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Case Study: Finance and Housing Provision in Britain

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Abstract: The paper uses the systems of provision (sop) approach to analyse the transformed presence of finance in the UK housing sop since the 1980s. 'Sop' analyses look at the integrated chain of agents involved in providing a good and the structures and processes through which they relate to each other. Such a study of UK housing is carried out from the vantage point of finance, asking how the transformation of mortgage finance since the 1980s has reshaped housing provision. It is argued that the reregulation of mortgage markets, along with increased international capital flows and a sustained period of low interest rates, led to influx of mortgage credit. On the production side, this expansion of mortgage lending has tended to feed prices rather than supply, in part reflecting both the availability of development finance and the use to which it was put. The activities of speculative housebuilders have been increasingly organised around the appropriation of land uplift, over which housebuilders compete with landowners and planners. Labour has suffered from casualisation as a result of housebuilders' focusing their in-house activities on land acquisition and subcontracting construction. Such processes have also had implications for the availability of skills and other inputs, technological progress, and industry structure. On the consumption side, the transformation of mortgage markets coincided with, and helped to create, increased demand for owner-occupation. The latter was itself the consequence of the legacy of forms of provision throughout the 20th century interacting with a concerted effort on the part of the state to instigate both welfare reform and a cultural shift in preferences over housing. More generally, the state's influence over the housing sop is pervasive, with the state involved more or less directly throughout the chain of provision.

Key words: financialisation; housing; systems of provision; mortgages.

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1. Introduction

The systems of provision (sop) approach is an attempt to anchor consumer theory in real world practices by analysing consumption as commodity-specific and attached to a unique and integral form of provision with corresponding material culture. This is a case study of the UK housing sop, following the methodology set out in FESSUD working paper no. 2 (Bayliss et al 2013). As recognised in that paper, "A sop is, potentially, huge if all aspects of material culture and production are connected to consumption"; thus, "In practice, the way a sop is identified depends on the research question at hand" (Bayliss et al 2013, p. 2). The current research question is financialisation: the ways in which it has intervened in, and impacted upon, the UK housing sop, and the consequences this has had for the way that housing is provided and the terms and conditions under which it is accessed. The case study, therefore, investigates the UK housing sop through and around the prism of finance and financialisation.

In the UK, the financialisation of housing is closely tied up with the elevation of owner-occupation to the default tenure form. The rise of owner-occupation was in turn the outcome of the second of two 'watersheds' experienced by the British housing system in the 20th century. The first was 1915-19, when reforms were put in place that would lead to the rapid expansion of owner-occupation and social housing* at the expense of the private rented sector. The second was 1979 with the election of the Thatcher-led Conservative government which introduced policies to encourage the expansion of owner-occupation at the expense of social housing. It is with the latter shift that owner-occupation moved from being one (albeit majority from 1970) tenure form within an essentially mixed system, to become regarded subsequently as the pre-eminent, default tenure form. The case study is then, primarily concerned with the period since the 1980s.

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This paper focuses on three main types of housing tenure in the UK. First, owner-occupation expanded from 57% in 1981 to over 70 % in 2005 (though it declined subsequently for reasons I discuss below).[1] Provision of owner-occupation is characterised by speculative production and a large market for second-hand houses.[2] Access for most people depends on mortgage lending by the financial sector. Second, social housing has undergone dramatic reform over the period. Until the 1980s social housing was council housing, that is, housing built and maintained directly by local authorities.* From the 1980s, the Conservative Thatcher Government sold off a large proportion of the council housing stock and reigned in local authority financial freedom to supply housing through (subsidised) renting. This limited their capacity to build, replenish or maintain their housing stock and, in a process began under Thatcher but fully realised under Blair's Labour Government, local authorities engaged in stock transfer to housing associations* (HAs) in order to attract investment into ailing stock. HAs are voluntary non-profit organisations that have increasingly dominated a (declining) social housing sector since the 1990s. Third, the final main tenure in the period is the private-rented sector (PRS). Having suffered a serious decline over most of the 20th century, the PRS has seen significant change in terms of landlords and tenants, and a degree of revival in the period currently under study. The professional landlord became a hate-figure in the course of the last century, and the boom in house prices and mortgage lending, combined with a shift away from investment subsidies towards individual consumption subsidies, aided the rise of the buy-to-let* landlord. Such landlords now dominate the private rented sector, though there are growing attempts to expand purpose-built PRS housing through institutional investment. From being the domain of students, migrant workers, and other marginal groups, tenancy in the PRS has become more general as owner-occupation and social housing have become harder to obtain, extending to include young professionals, families, and people who would

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[1] Calculations based on data from DCLG live tables. Annual data are not available for 1979.

[2] In the ten years preceding the financial crisis, new build accounted for approximately 10% of total residential property sales per year (OFT 2008).

* indicates that this term is included in the glossary below.

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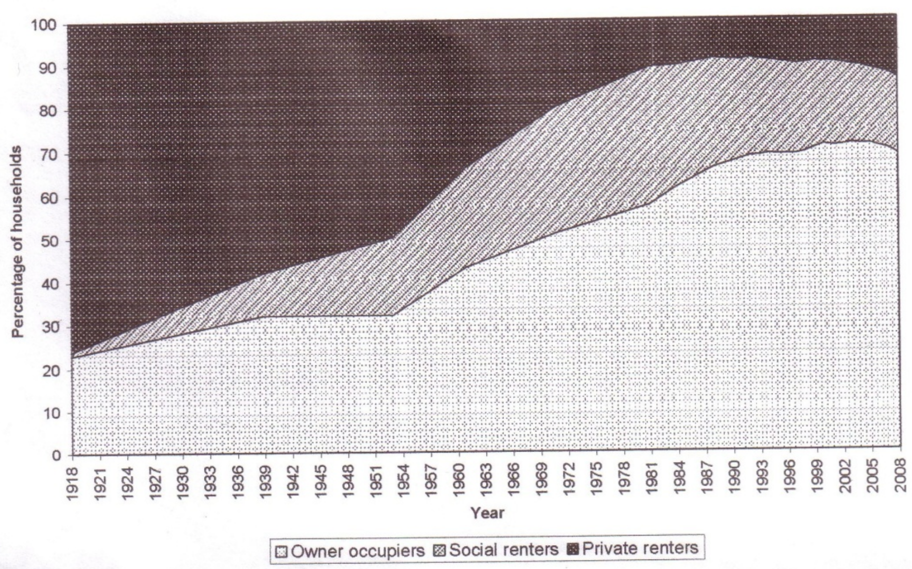
formerly have been in social housing. Other tenure forms such as part-own, part-buy or self-build have a marginal presence. These long-term tenure trends are demonstrated in the table below, which shows the percentage of households by tenure 1918-2008.

Figure 3: Tenure trend, percentage of households by tenure, England, 1918 to 2008[15]



Source: Pattison (2010)

This overview of the UK housing system in terms of tenure comes with a sizeable caveat concerning the limitations of tenure as an analytical category. A precursor to the sop approach - the Structures of Provision approach (Ball et al 1988) – was developed by Michael Ball in the 1980s in response to what he saw as housing studies' excessive focus on tenure-based subsidies (see, for example, Ball et al 1988; Kemeny 1987). Ball's critique was aimed at housing scholars who pursued their interest in housing-related distributional questions through the study of state support for different tenures. He argued that questions of distribution, social justice and social welfare depend not just on the terms and conditions under which people occupy houses - that is, on tenure - but on the whole chain of agents and processes

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involved in provision in different tenures. Ball was particularly targeting comparative work on the grounds that categories such as 'owner-occupation' or 'social housing' have very different content and distributional implications in different countries as a result of differences in the structures of provision that underpin them. For example, whereas in Anglo-American and many northern European countries, owner-occupation is integrally associated with mortgage borrowing, because mass owner-occupation has only recently come to replace extensive state support for housing provision, owner-occupation without a mortgage is common in a number of Mediterranean countries because practices of familial support and self-build are wide-spread. While I use tenure categories to organise my analysis below, I use them to refer to the entire chain of provision associated with each tenure and with the recognition that the meaning of each tenure is, therefore, specific in time and place to the UK during the period under study.

This discussion of tenure points to the major strengths of the sop approach vis-à-vis other approaches to understanding the financialisation of housing since the 1980s, namely, its ability to take cross-country and sectoral variegation seriously and avoid, on the one hand, undue generalisation and, on the other, a too narrow focus on one or other aspect of provision (whether it be tenure in the past or the mode of finance today). This is particularly important in the context of our current interest in financialisation. Financialisation and associated processes, such as globalisation, deregulation, and privatisation are international in scope and effect. However, they are differentiated by both country and commodity sectors. This means, first, that even seemingly homogenising processes such as financial deregulation have taken different forms in different countries.[3] Second, the way in which finance intervenes in other parts of the economy will depend on the character of the other goods and how they are provided. While it is a general feature of financialisation that finance plays a growing role in social and economic reproduction across a range of domains, the

[3] See Aalbers (2009b) for an account of the national specificity of mortgage markets and how even securitisation* exhibits marked national differences.

degree, character and impact of the intervention by finance varies considerably from sector to sector. Third, and following on from points one and two, sectoral differences are also nationally variegated. Thus, the way in which finance intervenes in housing will be different to the way it intervenes in transport or education, and the way in which finance intervenes in housing in the UK will be different to the way finance intervenes in housing in, say, Germany, Poland or Spain.

