

Stable foundations: How can this Labour government fix the housing crisis?

WEBB, Jonathan

Available from Sheffield Hallam University Research Archive (SHURA) at:

<https://shura.shu.ac.uk/34266/>

This document is the Accepted Version [AM]

Citation:

WEBB, Jonathan (2024). Stable foundations: How can this Labour government fix the housing crisis? *Renewal: A journal of social democracy*, 32 (2 & 3), 125-134. [Article]

Copyright and re-use policy

See <http://shura.shu.ac.uk/information.html>

Stable foundations: How can this Labour government fix the housing crisis? Jonathan Webb

The Labour Party have placed huge emphasis on planning reforms to fix England's broken housing market. However, these reforms need to be considered in the context of how our housing market operates, the profit-seeking behaviour that underpins it and the power relations that are baked into it.

Introduction

The UK's housing market has grown exponentially in recent decades. Even major recessions, such as the ones experienced in the early 1990s or the late 2000s, have had little impact on its long-term trajectory. Between November 2010 and November 2023 alone, the average UK house price increased by £116,000.¹ While the last decade has been characterised by cuts in public spending and stagnating living standards, the housing market has continued to surge.

There is now a huge divide between house prices and incomes. While the problem is UK-wide, it is most acute in England where, in 1997, the average house value was approximately three times the average annual salary. Twenty-five years later, the average house value was approximately eight times the average salary.² This affordability problem is most pronounced in the South-East of England and growing urban areas such as London and Manchester. However, it is by no means confined to any one place. Across the country, there is now a growing wealth inequality between those who have a significant amount of equity in property and those who do not.

The Labour Party have placed huge emphasis on planning reforms to fix England's broken housing market. However, these reforms need to be considered in the context of how our housing market operates, the profit-seeking behaviour that underpins it and the power relations that are baked into it.

The limits of planning reforms

Labour has promised to reform England's planning system as part of its pledge to 'back the builders, not the blockers.' By liberalising planning, Labour hopes to increase housebuilding and boost economic growth. Keir Starmer himself has professed to being a 'YIMBY'.³ The 'Yes in my back yard' movement argues that high house prices are a result of housing undersupply. By removing planning 'red tape' and making it easier to build homes, the logic follows that supply will increase and prices will fall.⁴

It is true that we don't build enough homes in England; this does impact supply and prices. However, the type of housing we build and where matters. Progressives – including those who might broadly agree with YIMBY objectives – should be focussed on the distributional impacts of housing. A major issue in England is the undersupply of social housing and the adverse consequences that stem from this undersupply. For example, it leaves many lower income households with no choice but to rent in the private rented sector where rents are volatile, and rights are limited. The undersupply of social housing also affects the availability

of supported housing provision. This limits the accommodation on offer to vulnerable people, including those with specific care needs or experiencing homelessness.

Understanding the distributional impact of England's housing problem requires not just an analysis of its planning rules, but also of the institutions and actors that operate in the housing market. This analysis reveals the role that profit plays in shaping housing outcomes. An oligopoly of large housebuilders now dominates England's housing market. In contrast, the state and non-profit organisations play a minimal role in the construction of new homes and infrastructure. Today, approximately 40 per cent of all new homes completed are built by eight large housebuilders.⁵ These developers have generated huge profits by dominating the market. Their focus on profit trumps any altruistic motives these companies might have for building new homes. In 2022 alone, the country's biggest housebuilders paid £1.8 billion in dividends to their shareholders.⁶ A dividend paid is an opportunity lost to do something more useful like build social housing or other essential public infrastructure.

It seems unlikely that market-led developers would change their behaviour in a liberalised planning system. Housing has ultimately been deemed a good investment not only by housebuilders, but also by financial institutions that increasingly speculate on housing and hope to take a share of the profits. At the same time, we cannot simply ignore the distributional impact of the housing market and the fact that it is often the most excluded and marginalised households who face the most volatility and least certainty when it comes to housing. Helping these people requires a rethink of what our policies prioritise and whether they fairly uphold the fundamental benefits of housing. If this Labour government wants to transform how housing works in England, it must develop a policy agenda that repositions housing to work in the common interest.

