

# Housing—Can the Planning System deliver 200,000 Dwellings a Year?

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## Introduction

There can be few people who remain to be convinced that there has been, and currently persists, a housing crisis in England. The problems of affordability in the housing market are of national concern and the pressure of household formation rates well in excess of current housing targets has led the government to increase these targets throughout England.

Whether there is a crisis over the number of new homes needing to be built or whether we need to use our existing stock more efficiently will continue to be a topic of debate. Thus, while we all appear to agree that “something needs to be done” we continue to debate the potential solutions to the issue. The solution, or solutions, to this thorny problem, it seems, are far from clear and less than simple.

However, there is one obvious thread running through the debate from wherever you approach it. Whatever the solution to our crisis, the effect and role of the planning system, either through spatial policy or delivery of land for housing, will be central to the way forward.

Issues such as infrastructure provision, funding of affordable housing and central versus local control are all sideshows to the fundamental truths of planning for housing. This paper does not, therefore, enter into the debate regarding delivery of housing in terms of tenure split, nor does it address spatial choices in any great depth. It is, rather more simply, focussed on whether the planning system can (and will) facilitate an increase in housing output over the next 15–20 years.

It therefore examines the two key elements of housing delivery. First, we must plan to allow land for housing to be delivered; secondly, we must ensure that the housing land is developed in a timely and market responsive way. The two key issues of deliverability and developability are now at the forefront of planning for housing. Is our planning system able to respond to this challenge?

Can (and will) the planning system deliver 200,000 homes per year?

## A Housing or a Planning Crisis?

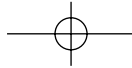
Indeed, the question posed by the paper is already out of date.

The target of 200,000 dwellings per year (for England) was set by government in its response to the Barker report, published in December 2005. However, the Housing Green Paper,<sup>1</sup> published by CLG on July 23, 2007 increased this national target to 240,000 per year by 2016. In actual fact the two targets announced in the Green Paper were for 2 million new homes by 2016 and 3 million homes by 2020.

The only certainty about this target is that CLG is not strong at mathematics. To produce a million new homes in the four years between 2016 and 2020 would require a target of 250,000 per year, not 240,000. The annual target for the period up to 2016 is even more unclear.

<sup>1</sup> Homes for the Future; more affordable, more sustainable, Communities and Local Government, July 2007





Because it is never specified in the Green Paper, we can only assume that the period to which the first 2m figure relates is the 10 years of 2006–2016. This is a reasonable assumption since it would match the previously stated target of 200,000 new dwellings per year.

However, the number of completions for 2006 is already an actual figure that cannot be changed. It was, approximately, 163,000 additional dwellings. Thus, the target for 2007–2016 is some 183,700, already increasing the average requirement to 204,000 per year for this remaining nine year period. Similarly, projected completions for 2007 suggest that the year's completions will amount to around 180,000 dwellings, leaving a target for the eight years 2007–2016 of 1,657,000, the equivalent of 207,000 dwellings per year. We are already seeing the housing target running away from us and we haven't even attempted to address it yet.

So what needs to be done? If we are to build 200, 207 or 240,000 dwellings per year we must plan for them. We must ensure that we grant implementable planning permission for them. Then we must build them.

#### **Are we planning for 200,000 dwellings?**

Looking back over the last 60 years of the planning system I suggest that there is one defining moment when we threw the switch on planning for housing from a system that facilitated development and change, and planned positively for it, to a tool for saying no! a NIMBY (not in my back yard) charter, a BANANA (build absolutely nothing anywhere near anyone) republic.

That moment was the introduction of the plan led system, brought about by s.54A of the 1991 Planning and Compensation Act<sup>2</sup>.

Prior to that moment the presumption in favour of development meant that the market could respond to signals of pressure, to demand and supply imbalance and to availability of sites, bringing forward redevelopment projects as and when the sites became available. Let's not forget that since the Second World War the proportion of new homes built on previous developed land (albeit that various definitions have been used over time) has never once fallen below 47 per cent of all new dwellings in any one year.