It follows from this that the financialisation of the UK, or, indeed, any national housing system, must be understood by locating finance within the chain of activities that combine to provide housing specifically in that country in particular. The sop approach takes as its subject matter concrete and integral chains of provision that are commodity, time and space, that is, context, specific. It is, therefore, well-equipped, through this and other national case studies, to illuminate the different ways in which finance has intervened in and shaped housing provision in different countries.

The first challenge in any sop analysis it to define its scope, which is malleable and research question-relative. This is the subject of the next section. I then begin my discussion of the UK housing sop proper. The study is structured around the core agents of financiers, land-owners, producers, labour, the state, and consumers. It is symptomatic of sop analyses that many of the issues that arise in the course of the study could legitimately fall under more than one of these agent-based categories. For example, changes to housing benefit are an intervention by the state that change the way that housing is consumed, and could be discussed under either the section on the state or that on consumers. Where such issues arise I have made a judgement about which section is most appropriate and indicated the relevance of other agents. The final section concludes.

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2. Defining the UK Housing Sop

The boundaries of a housing sop must be inductively drawn on a case-specific basis in a way that requires judgement, most particularly in the UK in relation to regional and tenure issues, though arguably also in relation to socially and economically stratified consumption norms. The dominant regional divide is that between the north and south or, more specifically, between London and the south-east and everywhere else. The defining difference here lies in the level of demand relative to supply. Fuelled by high levels of economic activity and international investors, the much greater demand[4] for housing in the south-east relative to the rest of the country pushed prices up higher there in the lead in to the financial crisis. The difference has been even more pronounced post-crisis, since when London has broken away from the rest of the country as prices there resumed pre-crisis levels while staying stagnant in the rest of the country. For example, in 2013 Q3, the UK average house price of £170,918 concealed a gap between London, where the average price was £331,338, and the north, where the average house price was £116,009 (Nationwide 2013).

It should also be noted that, although defining the contrast between north and south in terms of house prices tends to focus consideration of regional difference on the realm of owner-occupation, it should not be forgotten that the greater housing shortage in the south has knock-on effects on other tenures, with both private and social rents higher in the south-east and waiting lists for social housing longer. Despite these marked differences, in what follows I do not treat the south-east as a separate housing sop. This is because the underlying structures, agencies, processes and relations that constitute the housing sop across the different regions are – at least for the time-being – sufficiently integral with one another to be dealt with together. Differences at the stage of distribution, such as with respect to

[4] High demand in the South-East arises both from in-migration, reflecting the UK economy's structural imbalances and disproportionate employment and other opportunities in London, and from an additional injection of demand from speculative foreign investors.

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demand, lead to differential outcomes and may feedback through the sop in a regionally differentiated way, but they do not in themselves constitute a distinct housing sop.

A stronger case can be made for treating different tenures as belonging to different housing sops. The three main tenure forms in the UK – owner-occupation, private rented, and social housing (the most common form of which is HA rental properties) – are characterised (by definition) by different terms and conditions of access. Crucially, and as discussed in the introduction, the processes underpinning finance and production also have important differences, especially in relation to the role of the state. For example, unlike for private housebuilding, the state provides direct production subsidies to housing associations, legislates on rent levels, and is perceived to provide an implicit guarantee against their borrowing. These differences mean that housing provision in the different tenure forms follows distinct logics to some extent.

However, there is also significant overlap between the agents involved in provision of each of the three tenure forms. Private housebuilders are usually contracted to build HA-initiated developments, or sell part of their own output to HAs under S106 agreements.* The increasing dependence of HAs on private funding through bank lending or capital markets also means that the funding models of HAs and private housebuilders are not dissimilar either. As for the PRS, the bulk of the market is provided by small landlords managing properties that have been transferred out of the owner-occupied sector and thus have their origins in the latter. Furthermore, the different tenure forms have all been shaped by broader socio-economic processes of privatisation, financialisation, and individualisation. Because of these overlaps and inter-linkages, the different tenure forms are best thought of as distinct but heavily overlapping sops. I discuss all three main tenure types in what follows, but I angle my analysis towards financialisation and so give more attention to owner-occupation as the tenure tied into mortgage-lending and the securitisation of mortgages.

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One of the purposes of the sop approach is to look at the range of different consumption norms that exist in relation to a good as a result of social and economic stratification. In housing in the UK, tenure can to some degree serve as a crude indicator of such stratification as widely shared cultural norms rank the main tenures in a hierarchy of status and desirability as follows:

owner-occupation > private rental > social housing

However, there is greater variation both within and across tenures than this ranking captures. The PRS encompasses, at one extreme, elite PRS accommodation occupied by wealthy but often transient individuals in central London, which is of higher status and desirability than the bulk of owner-occupied housing and, at the other extreme, over-crowded, illegally rented PRS accommodation ("beds in sheds") in which conditions are much worse than in social housing. Similarly, a generalised presumption in favour of owner-occupation conceals the variable experiences of people within that tenure. While this variation establishes the existence of a number of submarkets, they do not necessarily constitute separate housing sops. Again, the structures, agencies, processes and relations are integrated across the different submarkets, though they will take on a different character for, for example, an equity-poor first time house buyer and existing owner-occupiers, or between someone residing in the PRS while they save to buy a house and someone stuck in the PRS because they cannot get access to social housing. The challenge is to incorporate and be attentive to these differences while investigating the sop holistically.

The sop's boundary must also be defined in terms of the agents that are included within it. Here things are less open since the raison d'être of the sop approach is to incorporate the entire vertical chain of provision into the analysis. Nonetheless, decisions must be made about what relative weight to give the different components in the finance-targeted analysis of the sop. The present study is structured around what I call primary agents, that is, agents who must exist in some form in any

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housing system, namely, finance, land-owners, producers, labour, the state, and consumers. There is, of course, room for diversity both within these categories and in the boundaries between them. I will also make reference throughout to secondary agents, which I define as non-essential agents that have emerged in response to the particular form and activities of the primary agents. Examples of these in the UK include estate agents, who mediate the sales relationship between housebuilders and consumers, and payroll companies, who mediate the relationship between labourers and housebuilders. Throughout, agents are understood as appropriating value in ways that respond to, and interact with, the strategies of other agents. Having defined the boundaries of the UK housing sop for my present purpose, I now turn to my analysis of it, which begins with finance.

3. Finance and financialisation

Finance intervenes in the housing sop at a number of points – land purchase, construction, mortgages for house purchase, remortgaging for consumption or otherwise,[5] and repair and maintenance – though these can broadly be divided into housing consumption finance, and finance for housing development, within which is included the (quite different) financing of housebuilding for owner-occupation, for privately rented housing and for HAs. In this section, I run through the arrangements for each, including, where relevant, how they have changed in the last thirty years, before arguing that, across a range of criteria, development finance for owner-occupation has been significantly less affected by financialisation than has mortgage finance.

[5] Remortgaging may also occur, for example, to fund the purchase of additional houses to rent.

3.1 Housing Consumption Finance

Finance has not in any significant or systematic way intervened in the consumption of rented accommodation, private or social. Its intervention in the consumption of owner-occupied properties, however, has been extensive. Fuelled by financial deregulation, abundant liquidity and low interest rates, mortgage lending expanded dramatically since the 1980s in terms of both the number of mortgage products available and sheer quantities being lent. Neo-liberal reforms, that is, those that promoted markets in general and financial markets in particular, were an international phenomenon (Fine 2010). Their particular content and form has been country-specific, appearing as a response to perceived problems with preceding arrangements.[6] Changes to mortgage markets thus serve as a reminder that concrete realisations of the general processes of financialisation take specific forms and have specific consequences in different countries, something which the sop approach in particular is well-designed to capture.

Probably the key change in the UK was the breakdown of sectoral specialisation of financial institutions in relation to the mortgage market and the integration of mortgage lending into a deregulated general finance market (Whitehead and Williams 2011). From the origins of today's owner-occupied housing market in the 1920s up until the reforms of the 1980s, mortgage lending in the UK was dominated by building societies.* These were mutual organisations that were protected from competition by (evolving) tax advantages and restrictions on mortgage lending by other types of financial institution. Building societies tended to charge high interest rates on mortgages because they needed to fund the high interest rates offered on deposits in order to attract depositor funds. Nonetheless, mortgages were under-supplied by building societies relative to demand; in other words, mortgages were rationed, and it was availability rather than price that would prevent people from

[6] See Aalbers 2009b on the nationally specific content of international trends in mortgage market liberalisation, and Ball et al 1986 and Ball 1990 for a comparison of how pre-existing arrangements shaped reform in the UK and Germany.

getting a mortgage at the margins. Concern about the economic inefficiency of rationing prompted the end of restrictions on which financial institutions could lend mortgages in the early 1980s; the high interest rate then charged on them encouraged other financial institutions, most notably banks, to enter the mortgage market.