Public ownership and state-led development

Bringing more land into public ownership would significantly change land ownership in England and how the land market operates. Public ownership can remove land from the market and give national and local government a greater role in determining the use and subsequent value of land.⁷ This could help control prices and decide whether land is used for market housing, social housing or other public infrastructure. The aim of this policy would be to improve the distribution of housing and more effectively assemble land for infrastructure development.

Existing policies such as Section 106 agreements and the Community Infrastructure Levy are ineffective in compelling market actors to build affordable homes and at capturing the benefits of increased land value.⁸ When it comes to new hospitals, social housing or even new low carbon energy infrastructure – these things are all more likely to be built when government can control how land is used. Labour's plan to build the next generation of New Towns would benefit immensely from this new approach to land ownership and distribution.

Greater public ownership of land would allow Labour to build on its promise to reform Compulsory Purchase Order (CPO) regulation so that local authorities can buy land for development at its existing value, as opposed to its prospective use value or hope value. This approach is already used in other countries such as Singapore, where land acquired through CPOs has been successfully retained, governed and leased for development. This has enabled the state to effectively control land values and build both affordable housing and public infrastructure at scale.⁹ In the German city of Ulm, local government regularly buys land at

its relatively cheap use value. It then either directly develops the land itself or sells it to private developers under strict conditions that the development includes affordable housing or public infrastructure.¹⁰

International examples emphasise the role that strong state institutions play in delivering infrastructure and homes. In England however, existing institutions and their various funds and mechanisms do not seem up to this task. For example, the previous government's Housing Infrastructure Fund (HIF) has significantly underdelivered. It was unable to respond to rising costs and viability issues. As a result, up to two thirds of the £4.2 billion fund went unspent.¹¹ On the housebuilding side, Homes England is the main public body responsible for funding the construction of affordable homes. However, it does not currently involve itself in the delivery phase of housebuilding and as such plays a limited land assembly role.

In the current context, there's a strong case for creating and enabling institutions at the national and local level that can steer development. The Joseph Rowntree Foundation has suggested that a new 'public sector master developer' could guide development and encourage the right mix of market housing, social housing and public infrastructure in local areas.¹² This master developer could take the form of shared development corporations at the local level. This would bring the expertise, resources, and skills of national and local government together with other institutions to deliver new development at scale. As an approach, this would represent a significant change and could help curb the profit maximisation that underpins the current market.

The cost of pursuing a public ownership policy and using it as a stepping stone for more state-led development varies across the country. In London for example, the average cost of brownfield land is approximately £6.6 million per hectare. However, this high acquisition cost is typically offset by more dense development. In North West England, brownfield land costs approximately £600,000 per hectare.¹³ Using the North West as an example, if we assume an average density of thirty homes per hectare and a net profit of £75,000 per unit, the public costs of acquiring the land and remediating it could be recovered by selling no more than half the site as market-rate housing.¹⁴ The remaining land could then be used to build social housing and other public infrastructure.

Replacing failed programmes like the HIF with a £4.5 billion public ownership fund could secure up to 3000 hectares of land for development across the country.¹⁵ Government could retain parts of the acquired land to build social housing and sell the rest to private developers to recover its costs. Alternatively, it could impose strict criteria on private developers to build social housing or community assets, in exchange for selling them the land. This policy would unlock anywhere between 100,000 and 150,000 homes, at least half of which would be social housing.¹⁶ This would help Labour meet its ambition to build 1.5 million homes across the country.¹⁷ The full costs of this fund would be recovered through land value capture.

From assets to homes: Expanding rights across tenures

So far, this article has focussed on policies that can shape the outcomes of housing and infrastructure delivery. However, housing is more than just bricks and mortar. A house becomes a home when it offers its occupants important benefits. For example, good housing free from damp and mould can ensure that people live longer and healthier lives. Security of tenure is often crucial to ensuring these benefits materialise. Currently both these benefits and

housing security vary significantly across tenure. A policy programme to transform housing must address these discrepancies.