However, the plan led system changed everything. By removing the presumption in favour of development and relying on the, then new style, development plan to identify sites for housing it was doomed to undersupply against targets set out in the then regional planning guidance notes.

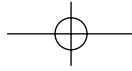
With regional and local housing targets seen as a ceiling, not to be exceeded, the allocation of land for housing was reliant upon assumptions over delivery and development assumptions. The requirement to undertake five-year land supply calculations was still in place under PPG3<sup>3</sup> post 1991 but the "protection" of the development plan led system meant that many local planning authorities chose to use the prematurity rule to obviate the need to keep such supplies up to date.

The introduction of the plan led system meant that an authority in the early stages of plan preparation could fall below a five-year supply of land for housing while claiming that any shortfall would be addressed through the plan preparation process. With many plans falling behind their preparation timetables this meant that less and less land was being brought forward for development.

<sup>2</sup> Planning and Compensation Act 1991, s.54A HM Government, July 25, 1991

<sup>3</sup> Planning Policy Guidance Note 3: Housing, Department of the Environment, March 1992





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Indeed, the very process of plan led development, utilising an allocations based approach rather than criteria based policies was always going to under deliver land for housing. Inevitably, if one identifies just enough sites to meet the regional strategic targets it would take a minor miracle (or foresight so sharp that your career would be better spent at the racecourse or buying lottery tickets than cooped up in the back office of a local planning authority writing development plans) to see all of those sites delivered against target, in the 10 year timeframe of a then new style local plan.

Even those authority areas in which housing was delivered above the rate required by the plan's target would not replace that land with new allocations for the later years of the plan. Indeed, why would they? If the planning strategy for the area was to provide for a particular quantum of housing in a particular area, if that target was met well within the 10 year timeframe of the plan then surely additional dwelling completions in that area would be contrary to the planning strategy?

The ultimate example of the use of ceilings for housing targets being a constraint on authorities was the moratoria policies that emerged in the North West region (and in some other areas) when housing targets for some area were dramatically reduced as the spatial pattern of distribution was concentrated into urban areas to achieve regeneration aspirations. Almost overnight, many of the areas outside the regeneration centres imposed a moratorium on granting any new planning permissions for residential development, arguing that to provide for additional dwellings in their areas would put the regeneration focussed strategy at risk.

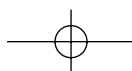
Unfortunately, under delivery of housing supply against demand inevitably results in housing stress in the market which, in turn, leads to affordability pressure. (Please note that in this context the affordability issue is not about the provision of affordable housing, for which there is a very different bagful of issues outside of the development plan process not addressed through this paper). This is precisely what happened in the North West region in those areas operating a moratorium policy against new planning permissions. Such obvious unintended consequences of the spatial policy led to the revision of the North West Regional Spatial Strategy, increasing overall housing provision by some 75 per cent throughout the region, principally to seek to address the unintended consequences of the well meant, but too tightly constraining, policy of the previous regional planning guidance.

It is clear that the development plan led system can contribute directly and significantly to the provision of housing supply against demand. Where this plans for less than an optimum match between demand and supply this will, inevitably, lead to the issues that create the problem of our current housing crisis.

So, can the new planning system also be the tool to drag us out of it?

### **Are we planning for enough homes?**

In order to deliver any number of homes through the planning system we must plan for them. In a plan led system that hitherto, outside London, has used housing targets as a maximum rather than a minimum provision, the housing requirements set out in development plans must, inevitably, meet the needs of the population. To do otherwise would, inevitably, place stress on the market.



The current round of Regional Spatial Strategies (RSS) therefore makes for extremely interesting reading when assessed against the 200,000 dwellings per annum target set down by central government.

<b>Region</b>	<b>Draft RSS</b>	<b>Post EiP</b>
North East	6,295	+285
North West	22,844	+267
Yorkshire and The Humber	16,607	+5,533
East Midlands	20,418	
West Midlands	18,130	
South West	23,060	
East of England	23,900	+2,930
South East	28,900	+3,100
London	30,650	
<b>ENGLAND TOTAL</b>	<b>190,80</b>	<b>+12,115</b>

Source: Submitted draft RSS, Secretary of State and various Panel Reports (except West Midlands: WMRA Preferred Option, October 2007).