One result of this increased competition was that mortgages were more readily attainable. There were dramatic falls in mortgage costs and a proliferation of mortgage products and their riskiness (in terms of loan-to-value* and loan-to-income* ratios, and loan terms). These developments were aided by abundant global liquidity and, from the 1990s, a long period of low interest rates. Mortgage lenders also responded to increased competition by attempting to increase the market for mortgage products, to reduce competition through mergers, and through financial innovation. Most notable for the latter is the rise of securitisation, that is, the packaging of mortgages into bonds sold on international financial markets. Securitisation was used by lenders in the UK primarily as a way of bypassing mortgage-related capital requirements set out in the first Basel agreement. By removing mortgage loans from banks' books, securitisation meant banks could continue to lend without heeding capital requirements that they viewed as particularly arduous. Paul Dare, an accountant involved in securitisation in the early years of its development, adds that securitisation was something that emerged out of the mortgage market in particular partly because of the size of that market and partly because lenders wanted match-funding that was as long as the assets they were holding. For lenders, selling on mortgages made more financial sense than borrowing short-term loans on the inter-bank lending market in order to maintain liquidity.[7]

We have therefore seen the growth of mortgage markets, financial innovation around mortgage products, and greater penetration of housing by finance in the

[7] Interview with Paul Dare, accountant, September 2013

sense that the number of people whose access to a home depended on credit grew between the 1980s and the 2000s. For mortgage lending to expand in this way, demand for mortgages also had to grow, which in Britain occurred as the result of increased absolute demand for owner-occupation and by patterns of homeownership in which people tend to move more than once in the course of their lifetimes because of phenomena such as trading up or buying houses as an asset in pursuit of capital gains. Some, for example, Aalbers (2009a), see mortgage lending as the driving force behind the growth in demand for owner-occupation: "mortgage and housing markets fuelled one another, but it is crucial to understand that the driving force here is the mortgage market" (Aalbers 2009a, p. 286). However, the changes that gave rise to what Malpass (2005) calls a culture of owner-occupation were much broader than the reregulation of house purchase finance. The trend for increasing numbers to own their own homes, and therefore to demand mortgages, was the result of changes in the way housing was provided and consumed as well as in how mortgages are accessed. Indeed, it is central to the sop approach that we can only understand a sop and its components through looking at their interactions.

I attempt to explain how changes in the way housing is provided and consumed helped to generate increased demand for mortgages in sections on consumption and the state below, for example, by looking at the role of home-ownership in welfare provision and the growing tendency to treat a house as an asset as well as a means of providing shelter. Here I focus on the impact that greater ease of access to credit and financial services has had on the way in which people accumulate and use housing wealth. One element of this is the growth of mortgage equity withdrawal* (MEW) and the way in which home-ownership has increasingly come to underpin consumption. Financial liberalisation has loosened credit constraints and made housing wealth more fungible, leading some (for example, Smith et al 2008, Lowe et al 2011) to argue that housing and mortgage equity withdrawal has become an important means of funding consumption.

There is no direct measure of housing or MEW, but the Bank of England measures the difference between net lending secured on dwellings and gross investment in housing. This measure includes changes in the stock of housing wealth from properties being improved or new properties being built and changes in the valuation of existing properties due to changes in house prices, as well as over/under mortgaging on trading up or down, changes to mortgages, and lump-sum pay-offs. It shows that MEW exceeded equity injections from 1997 until 2007, but has fallen off since, probably due to credit constraints and the downturn in the housing market (Reinold 2011). Smith et al (2008) thus argue that home-owners have come to depend on their homes as collateral for borrowing in order to smooth dips in income and that there has been a shift in how home-owners relate to their housing. According to Smith et al (2008), home-owners have not only begun viewing their house as an asset in addition to a home and shelter, they are also said to have shifted from seeing housing as an asset for future generations and withdrawing equity predominantly for investment in the house, to using the housing equity to fund current consumption on welfare and general spending needs.

It has become necessary to mention house prices because their behaviour was central to the financialisation of house purchase finance. From 1983, around the time of the deregulation of the mortgage market (and when the Halifax historic house price index begins), to their pre-crisis peak in 2007 Q3, UK house prices increased by 550% in nominal terms, or 167% in real terms (Halifax 2012).[8] This increase can be explained as the result of increased mortgage lending pushing up demand for housing without triggering a proportionate increase in supply (on which, see the section on production below). However, rigid supply is not a necessary condition for rapid house price inflation. The USA, France and Spain have far more responsive housing supply but also saw dramatic house price increases in the early 2000s. This suggests that the decisive factor is the influx of finance. More specifically, high house prices have also helped to encourage mortgage lending as

[8] Real price change calculated using the Bank of England's inflation calculator.

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well as being a consequence of it. First, rising house prices from the mid-1990s encouraged further entry into the mortgage market by lenders as the capital gains on the asset underlying a mortgage loan was perceived to help alleviate the riskiness of the loan and, as a result, made lenders more willing to hold housing debt. Second, high house prices made mortgage-backed securities appear attractive and low risk. For securitisation to work, the assets underpinning the security have to be able to generate sufficient returns to cover it. House price increases were then also important to securitisation. Third, with houses increasingly regarded as an asset, demand for them may increase with price rather than the contrary, which is predicted by market theory for most consumption goods. In an environment of house price inflation the capital gains associated with home-ownership feed demand (and so prices) further. Finally, house price increases add to the wealth of existing home-owners and aid the phenomenon of equity withdrawal for current consumption.

Because of these consumption effects, it is sometimes[9] claimed that high house prices, if combined with greater ease of access to mortgage lending and housing equity, have a positive impact on economic activity. However, there are reasons to be doubtful of this. First, high house prices imply increased housing costs which, for people unable to support their consumption using their housing equity, implies either lower incomes to spend elsewhere or that employers have to pay out higher real wages.[10] Second, having a large proportion of its domestic savings tied up in a house rather than other savings vehicles might have a negative effect on a country's investment rates and on long-term macroeconomic performance.[11] There are no measurements of the magnitude of lost investment arising from the size of housing assets in people's wealth, and it is not clear what such a measurement would look like. Nonetheless, the suggestion chimes with Fine's (2012) identification of the

[9] http://www.chicagobooth.edu/capideas/policy/
[10] The balance between these two will depend on the strength of labour and the extent to which they are able to pass on higher housing costs to employers by demanding higher wages.
[11] Professor Alex Marsh, managing editor of Housing Studies journal, interview September 2013

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expansion of financial instruments and activities at the expense of real capital accumulation as one of the effects of financialisation.

3.2 Development Finance – Owner-Occupation

I now turn to development finance. Development finance is very important in the housebuilding industry because of its long lead-in times and capital-intensive nature. Unfortunately, and reflecting a general preoccupation with the mortgage market by people interested in the relationship between the housing system and financialisation, very little information is available about development finance for the industry. In what follows I make use of what information is available as best I can.

A range of models for obtaining finance have been used in the UK private housebuilding industry in the last ten years, including public listing, private-ownership, bank borrowing, and private equity or financial institution backing. All of these models imply a need to optimise financial returns, whether to satisfy shareholders, pay off debt, or fund future investment. Thus, the privatisation of housing provision in the 1980s subordinated a greater portion of total housing supply to profit.

Because land acquisition, landholding, planning, and building costs all tend to precede cash receipts and involve a high level of operational risk, housebuilders tend to have a preference for a low level of gearing*: "there is a rational decision in much of the sector to keep debt at low levels" (KPMG 2008, p. 72). KPMG (2008) estimates that between 2000-7 average gearing at year end was 10-30%. There is, however, some variation in levels of gearing across different types of firms and funding models, with large, listed firms tending to have the lowest levels of gearing and private equity or financial institution-backed the highest.[12] There is also variation

[12] The report does not give figures for the relative weight of different funding models among the major housebuilders.

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over time. For example, Ball (2010) says that financial markets got caught up in a merger frenzy from 2005 to 2007, with shares rising and firms getting heavily indebted.[13] This meant that normally risk-averse firms were heavily indebted going into the crisis.

Beyond a shared pressure to optimise financial returns and general risk aversion, the means of funding used, and its terms, will vary by firm, and especially by size of firm. For a number of reasons it is easier for large firms to raise finance. They can raise equity and access capital markets through corporate bonds. Although debt tends to be cheaper than equity, access to capital markets helps large firms to keep their gearing levels down. Debt-equity ratios for listed housebuilding firms tend to be below 50% (Calcutt 2007). Furthermore, large firms tend to get better terms on bank loans – because they have larger assets, they are often able to secure a rolling group overdraft, which is cheaper and longer-term than the project-specific loans usually available to smaller firms (Ball 2010). Large firms may also be able to secure loans against land without planning permission, depending on land portfolio, which small firms are unlikely to be able to do (KPMG 2008). The availability of bank loans and the terms attached worsened across the board after the financial crisis. But even in these new circumstances, large firms have proven to be at an advantage. Whereas many small firms have gone bust, banks have deemed the larger firms 'too big to fail'[14] and rolled over their debts on favourable terms, thus aiding their survival.

Small and medium firms do not have access to capital markets so are dependent on bank loans, which are often on less favourable terms to those available to large firms because they include equity cost. Finance for small firms was more readily available prior to the crisis because, for example, non-bank and foreign banks entered the lending market. Their subsequent exit meant that lending conditions

[13] Ball suggests that this was a defence against possible takeover, but it is likely that firms were also getting carried away by booming house prices.
[14] Stuart MacDonald, editor Inside Housing magazine, interview September 2013.

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worsened in the aftermath of the crisis even more for small firms than they did for large firms. Notwithstanding this conjunctural issue, financing is a long-term issue for small firms:

> Their own equity is limited and external sources of private equity are hard to find and may compromise independence. Firms find it difficult to access capital markets in other ways, so bank funding is virtually the only option (Ball 2010, p. 127).

As a result they "face lumpy, volatile cash flows as land is purchased, sites developed and sales made" (Ball 2010, p. 127).