Housing tenure strongly correlates with wealth, security and wellbeing. According to the English Housing Survey, outright owners tend to have higher levels of household wealth when compared to other tenures. They also have an almost guaranteed stability of tenure. Both outright owners and mortgage households report higher levels of life-satisfaction and wellbeing when compared to renters. Social renters generally have less wealth, but may benefit from more assured tenancies, giving them more stability in their home. Private renters generally lack both wealth and stability of tenure. They are also the most likely to live in accommodation that has a detrimental impact on their health.¹⁸

The political emphasis on home ownership since the early 1980s has implied that renting is a tenure that people should aspire to escape from and that better life outcomes can be unlocked through property ownership. This has created a hierarchy of tenures that has seen the development of policies that are designed to enable and sustain higher levels of property ownership. For example, Right to Buy and Help to Buy. In contrast, the last largescale policy to improve renters' lives was New Labour's Decent Homes Standard that was introduced in 2000. The last Conservative government's levelling up commitments to improve private renting that were promised in 2019 never materialised.

People should feel healthy, empowered and secure in their own homes, regardless of their tenure. International standards that affirm the right to adequate housing should act as a foundation for Labour's reforms of both social and private renting in England.¹⁹ This should include an end to arbitrary and illegal evictions and ensure tenancies are both secure and affordable. Increasing the prosecution rates of rogue landlords who fail to uphold decent standards in both the social and private rented sector would also send a strong message that housing decency cannot be an afterthought.

While Right to Buy might be seen as a pathway to prosperity, its policy outcomes have been disastrous. The selling of social housing at heavily discounted rates has contributed to an average annual net loss of 24,000 social homes.²⁰ In 2024, it was found that up to 40 per cent of council homes sold through Right to Buy are now rented privately.²¹ Far from realising the dreams of property ownership, a significant number of Right to Buy properties have enriched private landlords at the expense of their tenants. At the same time, deteriorating finances and a reduction in subsidy means that social housing providers are unable to fund new housing through Right to Buy receipts alone. Labour should consider following the example of Welsh Labour and abolish the policy in its entirety. Instead, it should focus on making renting a more stable, decent and prosperous tenure that is an attractive alternative to home ownership.

Capturing property wealth

A key factor that has made the idea of home ownership so appealing is the relationship between ownership and the accumulation of wealth. Housing is a speculative asset that is valued by both institutional investors and individuals. However, wealth accumulated through property is not effectively captured through taxation and as a result, the benefits of wealth are not distributed fairly across society. In an era of declining social mobility, it is unsurprising that the idea of property ownership and its promise of wealth remains so enticing. A third policy strand focussed on redistributing wealth within the housing market can help Labour create a fairer society.

Labour should prioritise property tax reform to more effectively and fairly tax property wealth. Council Tax and Stamp Duty Land Tax (SDLT) are unfair, inefficient and unpopular. Council Tax doesn't reflect modern property values and is levied on the occupier, not the asset owner. It is calculated in relation to the proposed value of the property in 1991, meaning it does not rise progressively with house prices. SDLT is progressively linked to property values as more expensive properties attract more SDLT. However, SDLT tends to 'gum' up the housing market and the desire to avoid SDLT often disincentivises people from moving.²² This further rations an already limited supply of housing.

The most effective way of reforming these taxes would be to introduce a new proportional property tax that is linked directly to house values and levied on an ongoing basis. This would more effectively capture property wealth and ensure it is the landlord or asset owner who pays, not their tenant. This tax could be levied monthly and property values updated annually via the House Price Index to ensure the tax remains fair. Analysis suggests that under this proposal, a majority of households would pay less tax.²³ A proportional property tax would be capable of matching combined council tax and SDLT revenues, while also shifting the tax burden from less wealthy to more wealthy households.²⁴

To manage the impact on lower income households, exemptions could be set for low value properties and in cases where households have an asset but no real income, payment could be deferred to a future sale or inheritance. Surcharges could also be applied to additional properties to disincentivise the accumulation of multiple properties in a local area. Tax rates would be set locally, and a significant amount of the tax income kept by local authorities. Central government would play a role in distributing tax surpluses from property rich areas to areas of lower property wealth. Unlike SDLT, this tax would also help incentivise movement in the property market by removing a large tax at the point of purchase.