The table shows that all of the submitted draft RSS would have planned for just 187,500 additional dwellings per annum, some 12,500 short of the government target. Over the 20 year strategic planning period of the Strategies this would result in adding to the housing crisis by a massive 250,000 dwellings, or, as CPRE might put it, a city the size of Newcastle Upon Tyne. Indeed, set against the target of 240,000 dwellings per year post-2016, the draft RSS would plan for a massive housing shortfall of 52,500 dwellings each and every year. A city the size of Hereford.

However, we are already starting to see panel recommendations and proposed changes to the emerging RSS recognising the need for additional housing. The government is clearly taking a leading role in planning for more housing.

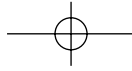
Indeed, perhaps the most surprising action taken by the Secretary of State is in her approach to the modifications to the East of England Plan. Support for the Panel's conclusion that the overall provision for housing should be increased from that proposed in the draft, submitted plan might have been expected. However, it was the act of treating the figures in the RSS as a minimum provision that was, outside of London, a groundbreaking move.

The proposed policy H1<sup>4</sup> states quite clearly that

“District allocations in this policy should be regarded as minimum targets to be achieved, rather than ceilings which should not be exceeded.”

It is, therefore, with great interest that we await the proposed changes to the other emerging RSS in the hope that they too might be changed from regarding housing provision as a ceiling to a minimum provision.

<sup>4</sup> Secretary of State's Proposed Changes to the Draft Revision to the Regional Spatial Strategy for the East of England, Government Office for the East of England, December 2006



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This change in approach is, of course, consistent with the policy change set out in the most recent PPS3<sup>5</sup> and the requirement for Strategic Housing Land Availability Assessments, but I shall return to that later in the paper.

### **The development plan system**

Of course, there is more to planning for housing than merely setting out a target in a regional spatial strategy. These targets must be translated into allocations and identification of sites on the ground. In order to do this Local Planning Authorities (LPAs) must prepare their own local development plan documents (DPDs) including a site allocations DPD.

Much has been written about the apparent slow progress of the new development plan system introduced by the 2004 Planning and Compulsory Purchase Act<sup>6</sup>. But is it really the system that is at fault?

The clear thought process behind the new system was to allow development plan documents to be short, focussed and criteria based. In order to be so, they should follow an inclusive process, proceeding to inquiry as a final step in the process. With so few DPDs having progressed through the process to be declared sound it is tempting to look for someone or something to blame.

It would be easy to suggest that it is the local planning authorities that are at fault. Obviously they are at the heart of the plans' production setting out through their local development schemes what plans are to be produced and when. That so few have stuck to their original programme suggests either that so many LPAs are poor project managers or that there is something inherently wrong with the system. Since the first seems instinctively untrue the fault, it seems, must lie with the system.

However, the process of involvement and partnership with stakeholders, particularly private sector developers has, to all intent and purposes, been absent from almost all of the emerging plans. Once again it is not just local authorities that are at fault. The private sector has yet to truly gear itself up to interacting with the development plan system in a new way. The front loading approach to involvement in emerging policy is both costly and uncertain in terms of timescales.

Whether the process will be best sorted out through more central government guidance or whether it is better to establish best practice through more practice is a matter of some debate. However, in planning for housing there are now so many processes that require partnership working and inclusion of all stakeholders that we must address this issue rapidly.

### **New tools for delivery**

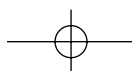
The latest iteration of PPS3<sup>7</sup> launched a new era for planning for housing. However, not all of the ideas are new, with much being drawn from the pre 1991 era. A recognition of the market forces within both society and the development industry runs as a vein through the policy statement and processes such as strategic housing market and land availability assessments are reminiscent of the work undertaken pre 1991 in terms of housing land availability studies.

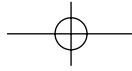
One of the key drivers behind PPS3 is the recognition that in order to build more homes we must plan for new homes. It was an old adage of the land availability study era of the late 80's/early 90's that you couldn't live in an allocation. It was only completions that counted towards housing supply.