For big firms, greater restrictions on, and cautiousness in, bank lending since the crisis has meant greater reliance on capital markets. This has subjected housebuilders to greater shareholder pressure, particularly to provide a steady stream of cash payouts despite this being at odds with the lumpy character of investment and revenue in the housebuilding industry. According to an industry investor report by HSBC, this takes two mains forms. First, shareholders demand large land banks, not in order to profit from speculative gains (more on this below) but as an indicator of the long-term health and sustainability of earnings. Second, shareholders pressure management to self-impose size limits (which many big housebuilders do) or to shrink the firms by liquidating inventories at what is perceived to be the top of the cycle, and return profits to shareholders or reinvest at the bottom of the cycle (HSBC 2013). According to HSBC, this is to reassure shareholders of a firm's long-term profitability given the cyclical character of house building and the difficulty firms have in persuading shareholders that margins are underpinned by sustained high quality land buying rather than just house price inflation. However, it is also a way for shareholders to maximise value extraction. By 'quality land buying' is meant land bought cheaply and whose value subsequently rises in the course of the housing market cycle. Liquidising stock at the peak of the cycle is a means for housebuilders and, by implication, shareholders to appropriate the land value uplift* between purchase and sale as profit. I consider this aspect of housebuilders' profits in more detail in the section on production below.

3.3 Finance and the PRS

As discussed elsewhere, the PRS suffered from systematic underinvestment for most of the 20th century. Competition from council housing and owner-occupation, rent controls, and the unpopularity of private landlords in popular and political consciousness meant that from the first watershed mentioned in the introduction there was disinvestment in the PRS, and privately rented properties were demolished under slum clearance or transferred into the owner-occupied sector.[15] The second watershed did little to reverse this immediately but in the longer run it helped to create the conditions for a recovery of the PRS. First, it has boosted demand for private rented accommodation as a result of diminished availability of socially rented housing, on the one hand, and rising house prices pushing back the average age of first time buyers, on the other. Demand for housing in the PRS increased among those, often supported by housing benefit, who could not access social housing, and among those using the PRS as a stopgap before they were able to get on the owner-occupied housing ladder. Second, competition within the mortgage market helped to increase investment in the PRS via buy-to-let mortgages. The buy-to-let market emerged out of mortgage lenders competing for custom among existing home-owners who, in turn attracted by the prospect of capital gains on a second property, used their existing house as equity for a second mortgage and relied on the rental income to pay it off. In sum, investment in the PRS has increased since the second watershed, but mostly via financial structures

[15] Hamnett and Randolph (1988) challenge neo-classical demand-oriented explanations of this tenure shift by documenting the role of supply-side factors in shaping these changes. More specifically, they describe how mortgage lenders seeking to expand demand for their product collaborated with speculative break-up companies seeking profit in the form of capital gains rather than an ongoing rental income, in order to facilitate the transfer of privately rented flats into owner-occupation.

originally developed for owner-occupied purchases. Other forms of investment, for example, from pension funds or institutional landlords, have been much lower.

Since the crisis, the Government has sought to increase institutional investment in residential property. There have been one or two instances of institutional investors investing in the construction of properties for owner-occupation in exchange for a share of capital gains later along the line, but most government efforts to increase institutional investment in residential property focus on rental property because it offers investors a stream of rental income. According to Ian Fletcher of the British Property Federation, there are two reasons that institutional investment in residential property for rent is low. First, it is difficult to find sufficient stock. Institutional investments tend to be large, which means large numbers of units would have to be collated in order for these investments to be made in residential property. Second, high house prices mean that while the capital returns on property in the UK are high, the income return, which is calculated as the monthly or annual return on the initial capital outlay, tends to be relatively low.[16] Institutional investment funds such as pension funds tend to be constrained in how they invest, and require a balance between the more risky capital returns and the more reliable income returns, which often rules out residential property investment.

Some[17] have argued that a further problem is that institutional investors are at a disadvantage because they cannot compete with the 'sweat equity' of buy-to-let landlords. The argument is that small-scale buy-to-let landlords spend significant amounts of their own labour in maintaining and managing their properties but do not include the costs of their own labour time when calculating the profit margins and setting rents. This puts them at an advantage over institutional investors, whose need to hire a middleman to manage the properties erodes their yield. Efforts on the part of both government and institutional investors are being made to overcome these problems – for example, collaborating with HAs to reduce management costs

[16] Ian Fletcher, Director of Policy, British Property Federation, interview September 2013.
[17] Professor Alex Marsh, managing editor of Housing Studies journal, interview September 2013.

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(see below) or providing tax breaks to large property investors to improve income stream yields – but it is too early to say whether these will significantly increase institutional investment in residential property.

Opportunities for retail investment in residential property[18] are even more limited than opportunities for institutional investment. Although the mortgage market has expanded and innovated extensively, it is notable that there has not been the emergence of financial vehicles that allow individuals to invest in property without purchasing an entire property and taking on the burden and commitments of ownership and management. Ian Fletcher speculates that concerns that people already have too much wealth tied up in housing has made the government wary of making the regulatory changes needed to permit the development of such vehicles.[19] This is ironic if true because, as Smith et al (2009) point out, the current arrangement under which people can only invest in property in 'bulk', that is, by buying a whole house, increases risk by forcing people who want to invest in property to put all their eggs in one basket.

3.4 Finance and HAs

The final area to discuss in this section is the role that private finance has increasingly come to play in social housing. As well as promoting owner-occupation at the expense of social housing, the Thatcher government of the 1980s also sought to increase the role played by private finance in the social housing that remained. Local authorities had previously borrowed on private capital markets in order to build council housing. However, in its pursuit of fiscal conservatism and as a way of constraining the ability of local government to pursue independent policy paths, the Thatcher Government prevented local authorities from being able to continue to do

[18] That is, for individual to buy shares in real estate without having to buy an entire property or delegate their funds to an institutional investment vehicle, as they might in a listed company.
[19] Ian Fletcher, Director of Policy, British Property Federation, interview September 2013.

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this. Capital subsidies for social housing were provided for HAs, supported by demand-side subsidies in the form of housing benefit. Partly in order to control spending, partly to exert pressure to improve efficiency, capital grants were made conditional on the HA receiving private funding. At the time of the 1988 Housing Act, which set out the formal framework for introducing large-scale private finance into social housing, capital grants covered 75% of total project costs (Whitehead 1999). This amount since decreased to below 50% by 1996 (Whitehead 1999), approximately 30% in the 2000s, and 5% since the Coalition government* came to power.[20]

Initially, private lending to HAs was slow and required strong government guarantees. By the 1990s, however, the reliable rental returns (which were supported by housing benefit) made HAs attractive borrowers. There was an expansion in the volume of lending, the number of lenders, and in product initiatives through the 1990s. Competition among lenders also led to lower interest rates being charged, better loan terms, and to firms adopting originate to distribute* models of lending. The market has grown and matured since it was first promoted in the 1980s (Whitehead 1999).

As in other markets, banks have been more cautious in lending to HAs since the credit crunch, and the costs of loan finance have consequently increased. This has coincided with cuts to capital subsidies made under the coalition government, and thus with a period in which private finance has become even more important to HAs. One consequence has been to open the way for bond finance – since 2010 more HAs have issued their own bonds.[21] The other consequence, however, is that HA's financial health and viability is increasingly coming into conflict with their ability to play their traditional social role. This became an issue as soon as private finance became involved in HAs because the interest of lenders in HAs making a strong stream of rental income conflicts with HAs charging "social rents". Rent caps that ensured that HAs provided social housing had the effect of limiting HAs' capacity to

[20] Paul Williams, B3Living Housing Association, interview September 2013.
[21] Paul Williams, B3Living Housing Association, interview September 2013.

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borrow on private capital markets (Whitehead 1999). This has been exacerbated since the credit crunch, not only because bank lending has been more restrictive but also because reforms to housing benefit,* including an absolute cap on its level and direct payment to recipients rather than landlords, has made HA rental income less reliable in the eyes of lenders. Furthermore, this has happened at the same time as the capital grant has been reduced, making private finance more important to HAs. So far, it has been HAs's ability to fulfil their social role that has suffered. Cuts in the social housing grant were compensated by lifting the rent cap from 'social' (approximately 40% of market rent) to 'affordable' (60-80% market rent), and many HAs are discussing the need to move into the PRS or owner-occupied sectors in order to cross-subsidise their social activities (Chevin 2013).

3.5 A Comparison – the Uneven Financialisation of the Housing Sop

I argue on the basis of this discussion that, despite a significant expansion in private building and changes to the way social housing is funded, the funding arrangements used by housebuilders have been relatively weakly affected by financialisation compared to both house purchase finance and development finance for commercial property, and that finance has intervened in the circulation of revenues more extensively than it has in the circulation of productive housing capital. As discussed above, since the 1980s there have been large movements by finance into the mortgage market, financial innovation has increased, and more people have come to depend on finance to access a house. Finance has become enmeshed with the way in which most people access housing and has changed the way in which it is consumed (see sections on consumption and the state). Commercial building has also proved effective at utilising financial innovations to attract finance, for example through Real Estate Investment Trusts (REITs*) or by securitising future rental returns (OFT 2008). The penetration of the residential property market by finance, however, has been much weaker. Although finance did move into the sector in the boom years,[22] there was not a qualitative shift in the scale and character of lending as there was in mortgage lending.