Tax reform is often seen as politically risky. However, polling conducted in 2022 found that current property taxes are viewed unfavourably. In contrast, the idea of replacing these taxes with a proportional property tax received widespread support.²⁵ As rising council tax bills start to impact households and local government finances look increasingly shaky, now might be the best time to propose a radical but pragmatic solution.

A new agenda for housing renewal

Changing the narrative about housing in this country is essential if Labour wants to pursue a bold policy agenda. Labour must rethink how we talk about housing, the purpose it intends it to serve and the wider role it plays in our society. Focussing on a more active and state-led approach to land ownership and development would give this Labour government the means to address shortfalls in social housing and accelerate infrastructure development. Alongside this, an emphasis on expanding rights across tenures would transform renting in this country. Reforming property taxation is the final part of this redistribution puzzle and can help ensure the benefits of property wealth are distributed more fairly. Individually, these areas of policy reform can have a positive impact. Taken together, they can provide Labour with a vision that would distinguish this government from those that have come before it.

The changes proposed here speak to a growing demand for intervention to better regulate markets. The public increasingly aren't convinced that corporations are best placed to deliver key social goods. The profiteering seen by the monopolies of energy distributors and water

companies is not dissimilar from the oligopoly of big housebuilders or the rent raising behaviour of private landlords in recent years. Labour is already developing a new supply-side economics that focuses on the state playing a more active role in providing the essential infrastructure and goods the nation needs. Public ownership, state led development, an expansion of housing rights and a fairer distribution of housing wealth all sit well within this ‘securonomics’ agenda.²⁶

The task for Labour then is significant. However, it is also necessary. It is difficult to see how any long-term plan for a better economy and fairer society can ignore our broken housing market. Housing underpins nearly every aspect of our lives – our health, our access to work, our relationships and our links into our communities. If Labour is to build a fairer economy that is underpinned by social justice, there may be no better place to start than housing.

Dr Jonathan Webb, Principal Research Fellow, Centre for Regional Economic and Social Research. Sheffield Hallam University.

¹ Office for National Statistics [ONS] ‘House price Index: January 2024’
<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/november2023>, 17 January 2024

² ONS ‘Housing affordability in England and Wales: 2022’
<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2022>.

³ BBC News, ‘Sir Keir Starmer says he is a house building Yimby’.
<https://www.bbc.co.uk/news/uk-politics-67075706>, October 2023.

⁴ Anthony Breach, ‘Planning for the future: How flexible zoning will end the housing crisis’. Centre for Cities. <https://www.centreforcities.org/publication/planning-for-the-future/>, June 2020

⁵ Tom Archer and Ian Cole, ‘The Invisible Hand that Keeps on Taking: Value extraction from large housebuilders and its impact on the UK’s housing system’. Centre for Regional Economic and Social Research. <https://www.shu.ac.uk/centre-regional-economic-social-research/publications/the-invisible-hand-that-keeps-on-taking> December 2023.

⁶ Ibid

⁷ Josh Ryan-Collins, ‘Breaking the housing–finance cycle: Macroeconomic policy reforms for more affordable homes’, *Environment and Planning A: Economy and Space*, Vol 53 No 3, 2021, pp480-502.

⁸ Tony Crooke, ‘Capturing increases in land value’, UK Collaborative Centre for Housing Evidence. <https://housingevidence.ac.uk/wp-content/uploads/2019/12/191212-capture-inc-in-land-value-TC.pdf>, 2020. These mechanisms also work in contradictory ways. See Alexander Lord, Chi-Wan Cheang, and Richard Dunning, ‘Understanding the geography of affordable housing provided through land value capture: Evidence from England’, *Urban Studies*, vol 59 no 6, pp.1219-1237, 2022.