<sup>5</sup> Planning Policy Statement 3: Housing, Communities and Local Government, November 2006

<sup>6</sup> Planning and Compulsory Purchase Act 2004, HM Government, May 13, 2004

<sup>7</sup> Planning Policy Statement 3: Housing, Communities and Local Government, November 2006





The guidance contained in “Tapping the Potential”<sup>8</sup> was more concerned with what could happen, not what was likely to happen. This exacerbated the undersupply of homes against targets as more and more “potential” studies relied heavily on undevelopable and undeliverable sites and sources of new housing supply. Since this reliance propped up the assumptions behind the amount of land it was necessary to identify in development plans to meet the top down housing target ceiling, when, inevitably the potential was not realised, the result was a shortfall in housing delivery.

The brand new guidance on strategic housing land availability<sup>9</sup> attempts to draw from the best elements of “Tapping the Potential” and place them within a framework of delivery. Thus, the assessment should include an analysis of all land that is suitable for housing development but places an additional check of deliverability upon the assessment.

Similarly, the requirement in PPS3 to identify an immediate 5-year and 10-year supply of land for housing requires sites to not only be identified but to be developable and deliverable. Sites must be tested not only by the local authority but also by the private sector, the very people that will have to deliver the site if it is ever to be developed and count towards the housing requirement of the District.

Of course, despite what some people think, such a process is not new. Housing land availability studies of the past were agreed documents. Representatives of the housebuilding industry audited them every other year: every site, in almost every local authority area. It was possible then; it should still be possible today.

### **Land banking**

The return to a requirement for a rolling five-year housing land supply will also put to bed the current fears of landbanking by housebuilders.

Hitherto, the landbanking debate has centred on whether or not land that is allocated in plans or granted planning permission is developed at the most efficient rate. The premise is simple. If a site has permission for 100 dwellings and is developed at 50 dwellings per year it will take two years to build. If it is developed at 100 dwellings per year it will be completed within one year and the housing delivery rate will have doubled. Thus, argue some commentators, housing output is not a function of plan allocations or permissions but is controlled directly by the housebuilding industry itself. The two contentions are that:

- The housebuilding industry has plenty of planning permissions that it could implement; and
- Housebuilders do not implement permissions, preferring instead, to wait for an upturn in the housing market, thereby making more profit from the increased house prices.

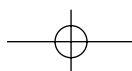
Evidence submitted by the Home Builders Federation to the Callcutt Review<sup>10</sup> addressed both of these issues.

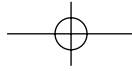
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<sup>8</sup> Tapping the Potential: Assessing Urban Housing Capacity; Towards better practice, Department of the Environment, Transport and the Regions, December 2000

<sup>9</sup> Strategic Housing Land Availability Assessment: Practice guidance, Communities and Local Government, July 23, 2007

<sup>10</sup> Home Builders Land Banks: Evidence from the Home Builders Federation for the Callcutt Review, The Home Builders Federation, July 3, 2007





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HBF undertook a direct survey of 21 of the largest housebuilding companies. Together these companies were responsible for 76,000 completions in 2006, or almost 40 per cent of the total GB housing completions.

Landbanks were defined as being at one of three stages:

- Implementable (can be legally built on)
- Allocated or with outline consent (which cannot yet be legally built on)
- Unallocated (being promoted through the planning system)

Of the total of 387,652 plots held in the landbank of the 21 companies, 180,981 were implementable. At 2006 completion rates this equates to 2.4 years of land supply.

The number of plots that were allocated or with outline consent amounted to an additional 139,169 plots. Thus, the total landbank of the 21 companies currently in the planning system was 320,150 plots. At 2006 completion rates this represents 4.2 years of supply. Unallocated sites added a further 67,503 plots, bringing the total land supply controlled by the industry, at 2006 completion rates, to 5.1 years.

