

Private Sector Housing Supply Summary Paper – June 2011

Economic considerations

An effective market for new housing is essential in matching housing supply with growing demand whilst maintaining affordable house prices and preventing overcrowding or homelessness. The development of new housing supply is a vital part of Wales' economy – creating widely dispersed, labour intensive economic activity with relatively low import dependence. The Welsh Government recognises the broad importance of home building and wishes to see a vibrant Welsh market in new homes.

Demand for Housing

The Holman's (2010) study shows that approximately 14,200 houses are required per annum to meet housing need arising from demographically driven household formation. Of these approximately, two thirds, or 9,200 are estimated to be required from market housing. Between 1 April 2010 and 31 March 2011, 4,513 market homes were delivered in Wales, which is approximately half of the requirement as stated by the Holman's study. The Welsh Government recognises that private housing supply and the demand for social housing are linked, and will place increased emphasis on private housing supply.

Barriers to private housing viability

We recognise that economic conditions have changed and a range of factors can combine to threaten the viability of some developments. These may include:

- Rationing of mortgage finance following the credit crunch
- Regulatory compliance costs that exceed home-buyers' willingness to pay for higher building standards
- Planning constraints and/or limited availability of land in locations where there is demand for new housing
- Planning obligations (through S.106 or similar) that attempt to extract planning gain
- Incentives for banking land instead of building

The important contribution of market housing has been recognised by the Housing Directorate, which has taken a number of steps to support the house building industry in recent years. We recognise these barriers and potential impacts on viability of developments and housing supply, and will give these issues proper consideration alongside the other environmental, social and economic policy objectives.

Work in Progress

The task and finish group set up on home provision produced a number of recommendations and an update on these recommendations are included in Appendix 1. It is intended to set up a Work stream under the Housing

strategy implementation board which will examine housing supply in the private sector and how barriers to supply can be reduced or removed. Welsh Government is initially scoping the work and gathering more evidence on levers and barriers to increasing the supply of housing.

The following actions are also taking place or have recently happened:

- Welsh Government Housing officials have met with the Home Builders' Federation including the Economics Director and representatives from Redrow and Persimmon Homes to discuss increasing supply through levers and removing barriers.
- An evaluation is under way of a credit insurance proposal to assist in mortgage liquidity to support the house building industry
- Investigations by Welsh Government are also continuing into the Local authority mortgage scheme operating in England where local authorities can guarantee mortgages for first time buyers
- Welsh Government is also considering a proposal for a revolving loan fund for local authorities to bring empty private sector properties back into re-use which will increase the supply of housing
- A working group with local government and the lending institutions and Welsh Government is discussing how to tackle inconsistent approaches to s106 planning agreements for affordable housing and a further update on this work will be provided in due course.

Appendix 1

Up-date on Task and Finish Group on Home Provision for Economic Summit 6 July 2011

Background

At the meeting of the Council for Economic Renewal on the 1st December 2010, the First Minister asked for a Task and Finish group to be set up to explore the issues raised in the Home Builders' Federation (HBF) and Federation of Master Builders (FMB) paper and to report back to the March 9th meeting of the Council for Economic Renewal.

At the Council meeting on 9th March, the Council discussed the paper and noted that the Task and Finish Group had proposed routes to take out-standing issues forward, including for the report from the Task and Finish group to go to the Housing Strategy Implementation Board.

This paper

This paper outlines progress made with the recommendations from the Task and Finish Group since the Council meeting on 9 March.

Recommendations

Recommendation: that when considering policies for home provision and refurbishment, the economic value of this sector should be taken into account and that any differential value between the construction pound between Wales and the UK be established and if further research be undertaken if required.

Following the meeting, some further consideration has been given to this issue. Whilst the numbers have not been validated in detail, economists suggest that a lower multiplier for Wales than for the UK could be expected. This reflected the fact that the Welsh figure captures only the spending that is induced within Wales - in so far as construction activity within Wales induces spending in the rest of the UK, this will not be reflected in the Welsh multiplier. By contrast, the UK figure captures all induced spending wherever it takes place within the UK. In general, for any industry, multipliers will be greater the more extensive is the spatial area to which they refer.

Recommendation: views would be raised with the Minister for Housing, Regeneration and Heritage and the Assembly Government should consider establishing a work stream under the Housing Programme Board where market housing needs and opportunities, policies and practices could be discussed.

We are in the process of setting up a group to look at housing supply. This is in its initial stages and will be opened up to external

organisations as a work stream in due course. Evidence is currently being looked at in terms of what the problems are for Wales eg volatility, affordability, high house prices and what the relationships are between these.

Recommendation: A joint paper from the Task and Finish Group, prepared by HBF and DESH officials, should go to the Housing Programme Board.

The Council for Economic Renewal Paper was circulated to the Housing Strategy Implementation Board in April 2011. It is to be discussed in more depth at the July meeting.

Recommendation: that the Assembly Government uses the worked examples on land values as a case study for its project to examine the cumulative impact of regulation generally and specifically in relation to the work underway aimed at developing changes to devolved Building Regulations.

This work will take place as part of the Regulatory Impact Assessment of the new building regulations. It will test the implications of higher construction costs. The Three Dragons tool kit has already been obtained for this purpose and there is also the option of using the Homes and Communities tool kit. Construction Unit staff are meeting with Welsh Government economists during June to further explore the cumulative issue.

Recommendation: a meeting is to take place between the relevant task and finish Group members and Welsh Local Government Association to discuss the impact of different approaches by Local Authorities, particularly in regard to Section 106 and affordable housing requirements

This group met in May to broker a more standardised approach between the lenders and local authorities in respect of s106 Planning agreements for affordable housing. A further meeting chaired by the Welsh Government will take place in early July.

Recommendation: The Assembly Government to write to the UK Government asking for consideration to be given to reduce VAT on home improvements and maintenance work. This would assist work to bring empty homes back into re-use which is a priority for the Minister for Housing, Regeneration and Heritage.

This has been done.

Recommendation: Assembly Government to provide a summary of energy efficiency schemes for Group members.

This was passed to the HBF in May 2011.