stages of their life, and that good housing is accessible and affordable.

Expanding choice and diversity requires a restructuring of our urban housing markets. The UK's volume house building industry is largely focussed on greenfield sites, and whilst the sector can play an important role in Core Cities, they supply only one main product type for urban housing markets. To address this, cities must attract new entrants into urban markets,

### Step 3: Build More and Better Housing

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those who can both deliver innovative schemes and establish new and cost effective construction solutions. The Core-Cities could play a vital role in attracting pioneer investors, but only if the cities can utilise financial instruments and offer risk sharing vehicles.

The opportunity to open up urban housing markets does not sit easily with an existing housing delivery regime typified by time constrained and rule bound 'bidding rounds' that deliver resources to projects that conform with the objectives of the bidding round, and not the strategic opportunities available in cities.

The lack of national programmes to support brownfield land remediation means that many potentially prime urban residential sites sit unused because of the abnormal development costs attached to cleaning up sites.

The scale and proportion of social housing provision varies across the Core Cities. In some cities the priority is to develop a more balanced tenure profile while in others it is a local priority to develop more social housing as a key mechanism to provide new and affordable housing. The capacity of the sector to increase production is under threat due to reductions in the levels of grant, the impact of key welfare reforms, and, the capacity of the social housing sector to raise commercial borrowing. The Core Cities need a vibrant social housing sector, and local control over the delivery of resources would enable cities to work in close partnership with the sector to create viable new stock, which better meets the demographic challenges individual cities face. The cities should be in a position to better commission the social housing provision that an individual city needs (and this should include the right to offer social rents at 60% of market rate).

#### **2. Make changes to tax and incentive regimes to make urban sites more attractive to investors**

To attract new investors, national Government can help by providing an investor friendly range of tax incentives for brownfield sites. The Core Cities have some of the best brownfield land sites in the UK, sites which if prepared would offer outstanding places to live, close to major city centres, transport interchanges, major cultural and retail venues and jobs. Current programmes constrain cities from bringing forward prime brownfield sites, and the current tax incentive regime is insufficiently strong *and* has an overly long qualifying period for sites to become eligible for reliefs.

The designation of 'brownfield development zones' in Core Cities covering only a certain fixed amount of land in each city would make a major break with the past. Previous programmes have remediated land irrespective of its likely appeal to the market. By targeting enhanced reliefs and incentives into only the best brownfield sites, and by directing derelict land grant into a limited number of sites, public resource is effectively targeted at those sites most likely to make a strong economic return.

There is increasing national attention on the role institutional funders could play in providing vital financial resources to build new housing stock. Core Cities have been attractive to amateur buy-to-let investors and investors in student property, but to date there has been limited evidence of interest from professional investors looking to develop rental properties with an objective of increased institutional investment. The entrance into urban housing markets of this type of investor/developer could prove transformative. The Core Cities would like to see the Government provide stronger guarantees to support a *limited* number of

## Step 3: Build More and Better Housing

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‘urban demonstrator’ projects. These would be vital in proving or disproving the viability of different housing products in different urban locations, and would allow cities to structure local partnering vehicles based on a better understanding of risk and return.

In addition, closer cooperation between Government and cities could begin to resolve issues like the disparity between the amount spent on Housing Benefits (£90 billion in the current three year spending period) and affordable house building (£6.5 billion). For example, providing cities with the power to set limits on rent levels where Housing Benefits are paid, and then reinvesting savings into house building could begin to close this gap.

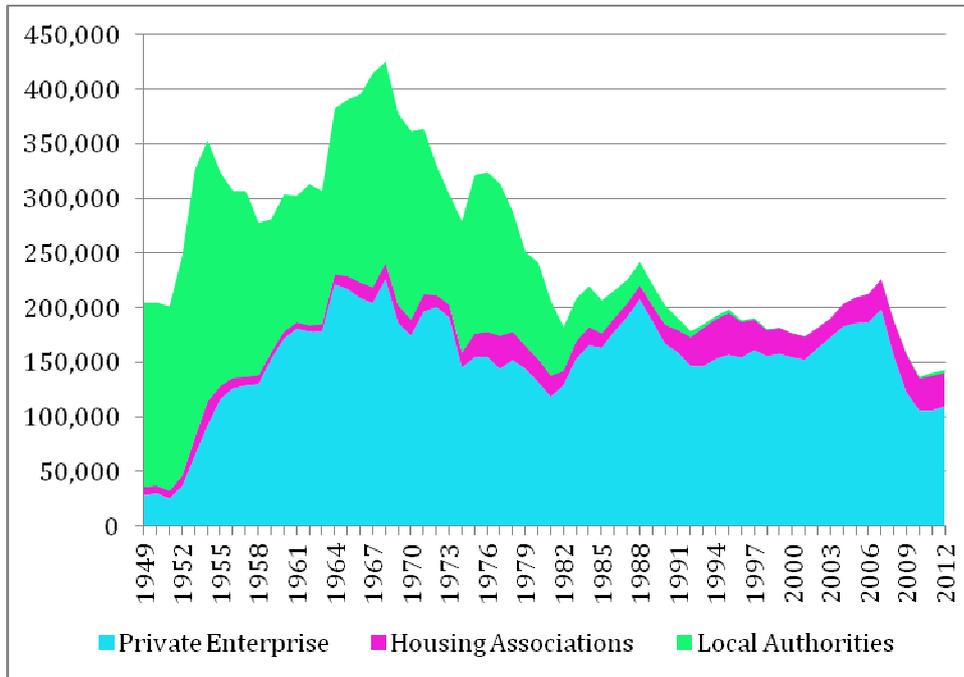
### **3. Alter national policies to create a level playing field for urban housing sites**

The New Homes Bonus should be reformed with a flat rate payment per new housing unit completed irrespective of where that house is built. There is an existing ‘supplementary’ payment for each additional affordable unit generated, an additional supplement should also be extended for each house constructed on a brownfield site. This would help tip a viability balance in favour of urban sites, and would actively incentivise the protection of existing green-belt.

Cities could also directly contribute towards the building of new housing stock. The freedoms afforded under the Housing Revenue Account have enabled some Core Cities to commence municipal house building programmes, and some cities could do more if the existing borrowing caps were lifted. It has been estimated that borrowing costs for cities are significantly lower than for social housing providers, some analysts estimate in the region of £7,000 per-unit. There remain very large gaps between salary levels for lower paid workers in cities, and the entry level cost of housing. It may be that a new generation of Municipal Housing represents the best mechanism to provide good quality housing for those who cannot access home ownership. Not all cities will want to build Municipal Housing, but it is only right that the power to determine this should sit at a city-level.

Step 3: Build More and Better Housing

Housing Completions by sector, UK 1949-2012



Source: DCLG <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>