Direct comparison with the government target for housing completions in England is not possible (due to the HBF data being GB based). However, over the last 5 years, completions in England have averaged 83 per cent of GB completions. Thus, assuming that the 21 companies' landbanks are split in a similar way, they are controlling 150,214 plots that are legally implementable, a further 115,510 plots either allocated or with outline consent, and an additional 56,027 plots under their control but with no planning status.

Given that the survey respondents were responsible for 40 per cent of all annual completions, to meet the government target of 200,000 new homes per year, rising to 240,000 dwellings per year by 2016, would require these companies to complete 80,000 dwellings per year, rising to 96,000 dwellings per year by 2016.

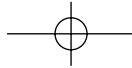
Set against these housing targets, the industry currently has 1.9 years of implementable land supply, falling to just 1.6 years supply when set against the target for 2016. Even including land that has been allocated or has outline consent (but which is not currently implementable) the industry landbank represents just 3.3 years worth of supply, falling to 2.8 years supply when compared to the 2016 requirements.

A recent report published by the Royal Town Planning Institute showed a similar picture<sup>11</sup>. Unfortunately, due to the methodology of using only publicly published annual reports of the top 10 housebuilders, the study was not able to break the land holdings of the surveyed companies into the three different categories of developability, amalgamating both outline permission and full, implementable consents within the same category.

Nevertheless, the headline figures in the report stated that the top 9 housebuilders in the UK had 224,383 "plots with planning permission". Since these companies account for approximately 45 per cent of all UK completions, and, assuming that the England proportion of their landbank is proportional to the 83 per cent of completions, this suggests a land supply with planning permission

<sup>11</sup> Opening up the Debate: Exploring housing land supply myths, Royal Town Planning Institute, June 2007





of 2.1 years set against the target of 200,000 dwellings per year, falling to 1.7 years when measured against the 2016 target for 240,000 dwellings per year.

This is, clearly, nowhere near the 5 year supply of land that is now required by PPS3.

In terms of implementing planning consents, the HBF research<sup>12</sup> found that 97.4 per cent of all plots were on sites on which work was started within three months of gaining an implementable consent. There is, therefore, no evidence of housebuilders sitting on implementable planning consents awaiting an upturn in the housing market.

The only remaining question to refute any challenge of land banking by the industry is, therefore, site completion rates. Here, the critical issue is the distribution of permissions and sites, set within the local housing market.

As Kate Barker observed in the interim report of her Review of Housing Supply,<sup>13</sup> there is limited substitution between markets. Allowing housebuilding in one market and choking it off in another does not simply redistribute housing demand (ie: people) from one area to another, with no other consequences. Housebuilders know from long experience that every market has a limit to its capacity to absorb new housing per year, even in growth areas such as Milton Keynes and Cambridge. For example, if a large site is attached to a major urban settlement such as Milton Keynes, the sales pace (and, therefore, the build rate) is likely to be faster than attaching a similar sized site to a rural small town. Simply allocating large tracts of land for development will not automatically produce large numbers of new homes in any given year. Put another way, the scale of land release from area to area must be broadly in line with potential market demand and household growth in each housing market area.

The new approach to planning for housing, set out in PPS3,<sup>14</sup> recognises that housing markets have a huge impact on development rates and encourages local authorities to learn about and reflect housing market areas in their spatial plans. Trajectory plans, developed and agreed with the private sector, will be a vital tool in ensuring that we release enough land to meet housing market requirements in the right places at the right time.

Ultimately, robust and agreed trajectory plans will negate any need to even consider the issue of landbanking by the industry since all land suitable for development will be identified within strategic housing land availability assessments and its release and development rates will be agreed and published in a clear, transparent and accessible way. The planning system itself holds the key to what is seen as a secretive practice by housebuilders.

### **The development management process**

To assess whether or not a two-year land bank is reasonable we must look not only at the context of the requirement for a rolling five-year housing supply but how long it takes to bring land forward in the planning process from an allocation to an implementable planning permission.