⁹ Beng Huat Chua, ‘Singapore: a property-owning procedural democracy in practice’, *Housing Studies*, pp1-20, 2023

¹⁰ OECD, ‘Global Compendium of Land Value Capture Policies: Germany’.
<https://www.oecd-ilibrary.org/sites/615b528d-en/index.html?itemId=/content/component/615b528d-en>, April 2024

¹¹ Institutions such as Homes England are also underperforming due to viability challenges across many sites in England. See National Audit Office: <https://www.nao.org.uk/reports/the->

affordable-homes-programme-since-2015/, September 2022. Financial Times, ‘Two-thirds of £4.2bn UK housebuilding fund unspent despite homes crisis’.

<https://www.ft.com/content/19774a27-8964-4a5f-a705-05c91cb70e4c>, January 2024.

¹² Darren Baxter and Graeme Cook, ‘The missing piece: the case for a public sector master developer’. Joseph Rowntree Foundation. [https://www.jrf.org.uk/housing/the-missing-piece-the-case-for-a-public-sector-master-developer#:~:text=This%20briefing%20calls%20for%20development,with%20homes%2C%20jobs%20and%20infrastructure](https://www.jrf.org.uk/housing/the-missing-piece-the-case-for-a-public-sector-master-developer#:~:text=This%20briefing%20calls%20for%20development,with%20homes%2C%20jobs%20and%20infrastructure.). 28 September 2023.

¹³ Thanks to Glen Bramley who provided the full version of his ‘Housing Need Requirements in England’ to inform these estimates:

https://pure.hw.ac.uk/ws/portalfiles/portal/113960635/Bramley_G._HOUSING_REQUIREMENTS_IN_ENGLAND_REVISITED.pdf

¹⁴ Data on the average density of new homes per hectare from DLUHC’s Land use statistics:

<https://www.gov.uk/government/statistics/land-use-change-statistics-2021-to-2022>. For

average net profits per housing unit, see Roberts and Axon,

<https://theconversation.com/builders-are-making-thumping-profits-by-over-charging-for-new-homes-new-findings-200750>, March 2023. For remediation costs, see Environmental Industries Commission, <https://eic-uk.co.uk/media/7960/eic-report-brownfield-first-supporting-levelling-up-final.pdf>, 2021.

¹⁵ This assumes an average land value cost of £1.5 million using Bramley’s estimates for different English regions.

¹⁶ The actual number would depend on the final density of development across acquired sites.

¹⁷ BBC News, ‘Labour unveils plans for new housing on ‘grey belt’,

<https://www.bbc.co.uk/news/uk-politics-68849078>, 19 April 2024.

¹⁸ For the underlying data on the outcomes highlighted in this section, see: English Housing Survey, ‘Chapters for English Housing Survey 2022 to 2023 Headline Report’.

<https://www.gov.uk/government/statistics/chapters-for-english-housing-survey-2022-to-2023-headline-report>, December 2023

¹⁹ The UK Government has at best a patchy record with meeting these UN recognised standards. See: Equality and Human Rights Commission, ‘Follow Grenfell: the right to adequate and safe housing’.

https://www.equalityhumanrights.com/sites/default/files/following-grenfell-briefing-right-to-adequate-safe-housing_0.pdf, 2018.

²⁰ Shelter, ‘Social housing deficit’.

https://england.shelter.org.uk/support_us/campaigns/social_housing_deficit, April 2024.

²¹ Alex Diner and Hollie Wright, ‘Reforming right to Buy’.

<https://neweconomics.org/2024/05/reforming-right-to-buy>, May 2024.

²² Shreya Nanda, ‘Pulling down the ladder’, IPPR. <https://www.ippr.org/articles/pulling-down-the-ladder>, September 2021.

²³ These proposals follow the work of Paul Cheshire and Christian Hilber’s ‘Home Truths’.

https://www.brightblue.org.uk/wp-content/uploads/2021/05/BB_Property-Taxes-Report-May-2021_prf06b.pdf, May 2021.

²⁴ Shreya Nanda, ‘pulling down the ladder’.

²⁵ JL Partners polling on both existing property taxes and proposed proportional property tax:

https://jlppartners.com/s/25032022_Fairer_Share_PPT-9pp4.xlsx, March 2022.

²⁶ Rachel Reeves, ‘Time for Securonomics’, *IPPR Progressive Review*, vol 30, no.3, pp.145-244, November 2023.