Financial innovation has also been lower in relation to development finance than it has been for mortgages. Unsurprisingly, some financing innovations emerged during the boom years. Buy-to-let and buy-to-sell investment became important in London (Ball 2010), and a number of financial institution-backed transactions occurred in the sector (KPMG 2008). KPMG (2008) say that typically these:

> focused on re-leveraging the balance sheet as a means of funding the transaction ...[so] ... [t]o a certain extent therefore these are seen as yield transactions by the funders, although management teams may view them as opportunities to build long-term capital value, without the need to satisfy shorter term KPIs in the listed market (KPMG 2008, p. 68)).

However, the prevalence of both of these innovations has fallen since the crisis.

Some of the reasons for development finance being less financialised than the mortgage market lie in the size of the mortgage market vis-à-vis development finance. As touched upon above, practitioners suggest that one of the attractions of mortgages over other types of asset for creating collateralised debt obligations* has been the size of the mortgage market, which is attributable to financial deregulation and the decline of alternative forms of housing provision to owner-occupation from the 1980s. Considerations of risk also seem to be important. In the mortgage market, rising house prices were used to justify expanded mortgage lending, which in turn provided a steady stream of input to mortgage-backed securities. Because lending to individual housebuilders was on a much smaller scale than the mortgage market (the bulk of new mortgages being used to buy second-hand homes) and because it was seen as more risky, lenders were more cautious in providing

[22] Professor Michael Ball, Housing expert, interview September 2013.

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development finance and so housebuilders' debts did not provide a steady stream of 'raw' financial material for the secondary market in the same way that mortgages did.

The asymmetry in the way that financialisation has impacted on consumption and development finance is in keeping with commonly identified characteristics of financialisation. For example, one commonly recognised feature of financialisation[23] is that the growth in debt at the level of economy as a whole has been driven by households rather than by the business sector, and this is evident in increased indebtedness being driven by households via increased mortgage debt rather than by higher levels of gearing in the housebuilding sector. Another is that industrial firms have a growing orientation to shareholder value, which is often accompanied by a decrease in accumulation in non-financial firms, which has also been the case of housebuilding. A further feature, the casualisation and deregulation of labour market, is evident below in the section on labour.

4. Land

As houses are built on land and land is therefore a central input into housing production, the operation of land markets and the determination of land values are important components of the housing sop.[24] I take monopoly rent* as the most important type of rent in the context of housing. In contrast to differential rent, monopoly rent is appropriated out of the circulation of revenues and arises because

[23] This argument is frequently made by Englebert Stockhammer, for example, in Stockhammer (2007)
[24] The value of land is equivalent to the capitalised ground rent paid to the owners of land because their property right gives them control over how the land is used. There are many different theories of rent. Ricardo focused on differential rent arising from differences in land quality, broadly measured. Marx stressed the existence of a class of land-owners with exclusive property rights in land as a crucial condition for rent to arise, and added to Ricardo a second category of differential rent arising from differential capital investment on land, and absolute rent, arising on land used in sectors with below-average capital intensity. My view is that house prices in the UK are currently determined primarily by demand rather than productivity of production, especially given the dominant role played by the secondary housing market*.

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land-owners demand a premium for access to the land in virtue of the desirable qualities of a particular piece of land and the impossibility of them being replicated elsewhere. In urban environments, location – that is, proximity to amenities such as parks, public transport, good schools, etc - is the most important determinant of land quality. Land quality changes relatively rapidly as urban production takes place around it, and so does the value of the land. As housebuilders acquire land from owners and sell it on after they have built on it, landowners and housebuilders engage in a competitive struggle to appropriate increases in land value for themselves.

This competitive struggle with landowners is a key part of the activities of housebuilders; the extent to which they are able to get land at a good price and appropriate a significant proportion of land uplift for themselves is a key determinant of their profitability. The process of land acquisition is notoriously opaque in the UK. It lacks a single comprehensive database of land ownership, and the valuation agency no longer publishes average land value estimates. Consequently, our understanding of the process is to a large extent dependent on a combination of theory and anecdote.

Ball (1983) argues that landowners tend to be in an advantageous position vis-à-vis housebuilders because they can withhold land from sale until they get the right price. Barker[25] corroborates this, saying that landowners are rarely forced to sell and will resist selling at a price they think is too low because land often represents the owners' retirement income. Others[26] are more dubious about the idea that landowners withhold from sale in order to extract a higher price. John Stewart of the House Builders Federation appears to subscribe to the idea of a market price at which both parties willingly exchange, though how this market price is determined given the uniqueness of each piece of land is unspecified and remains a problem.

[25] Kate Barker, author of the Barker Review of Housing Supply and the Barker Review of Land-use Planning, interview September 2013.
[26] John Stewart, House Builders Federation, interview September 2013.

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The reality is that it will depend on the character and situation of the landowner. For example, whereas Oxbridge colleges are notoriously hard in their land dealings, others will be more vulnerable to being hoodwinked by developers. The outcome of the struggle between landowners and housebuilders to appropriate land uplift depends on their relative knowledge and ability to refrain from exchange in order to extract a higher price. This will vary on a case by case basis and implies that the market price of land is specific not only to location but also to the relative bargaining power of the two sides involved in the sale. In the course of the struggle, a number of strategies are employed. Collaborative strategies include optioning, whereby a housebuilder agrees with the landowner that they will take the land through the planning application process in exchange for getting to buy the land at a discount if the planning application is successful. Housebuilders also use more antagonistic strategies such as strip ransoming, whereby a landowner demands a high price for the last remaining portion of land on a larger site (Ball 2010).

In the UK, the struggle between housebuilders and landowners over land values is mediated by the planning system. Planning intervenes in this struggle in a number of ways. By deciding what land can be developed and what cannot, planning creates and distributes monopoly rent. In doing so, it increases the stakes in the struggle between landowners and housebuilders because granting of planning permission adds significant value to land (conversely, the value of land left out of the plan will be lowered significantly). Decisions about what land is used for in the local area also affect land values in that area. For example, protecting a green space boosts value of developable land next to it.

The stated purpose of the planning system is to balance economic development against environmental and social concerns (Barker 2006). The UK has a discretionary planning system, meaning that planning permission is a legal requirement for every development, and its granting is decided by local authorities

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on a case-by-case basis.[27] From the 1990 Town and Country Planning Act until the 2011 Localism Act,[28] the UK had a top-down, plan-led system such that local authorities had to make their decisions in accordance with the statutory development plan. The 2004 Planning and Compulsory Purchase Act introduced a stronger regional and local dimension to the statutory plan by requiring local authorities to make a local plan in accordance with Regional Spatial Strategies set by (short-lived) regional development agencies and the national planning guidelines.

The UK's planning system has been widely criticised. First, as Barker (2006) points out, the costs of development are localised while the benefits tend to be much more widespread. The benefits of new housing developments will be felt, for example, across travel to work areas, which tend to be much larger than a local authority (Barker 2006). Yet final decisions about granting planning permission for developments are made at a local authority level. Whether because people prefer to live in a less developed area, or because they are concerned about the strain that the local population increase concomitant on new housebuilding will put on local infrastructure and public services, housing development tends to be unpopular among local populations (a phenomenon captured by the term NIMBYism, which stands for Not In My Back Yard). This puts pressure on the planning committees that ultimately decide on planning permissions to err on the side of rejection, because these committees are made up of local councillors, many of whom will be seeking re-election by their local constituents.

Of course, local democracy is important, as are environmental and social considerations, which need to be balanced against the demands of economic development - there are sometimes good reasons to turn down planning applications. Housebuilders' complaints about NIMBYism should therefore be taken

[27] Such a system contrasts with zoning, which designates certain areas for certain types of development and puts building standards in place, but then allows development to go ahead without requiring individual planning permission.
[28] Opinions are mixed on whether the Localism Act represents a fundamentally new direction for the planning system. I discuss the Act, and its significance, below, though my discussion is tentative because quantitative data on permission rates under the Act are still limited.

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with a pinch of salt, lest they disguise a simple frustration with local democracy getting in the way of profitable opportunities. But even more disinterested parties, such as Kate Barker in her 2006 review of land and planning (Barker 2006), find that the right balance was not being struck through the 1990s and 2000s and that local authorities did not have sufficient incentives to facilitate or encourage economic development. In Germany, local governments receive grants on the basis of population size, so have a strong financial incentive to encourage development. In the UK, by contrast, local authorities bear the costs of development with limited reward (which has to be secured through S106 agreements). Local authorities have often failed to make and deliver a local plan or deliver enough land to meet housing targets set out in national and regional guidance.

Second, where land is made available for development, the process through which applications for planning permission are made and decided is costly and inefficient. In 2006, £200 million was spent on planning fees alone, with much more being spent on legal and consultant fees as part of the application process. The process is slow, with developers reporting that decisions are usually left to the last minute, and that delays due to staff shortage or sickness are common. Third, because they are determined by the political whims or calculations of local councillors, the decision-making process involves a great deal of uncertainty. Developers rarely know much in advance what land is going to be designated for development, and it is hard to predict which applications will be successful or not.