HBF's planning timeline research<sup>15</sup> found that, from a sample of 292 sites commenced between 2003 and 2006, the average period between the submission of an application and starting development on

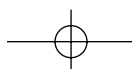
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<sup>12</sup> Home Builders Land Banks: Evidence from the Home Builders Federation for the Callcutt Review, The Home Builders Federation, July 3, 2007

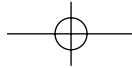
<sup>13</sup> Barker Review of Housing Supply: Securing our future needs; Interim Report, Kate Barker, December 2003

<sup>14</sup> Planning Policy Statement 3: Housing, Communities and Local Government, November 2006

<sup>15</sup> Planning Process Timeline: Analysis of Survey, The Home Builders Federation, November 2006







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site was 475 days, or 151/2 months (a figure which excludes pre application discussions which are an increasingly important part of planning delivery yet are very time consuming).

There are many reasons for this seemingly protracted process of obtaining planning permission. However, the key conclusion is that if it takes a year and a half to replace land that is being developed, a two-year land bank of land with implementable permission is actually quite an efficient use of land. However, it is uncomfortably tight for many housebuilders who, for business model reasons, would wish to overcome this “just in time” process of obtaining their raw material of land.

Indeed, the uncertainty of the development management process is, in itself, a significant contributor to the need to maintain a land bank of implementable consents.

CLG quarterly statistics<sup>16</sup> show that the average refusal rate for “major” residential applications increased from the 13–18 per cent between 1992 and 2000 to 34–35 per cent during 2006. Initially, following the version of PPG3 published in 2000<sup>17</sup>, it seemed possible that this rise might reflect teething problems as housebuilders got used to the new planning regime. However, the share has been in a fairly steady range of 33–36 per cent since the second half of 2004, which suggests that there are permanent, underlying reasons behind the rate.

Various commentators have proffered some suggestions for what these might be. One possible reason is that the quality of applications from housebuilders has gone down. A second reason might be the requirements on applications to demonstrate that they make no negative impacts on amenity and that, where uncertainty exists, the precautionary principle merits refusal. A third is that local authorities refuse applications that get to their 13 week determination period merely to meet their national performance targets and so receive additional planning delivery grant from central government.

Regardless of what the actual reasons may be, a refusal rate of around 35 per cent means that housebuilders have to process more sites through the planning system to achieve any given numerical housing target. For example, if a company’s target is to build 500 units on 10 sites it will have to process 13 or 14 sites to ensure that 10 emerge through the planning system over the next 15.5 months in time to meet the company’s housing target. If housebuilders were more confident that land could be replaced as it was developed, and if the outcome of planning applications was more predictable, they could operate with shorter land banks.

### **The future**

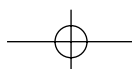
The question posed by this paper is “can the planning system deliver 200,000 homes per year?”

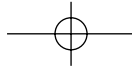
There can be little doubt that, if there were no planning system, the supply of land would allow new housing to meet demand. That is a simple function of supply and demand. Of course, such free market conditions would have many undesirable consequences and thus, the planning system is very necessary and has an important regulatory role to play.

Whereas the planning system was originally designed to regulate the location of land for development, under the plan led system of the 1990s, it inevitably became a mechanism for rationing the overall supply of land for housing.

<sup>16</sup> Local Authority Performance Statistics, Communities and Local Government, various dates

<sup>17</sup> Planning Policy Guidance 3: Housing, Department of the Environment, Transport and the Regions, March 2000





In the submission to the Callcut Review<sup>18</sup> HBF set out what the amount of additional planning permissions and additional area of land required to raise housing output from today's 160,000 dwellings per year to 200,000 dwellings per year under the existing planning system. This submission is set out in Appendix 1. It can be done, if we make the right decisions at the right time.

However, the planning system is changing yet again. The approach of allocating land in a development plan, followed by processing of a planning application is evolving into a partnership approach between the private and public sector, bringing together the skills of both to deliver housing completions. Front loading of the planning system certainly has the potential to change the current approach of allocation/application but we are some way off understanding the new procedures that must be in place and the new levels of trust and partnership that must occur for such collaboration.

In the short term, delivery tools such as housing trajectories demonstrating the rolling five-year land supply, the introduction of more carrots rewarding delivery against targets and harsher sticks against under delivery will inevitably be part of the solution.