Finally, a criticism that was increasingly made during the 2000s is that the planning system has attached a growing burden of conditions to planning permissions. S106 agreements are a mechanism through which local authorities attempt to capture some of the value created by development for the benefit of the local area, for example, by requiring a portion of the houses in a development to be affordable or requiring a capital contribution to cover the costs of additional pressure put on infrastructure. Some interviewees said that these became particularly arduous in the few years before the crash, at times threatening the viability of developments.[29] However, as Marc Francis, councillor in the London Borough of Tower Hamlets pointed out, this is a very different type of problem to that of NIMBYism.[30] Boroughs in which NIMBYism is an issue tend to be very resistant to development. By contrast, negotiations around S106 agreements are more likely to be an issue in boroughs that welcome development but want it to benefit the local area. Francis also raised doubts about the extent to which S106 agreements threaten the viability of developments. The size of the agreement is determined in light of the estimated value of the development. These estimates are the product of negotiations. Local authorities may try to overestimate the value of a given development, but housebuilders will underestimate it, often employing the assistance of specialised consultants to do so. Given this, there is no reason to think S106 agreements make projects unviable except when circumstances change after the appraisal.

In light of these criticisms, it is often claimed that the planning system is to blame for the UK's housing supply problems (see section on production). However, except to the extent that the planning system does not provide enough land for development and so gives rise to rationing, housebuilders are not simply passive victims of the planning system. Housebuilders try to make the planning system work to their advantage in a variety of ways. They lobby on decisions regarding other land they think will affect the value of their land, for example by trying to keep undeveloped the land owned by others close to land they own (Rydon 1985). They try to get one over on landowners, either by trying to increase the value of their land after it is bought by altering the detail of planning permission,[31] or by buying land before the

[29] John Stewart, House Builders Federation, interview September 2013; Kate Barker, author of the Barker Review of Housing Supply, the Barker Review of Land-use Planning, interview September 2013.

[30] Marc Francis, Councillor, Tower Hamlets, interview September 2013.

[31] This most commonly takes the form of adding a few units to the development after initial planning permission has been granted and the land purchased on an option agreement. This increases the value of the development but, because the land has already been purchased, the housebuilder appropriates all of the additional value uplift rather than sharing it with the landowner. Sometimes housebuilders are more inventive. One interviewee, who preferred to remain anonymous, related how a housebuilder bought land over two postcodes and, after closing the deal with the landowner, tried to

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owner realises that it is going to be in the plan. Housebuilders also use the planning system to compete with each other, for example, lobbying against the granting of planning permission where it would increase competition in a local area. All of this serves to point out that the planning system does not simply constrain housebuilders, but rather adds another dimension to their struggle to appropriate land uplift. The details of the character and consequences of this struggle is a growing area of political contestation.

5. Production

I argued in my introduction that the early 1980s were a watershed for housing consumption in the UK whereby owner-occupation changed from being the largest tenure within what was still a mixed tenure system, to being the default or 'normal' tenure. In terms of housing production, Barlow and King (1992) argue that the watershed in housing in the 1980s corresponded to a turn towards greater reliance on market systems to meet housing need.

There is a need for care here because private builders also provided the majority of homes before the 1980s. Indeed, the 'typical' speculative housebuilder,* working on estate-sized developments of housing for owner-occupation, dates back to the interwar period (Callcutt 2007). It was then that - encouraged, first by government subsidies in the 1920s, and then by the coalescing of a number of factors[32] that gave rise to a speculative building boom in the 1930s - estate-scale developers building for owner-occupation displaced building for the private rented sector. However, from WWI to the early 1980s, such building for owner-occupation by speculative housebuilders was accompanied by the building on a significant scale of socially-rented council housing by local authorities.

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get all of the land moved into the more valuable postcode, thus creating an instantaneous uplift that the housebuilder would not have to share with the landowner.

[32] Including demographic trends, rising real incomes, and falling building costs and interest rates (Callcutt 2007)

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By 'speculative' is meant that the housebuilder instigates housing development projects and acquires and prepares the land, often including obtaining planning permission, and then carries out the construction of houses for sale without a pre-arranged buyer. For local authority housing, by contrast, housing development projects were initiated, prepared for, and distributed by the local authority. In some cases the construction work would also be carried out by builders directly employed by the local authority in what were known as Direct Labour Organisations (DLOs). Often, however, the council would employ private building contractors to construct the housing, in which case, even though the housing development was initiated by local authorities, the building work was carried out by the private sector.

Whether local authority work was carried out by private contractors or DLOs depended to a significant extent on the profitability of private sector work. When DLOs were created, they initially only carried out repair and maintenance "since private contractors had no interest in taking on repair and maintenance work themselves" (Leopold 1985, p. 18).[33] Their gradual expansion into construction was at least in part dependent on the unwillingness of the private sector to take public sector work when the private sector was profitable. When private sector work dried up, private builders turned to the public sector for contracts, giving rise to political hostility towards, and restrictions on, the operation of DLOs. The depressed condition of the private sector in the late 1970s was in this manner a factor in the turn against DLOs along with the erosion of working conditions within them and forced tender for council work in the 1980s (see Leopold 1985).

The change that defined the 1980s watershed, and what Barlow and King are referring to when they talk about greater reliance on the private market to meet housing need, is that local authority responsibility for building fell dramatically and one form of housebuilding – private speculative building for owner-occupation – became predominant. Although HAs began to fill some of the void in providing social

[33] Leopold was one of the founders of the sop approach (see Fine and Leopold 1992).

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housing from the later 1990s, their building rates have never come near to matching those of local authorities earlier in the century.

One major implication of this change is that the activities of housebuilders are driven by the need to make profit: "Housebuilders are not in the business to serve the public interest, except incidentally. Their primary concern is to deliver profits for their investors, now and in the future" (Callcutt 2007, p. 4). Consequently, housing supply is contingent on profitability: "notable is the implication that there have to be adequate returns to capital to allow the system to reproduce itself" (Barlow and King 1992, p. 382).

Another major implication concerns the character of speculative housebuilders and how they make their profits. As already stated, speculative housebuilders initiate housing development and acquire land and planning permission themselves, as well as carrying out construction. The distinguishing feature of such firms is that the profits that they appropriate arise from total development gain, that is, the gap between the initial price paid for land plus construction costs minus the final sales price. In other words, speculative housebuilders play a mercantile as well as production role, as their profits are determined by their effectiveness in timing land purchase and final sale as well as by producing houses: "turnover of capital for a speculative builder, in short, does not depend on steady production rates, but on successful manipulation of land purchases, development programmes, and building sales" (Ball 1988, p. 46) in which timing is key.

This aspect of speculative housebuilder behaviour is crucial to us because one of the effects of the expansion of mortgage lending has been to accentuate the importance of land trading as a source of profit relative to construction. As stated earlier, the growth in mortgage lending since the 1980s correlated with dramatic increases in house prices. Yet house prices increases were only reflected to a limited extent in increased housing supply. For example, the IPPR (2011) finds that between financial

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years 1999/2000 and 2007/08 house prices increased 173%, mortgage credit increased 182%, but housing completions only increased 17%.

It is clear from these figures that the expansion of demand facilitated by increased mortgage lending has fed through into prices much more than it has housing supply. The reasons for this are contentious. On the one hand, mortgage market reregulation seems to have triggered speculative housing bubbles wherever it has occurred, hence house price increases of a similar scale were also seen in, for example, the USA, Spain and Ireland in the early 2000s. On the other hand, house price booms in these countries were accompanied by booms in housing construction, whereas the UK is distinctive in exhibiting an asymmetry between house price and housing supply behaviour such that housing output increased less during the boom and house prices fell less during the slump. For example, in the lead-in to the 2007 crisis Britain's rate of house-building per head of the population had been strikingly low – less than one sixth that of Ireland, one fifth of Spain and half of the USA – yet house prices bottomed out within a couple of years of the initial crash and are now rising again.[34]

House prices increasing so dramatically without soliciting anything like a corresponding supply response is a paradox for the most basic principle of market theory, according to which excess demand stimulates increases in price that trigger an expansion in supply. Attempts to explain this paradox centre on the question of land banks (the stocks of land held by housebuilding firms) and the way in which they are used by housebuilders. Some argue that land banks are the proportionate and necessary means by which housebuilders ensure that they are able to maintain a continuous stream of production given the slowness and unpredictability of the planning system; others argue that land banks are excessive and speculative, allowing housebuilders to appropriate capital gains on land without having to

[34] http://www.telegraph.co.uk/finance/personalfinance/houseprices/10681756/UK-house-price-growth-approaching-madness.html

develop it. Thus arises an often bitter and polarised debate between advocates of the housebuilding industry and its critics in which:

> The development industry and its advocates complain that the planning system releases too little land, and that its release is slow and unpredictable. The industry's critics assert that developers do not take full advantage of the available land, preferring to profit from land value inflation with the minimum of effort given to actually building houses (Callcutt 2007, p. 32)

Advocates of the first view, which includes a number of government-commissioned studies of the housebuilding industry (Barker 2004, Calcutt 2007, OFT 2008, Ball 2010) and housing developers themselves (private interviews), blame the low supply responsiveness of housing in the UK on its costly and unpredictable planning system. Given the planning system, they argue, housebuilders can never be sure when they will obtain planning permission and so they hold land banks to guarantee their ability to continue to produce houses in the future. In defence of this understanding its advocates cite, in addition to problems with the planning system, the costs to housebuilders of holding land without building out on it. Holding land speculatively is costly, because maintenance and security has to be paid and because it ties up scarce capital, and risky, because land prices may fall or production or regulatory costs increase:

> Homebuilders are typically motivated to commence build as soon as a site has full planning consent, as the potential for margin erosion from additional holding cost; risk of sales price and regulatory changes; and build cost inflation outweigh the potential upside from house price inflation (KPMG 2008, p. 41).

The logic of these costs and risks is that housebuilders hold land banks only reluctantly; ideally they would prefer a planning system that did not necessitate it.

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For reasons that I elaborated on in the section on land, the UK planning system does constrain development. It imposes an absolute limit on the amount of land that can be built on, and so rations land for development. Furthermore, even where planning permission is awarded, it is done in ways that increase costs and uncertainty for housebuilders. This notwithstanding, the understanding of land banks contained within the first view in the land banking debate misses a vital component of housebuilders' activity in the UK. This is that, because land is a crucial input for housebuilders, and because the price of land tends to fluctuate significantly in the course of urban development as a result of its ability to bear rent, speculative housebuilders function as mercantile capital in relation to land. Correctly speculating on the value of land – that is, trying to appropriate as much monopoly rent between purchase and sale of land as possible - is a vital determinant of housebuilder profit.

The second view in the land banking debate, which is most clearly set out in Ball (1983) but is also reflected in IPPR (2011), Barlow and King (1992), and private interviews, shows more awareness of this aspect of housebuilder behaviour. It blames low output on housebuilders, claiming that their pursuit of profit in the form of capital gains leads them to under supply housing. This view is right that, contrary to the notion that firms hold land banks in order to ensure that they have sufficient land to maintain a steady rate of production, then, firms try to time production and output decisions in order to maximise total development gain:

> A land bank should not be seen therefore as being like a physical store through which land moves in conveyor belt fashion with more sites being added at one end whilst others are taken off at the other (Ball 1983, p. 151)

Land is not a uniform physical input that can simply be replenished when it is used up. Rather it is inherently differentiated by location and other qualities. Each piece must therefore be subject to its own unique calculation concerning whether development is profitable or not. Building out immediately will be profitable on some

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land, but where the housebuilder expects the value of land to increase significantly in the future it will be more profitable to buy land immediately but delay build-out and sale until those increases become manifest. In the interim, such land becomes part of a land bank. Of course, the profit resulting from the anticipated uplift must be weighed against the costs and risks of holding land described above; speculative gains are not guaranteed. Nonetheless, speculative considerations are employed whenever a housebuilder decides to build out on a piece of land as housebuilders try to time land purchase and house sale decisions to maximise the capital gains they accrue on land.

Land banks are a by-product of this crucial aspect of housebuilder activity. Any land that the housebuilder deems undervalued relative to its future or potential value, and therefore chooses not to build out on immediately, becomes part of a land bank. In light of this, to explain land banks simply as the result of planning is unconvincing. However, it does not follow that it is right to blame the UK's low housing supply on land banking. To do so begs the question of why supply has not been similarly low in countries such as the USA, Spain and Ireland that exhibit both speculative production and construction booms. It also misunderstands the imperative confronting speculative housebuilders, which is to time purchase and sale to maximise land uplift, not to limit supply in perpetuity. The profits from accumulated capital gains are only notional until they are realised through sale, and there is no evidence that housebuilders engage in extensive trading of land that they have not built out on. Housebuilding remains an integral part of housebuilders' activities.

All this suggests that we should not expect systematic or enduring under-supply to result from the presence of land banks. To the extent that the second view, which blames the UK's low housing supply on land banks, holds that housebuilders have come to make their profits from speculating on land *instead* of from building houses it is too simplistic. This brings us back to our starting point – asking why housing supply is weak in the UK - but we have made progress in the interim, which is identifying the problems with both sides in the land banking debate and, with it, a way of moving forward. The first view is wrong that land banks are a response to planning rather than serving a speculative purpose; the second view is wrong that speculation alone is responsible for low supply. However, the first view is right that the planning system in the UK is costly and restrictive, and the second view is right that housebuilders speculate on land. Furthermore, because the granting of planning permission helps to determine land uplift and is a condition of building out on it, planning is a factor influencing firms' management of land banks. Similarly, since speculative considerations are employed whenever firms build, they are part of any explanation of supply.

To the extent that the debate about housing supply in the UK has focused on the practice of land banking, therefore, it misses the mark. The UK's restrictive planning system is one of the distinguishing features of its housing sop, especially in comparison with other countries with housing sops that are in other respects quite similar. However, provision in that sop is currently dominated by housebuilders for whom speculation on land is a crucial source of profits. As a result, housing supply cannot be understood as a question of either/or, that is, Britain's weak housing supply must be due to either a restrictive planning system or to the speculative character of housebuilders. Instead I argue that it is the consequence of both conditions interacting in the presence of large, though cyclical, capital gains arising from the presence of finance.

The implication of the UK's housing supply being the outcome of the complex interaction of its planning system and speculative provision is that it does not permit explanations that reduce supply to a single cause. What I offer instead is some examples of the kind of dynamics in play in determining the level of housing supply. The imperative for speculative housebuilders is to buy land for as little as possible and sell land with houses built out on it for as much as possible. Given the cyclicality of housing and land markets, this means buying land at the bottom of the cycle and selling it at its top. In doing so they also seek to use the most efficient construction methods available in order not to expend unnecessary capital in the production process.

Planning intervenes in this process by determining which land is available for development. To some extent it will limit the amount of such land at the aggregate level because the costs of applying for planning permission eat in to housebuilders' margins. The legal and administrative costs of applying for planning permission and obligations imposed under S106 agreements create a deadweight cost for housebuilders, which will, other things being equal, reduce the number of viable[35] housebuilding projects. Given that since the 1980s the overwhelming majority of housing in the UK is provided privately and therefore dependent on profitability, this will impede supply.

However, it is also widely recognised that housebuilders tend to stagger output, building out on a site only gradually and preferring to delay sale in order to secure a given price rather than to accept a lower price in order to hasten a sale: "homebuilders tend to reduce sales price as a last resort due to the impact on profit margin" (KPMG 2008, p. 21). This is not surprising given that housebuilders time output decisions in order to maximise sales price and development gain because lowering the price of a house on a particular piece of land risks devaluing other land held by the housebuilder: "the major house-builders are not going to double the number of units they build because it's not in their interest ... It would halve land values and margins. If they built too fast, it would reduce the sales price – and they are unlikely to do that".[36]

Housebuilders' capacity to stagger output to protect margins on all the land they own in this way is conditional on the way in which landownership can give rise to localised monopolies – as one interviewee put it, "why build out fast if you're the only

[35] That is, projects that are profitable enough for the housebuilder to be willing to go ahead with them.
[36] The Financial Times (2013) 'Housebuilders Enjoy State-Backed Boom', 22nd January 2013

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builder in the area, especially if you expect prices to rise?".[37] At this point the planning system re-enters the picture because it plays a key role in establishing and maintaining these localised monopolies by restricting the amount of developable land in a locality. In such cases, the planning system is a root of low housing supply, but only because of the way in which housebuilders respond to and manipulate the planning system, often to their own advantage. Of course, sometimes staggering output to protect margins on land is necessary maintain normal profits given the high price paid for land or the costs of getting planning permission. But sometimes – when the land value has increased significantly since the housebuilder bought it – the margin on land will go to the housebuilder as super profit.

While the precise causal mechanism underpinning the UK's low housing supply responsiveness and therefore the channelling of effective demand into prices rather than supply, is difficult to specify, that housebuilders have increasingly prioritised their mercantile relative to their productive activities is clear from a number of indicators. One such indicator is the internal structure of most major speculative housebuilding firms. Such firms tend to focus their in-house activities on land acquisition and project oversight, with most building work carried out by subcontractors. In order to be able to respond flexibly to opportunities arising in the land market or changes in conditions in the housing market, especially in the context of capital constraints (see section on finance above) housebuilders minimise capital tied up in production. Priority is thus given to land trading. Meanwhile, on-site production is carried out by small subcontractors[38] and capital equipment is rented rather than owned (Ball 2010). This way of organising production has further implications for the functioning of the housebuilding industry – in particular, employment conditions tend to be poor (see section on labour).

[37] Kate Barker, author of the Barker Review of Housing Supply, the Barker Review of Land-use Planning, interview September 2013.
[38] Ian Murdoch, Finance Director, Miller Homes housebuilder, interview September 2013.

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During booms or recoveries, vertical segregation can lead to bottlenecks in the supply chain. Prices of rented capital equipment rise during booms, while suppliers of other inputs are likely to reduce output or go out of business during downturns, leading to shortages when building starts to pick up again. For example, a number of firms[39] said that shortages of bricks and blocks became a problem once housebuilding started to recover in 2012 and anticipated similar problems in relation to skills should the recovery continue.

The housebuilding industry is also commonly criticised for being inefficient and having low levels of technological progress (Wellings 2006; Stone 1983). Consecutive governments have tried to encourage the industry to adopt modern methods of construction, MMC, such as prefabfrication, but with little success. This is not because technological backwardness is inherent to the industry, as some have argued (Stone 1983), or because prefabrication is inherently undesirable, though the shadow of Britain's disastrous experience with cheap and dysfunctional prefabricated tower blocks in the 1970s may loom over the industry. Rather it is that the organisation of production in the industry does not lend itself very readily to MMC. Continuous production of the kind that suits 'production line' style rationalisation is technically possible in housebuilding, but rarely pursued by housebuilders. This is partly because of the capital requirements of such building and the risks involved in trying to sell houses on a rapidly built-out site. But the more important reason is that the profits from increasing productivity in production are likely to be dwarfed by the profits made from successfully buying cheap and selling dear in land markets. Consequently, it is easier and more profitable for housebuilders to gain a competitive edge over their rivals through land trading than through technological innovation.