We must not lose sight of the fundamental reason behind planning. It is to facilitate our vision for the future<sup>19</sup>. That vision includes a decent home for all. That vision requires 200,000 new homes per year. That vision must, and can, be delivered by the planning system.

- It will require a return to inclusive planning.
- It will require different priorities within both local planning authorities and private sector housebuilders.
- It will require collaborative working.
- It will require a desire to facilitate development and change.

The planning system can deliver any number of new homes. All we must do is set our targets and be realistic about what needs to happen to meet them. The planning system is our tool to ensure delivery.

## APPENDIX 1.

### ESTIMATING THE NUMBER OF PLANNING PERMISSIONS AND THE AREA OF LAND REQUIRED TO DELIVER 200,000 HOMES PER YEAR

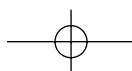
It is almost a law of house building that only so many homes can be built and sold from a single housing "outlet"<sup>20</sup> in any year. Evidence collected weekly by HBF from larger home builders between 1993 and 2007, based on between 1,500–2,500 active sites at any one time, shows an average of 32 net reservations<sup>21</sup> per site per year. The number of sales per year on any individual site

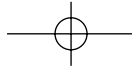
<sup>18</sup> Callcut Review of Housebuilding Delivery: Submission by Home Builders Federation, HBF, April 27, 2007

<sup>19</sup> The New Vision for Planning, Royal Town Planning Institute, June 27, 2001

<sup>20</sup> An "outlet" is a sales term. A single housing site may have one outlet, or a larger site may have several outlets, either from the same house builder or from several competing builders.

<sup>21</sup> A dwelling is reserved when a modest reservation fee is put down. This allows the purchaser and developer to commence the legal purchase process, which becomes binding only when there is an exchange of contracts. The term "net reservations" refers to reservations less those that are cancelled. Although there is a timing difference between reservations and sales (legal completions), over a period as long as 1993–2007, this distinction is irrelevant, so that net "reservations" can be regarded as synonymous with "sales".





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will vary according to site location, price and mix of dwellings, and broader economic and housing market conditions. However, when considering the Government's 200,000 target for England as a whole, we need to assume a sensible national average number of sales per outlet, putting aside the precise housing market conditions that might apply in 2016.

For mathematical simplicity, the following discussion has a central assumption of 35 private dwelling sales per outlet per year.<sup>22</sup> We do not know if there is a comparable figure for RSL completions. Where dwellings are built under contract for social rent, the pace of construction may be somewhat faster than the pace for market sale units. Where affordable housing units are provided under S106 agreements (55 per cent of all affordable housing in 2005–2006<sup>23</sup>), the pace of construction may be faster in cases where the affordable units are in a clearly defined area or block, or they will be at the same pace as the market units where they are pepper potted around the site, an increasing requirement of s.106 agreements. In the absence of hard evidence, the following calculations take 40 social units per site per year as a working assumption.

According to official CLG statistics, last year's 160,000 completions split into 139,000 private and 21,000 social<sup>24</sup>. Applying 35 sales per year to the private sector, and 40 dwellings per year to the social, would imply just under 4,500 outlets/sites were active during the year. Alternative assumptions for the private sector of 30 or 40 sales per year, but maintaining the assumption of 40 completions per site per year for RSL completions, would imply 4,000 and 5,200 outlets/sites respectively<sup>25</sup>.

Scaling up each of the two sectors by 25 per cent to give an overall total of 200,000 dwellings per year, the Government's target, produces outlets/sites per year of approximately 5,000, 5,600 and 6,400 outlets/sites per year (at 30, 35 and 40 sales per year respectively in the private sector, with 40 completions per year assumed for RSL sites).<sup>26</sup>

Taking the central point implies the industry and RSLs will need an extra 1,100 outlets/sites per year by 2016. The alternative estimates produce figures of 1,200 and just fewer than 1,000 extra outlets/sites per year.

Although there will not be an exact match between outlets/sites and planning permissions, these numbers provide a good ballpark indication of the scale of the task faced by the planning system: assuming a constant average density, and assuming the distribution of site sizes remains broadly constant, it will need to grant permission for 1,000 to 1,200 *additional* sites per year in England to achieve a 25 per cent increase in housing output.

The phrase "assuming a constant average density" is a very important consideration.

Housing completions have increased by nearly a quarter since the historic trough in 2001. However the picture behind this headline increase is more complicated:

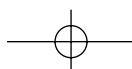
<sup>22</sup> The HBF figure of 32 net reservations per outlet has been measured across the sites of larger housebuilders. As few larger companies build on small sites (below 25, and certainly below 10), the overall industry average, including all smaller companies, may be lower than 32, given the marketing skills of larger companies and the likely economies of scale of selling off larger sites. However we have no evidence other than the HBF figures.

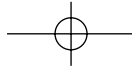
<sup>23</sup> Source: Written Parliamentary Answer. Yvette Cooper, January 22, 2007

<sup>24</sup> It is not clear from official statistics whether the 21,000 social total includes all affordable units under s.106 agreements, or whether some of these are counted in the private sector total.

<sup>25</sup> These estimates seem reasonable compared with figures from the CLG's own planning performance statistics. In 2006, 6,900 "major" (10+ units) residential permissions were granted. However there is considerable multiple counting as outline permissions, full planning permissions and revised permissions are all counted separately. The number of actual *sites* receiving permission must have been well below 6,900.

<sup>26</sup> Assuming the average density for the 25 per cent extra dwellings is the same as the average density for last year's 160,000.





- The number of “major” (10+ units) residential permissions rose by 30 per cent between 2001 (5,300) and 2006 (6,900), although there are no figures on the number of units covered by these permissions, nor do we know if the mix of outline, full and revised permissions altered over this period;
- According to official land area estimates, the average area of land developed annually for housing fell by 6 per cent (from 5,380ha to 5,050ha), between 2001 and 2003 the latest published land area statistics;
- Official housing completions and average density statistics imply the average land area developed annually for housing fell by 26 per cent between 2000 (the year PPG3 was introduced) and 2005;
- The average residential density increased from 25 units per hectare in 2001 to 40 units per hectare in 2005.

In other words, housing output has risen solely because of rising densities, and in spite of falling land usage. The implication is that if the average density had remained constant at 2001 levels, annual housing output would have fallen quite sharply over the last five years as the annual land area declined.

There is a good case to be made that densities at the national level are nearing the maximum consistent with meeting consumer demand. Indeed, there is widespread concern that we are already building sufficient apartments overall, and too many in some locations. (NHBC registrations data showed a fall in both the number and proportion of private sector apartments in the second half of 2006 after a steady rise from 2000 Q1 to 2006 Q2. It is perhaps too early to judge, but these figures suggest we may have passed the peak average density.) It seems quite possible—indeed likely—that the average density of the additional 40,000 dwelling per year required to meet the Government’s 200,000 target might well be lower—and certainly not higher—than the average density for current output (primarily because there is likely to be a lower proportion of flats).

The constrained supply of land with implementable planning permission, coupled with the major shift into brownfield development and sharp cut in greenfield land, has placed competitive pressure on homebuilders to maximise site values. This in turn has helped push up densities, primarily through the switch out of detached houses into flats. With a better supply of land, we would expect such pressures to ease and that in turn might affect densities.

It is worth noting that, in addition to industry concerns about the current scale of apartment building, there is considerable pressure from central Government, some regional bodies and local authorities and RSLs to increase the output of houses, especially larger family houses.

To achieve a 25 per cent increase in completions to 200,000, if the current average density is maintained across the additional 40,000 units, the increase in land area will have to be proportional to the required increase in completions (25 per cent). If average densities for the additional 40,000 were to be lower than the current average, then a greater percentage increase in land area will be required. And if the average density for the existing 160,000 per year were to fall, the increase in land area would have to be even larger.

For example, were the average density across the 200,000 target to be 38 dwellings per hectare, rather than the current 41, the area of land required annually compared with today would have to rise by nearly 35 per cent. An average density of 35 units per hectare would require a land area increase of nearly 50 per cent.