[39] Ian Murdoch, Finance Director, Miller Homes housebuilder, interview September 2013; Kate Barker, author of the Barker Review of Housing Supply, the Barker Review of Land-use Planning, interview September 2013.

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None of this means that the industry is uniformly technologically backward. First, considerable innovations occur in the materials and components part of the industry because their model of production is more like the continuous production line that is conducive to technological progress (Ball 2010). Second, environmental regulations have also been an important source of technical change in recent years (Ball 2010), though these are not necessarily cost-reducing. Third, John Stewart of the House Builders' Federation argues that the promotion of MMC misunderstands the character of technical change in the industry, which is incremental rather than involving sudden and dramatic changes in the way that houses are built.[40] He argues that competitive pressures in the industry mean that housebuilders would adopt cost-reducing means of production if they were available.

Another indicator of the relative importance of land in housebuilder activities is greater industry concentration. The proportion of housing starts for which the top ten housebuilding firms are responsible has increased from 18% in 1973 to 44% in 2007 (OFT 2008). This has tended to be the result of two processes: mergers and acquisitions, which is used as a means for acquiring developable land as well as for entering markets in new localities; and the collapse of smaller housebuilders following industry downturns in 1974 and the early 1990s. The underlying forces driving these processes are larger firms' greater ease of access to finance (see section on finance) and the difficulty of acquiring land, which requires both sizeable amounts of capital upfront and, often, specialist knowledge about the UK planning system. We may see greater concentration still as the industry emerges from the current downturn.

Another trend is towards greater specialisation in housebuilding: "the larger housebuilders are now focused: they do little, if anything, other than housing; neither are they owned by non-housing organisations" (Callcutt 2007, p. 201). Until the 1990s, the boundaries between speculative housing developers and contracting

[40] John Stewart, House Builders Federation, interview September 2013.

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construction firms was more fluid, with firms moving between the two roles or one kind acquiring the other. However, "the trading performance of the contractor-led housebuilders tended to lag behind that of the focused housebuilders, both in volumes and profitability" (Callcutt 2007, p. 207) with the result that the major housebuilding firms are now specialists. Similarly, up until the 1990s large housebuilders were often nested under larger conglomerates, but have since become independent entities.

Wellings suggests why this might be the case. The skills that make for a successful housebuilder – the ability to identify and acquire land with strong development potential and to build out on it at the right time – are quite different to those that make for a successful contract builder – the ability to meet a specification on time and budget – despite superficial similarities between them in terms of the construction processes involved. Thus, he says,

> the pairing of speculative development and construction has been an almost unmitigated failure, primarily because it was based on the similarity of physical process and not intellectual and temperamental complementarity (Wellings 2006, p. 195).

Here, Wellings is arguing that there is no organisational logic to combining contractors and speculative housebuilders in one firm. On the contrary, specialist housebuilders are more likely to hone the particular skills that make for their success. With this in mind, Ball (2010) seems right to relate the rise of specialisation to the drying up of public sector contracts. As the housebuilding industry has become coterminous with the speculative housebuilding industry, possessing and executing the skills distinctive to speculative housebuilding has become more important for survival.

To conclude this section, since the 1980s, the UK has depended on speculative housebuilders building for profit to provide the bulk of its housing. The distinguishing feature of such housebuilders is that they combine productive and mercantile capital, profiting from astute timings of land acquisition and sale as well as from building housing. The influx of mortgage finance has elevated the importance of housebuilders mercantile activities, by increasing the premium attached to getting land trading right. This reflects, and has encouraged, the channelling of increased effective demand into house prices rather than housing supply. Political and academic debate about housing supply in the UK has tended to focus on land banking as the proximate cause of low supply, with participants disagreeing about whether land banking is a response to the UK's restrictive planning system or indicative of housebuilders speculative activities. The debate seeks to name planning or speculation as the ultimate cause of the UK's comparatively low housing supply responsiveness. But the insight of the sop approach is that outcomes are the result of the complex relations between many agents and how they are structured in specific contexts. While it is difficult to establish a precise causal account of low UK housing responsiveness, it is implausible that an explanation of UK housing supply can be reduced to a single factor such as planning restrictions or land banking. Rather, speculative housebuilders, in the context of restrictive planning and an influx of demand-side finance, which get capitalised in land values, have responded by focussing more of their efforts on land acquisition and controlling output. This is evident in internal and external industry structure, and other industry characteristics such as technological progress and employment practices, the last of which is the subject of the next section.

6. Labour

The dominant influence on the experience of labour in the housing sop is the pressure on housebuilders to minimise production costs and the amount of capital that is tied up in production at any one time and to maximise flexibility and their ability to respond to market conditions. The consequence of these pressures is that housebuilders employ very few people directly, relying instead on subcontracting on

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a site-by-site or even a job-by-job basis. For example, in an interview carried out for this research, Ian Murdoch of Miller Homes reported that the firm only has a small number of development managers in permanent employment.[41] These managers are moved from site to site, assembling a production team anew on each new site. Interviews with construction trade unions corroborated this and further reported that housebuilding sites tend to be characterised by a cascade of subcontracting arrangements – the development manager acting for the firm subcontracts someone to organise and oversee each task – 'a bricklaying baron' or a 'chief joiner'[42] – who then subcontracts a team of workers to carry out the job.

Another way in which housebuilders try to reduce production costs is through their terms of employment practices. It is rare to receive an hourly wage in the housebuilding industry. More often, workers are paid piecework and/or involved in bogus self-employment. This is the practice whereby the worker registers with a labour or payroll agency as self-employed or a 'composite company' and is hired by the housebuilder on that basis, despite there being 'without doubt an employment relationship' (UNITE,* *date not available*) in the sense that they "are dependent workers who do not have the independence and autonomy over their work that characterise genuine self-employment" (TUC Commission on Vulnerable Employment 2008, p. 181). This arrangement means that the housebuilder does not pay National Insurance* contributions, and the worker pays corporation tax rather than income tax and National Insurance. The tax wedge and therefore cost to the employer of hiring labour is thus substantially reduced – indeed, research for UCATT* estimates that the practice costs the Exchequer £2 billion in lost tax income each year (Elliott 2012) while in 2009 the Treasury itself estimated annual losses to the Exchequer to be £350 million (HM Treasury 2009). Of even more concern, from the point of view of labour, is that legally there is no employment relationship between the housebuilder and the onsite workforce, which means that workers

[41] Ian Murdoch, Finance Director, Miller Homes housebuilder, interview September 2013.
[42] Steve Murphy, UCATT General Secretary, interview September 2013.

cannot take their employer to an employment tribunal and they are not entitled to holiday pay, sick pay or enrolment in a pension scheme.

Tied up with the use of subcontracting and bogus self-employment in housebuilding is the proliferation of payroll companies and labour agencies or Gangmasters.* Formally, payroll companies and labour agencies mediate between the worker and the housebuilding firm. They organise groups of workers and help housebuilders convert their workforce from employed to self-employed and then act as an intermediary between the housebuilder and the labourer, freeing the housebuilder from having a legal relationship with the labourer. However, unions allege that in practice these companies pressure or coerce workers into transitioning to self-employment: 'based on the anecdotal evidence provided by our members the numbers of workers who actively pursue bogus self-employment without any coercion by the 'engager' are a significant minority' (UNITE, *date not available*). Furthermore, in exchange for managing labourers' contracts (a particularly important aspect of which is said to be shielding housebuilding firms and their employment practices from the Inland Revenue), payroll companies impose a levy on the employer or sometimes even the self-employed subcontractor (Elliott 2012). Gangmasters in particular have being known to appropriate large percentages of (usually migrant) workers' pay packets.[43] Attempts to reduce the costs of employment in production have created opportunities for new agents to enter the housing sop and appropriate some of the value created there.

Subcontracting and bogus self-employment are not new – indeed, they have their forebears in the 'lump', which was the practice common in the 1970s of paying labourers a single fixed price for a job rather than an hourly wage. Nor is it limited to housebuilding within the construction industry. It is in the nature of the industry that workers change project and location regularly, and so direct employment is not the

[43] In one widely reported case in 2008 a gang of 12 Lithuanian workers on a construction site in Mansfield were found to receive £8.80 per week take home pay after the Gangmaster's deductions (see WPGLA Report)

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norm. In addition, one of the major incentives for bogus self-employment – the Construction Industry Scheme (CIS), which allows companies to deduct tax from the pay of self-employed subcontractor – applies industry-wide (in the current context of the UK).[44] However, it is particularly prevalent in housebuilding, probably as a consequence of its fragmented employment structure, which makes organising the workforce difficult[45] and individual positions vulnerable. The unions I spoke to said that in large infrastructure projects, especially more complicated engineering projects such as oil rigs, it is possible to secure direct contracts and wide coverage of union agreements on pay and conditions because of the long-term and high-skilled nature of the work. By contrast, in housebuilding a vicious cycle has developed whereby fragmentation has allowed bogus self-employment to take hold, and this then reinforces the fragmented and casualised employment structure as workers in such an employment relationship have little capacity to organise and resist these practices. A report on Gangmasters and forced labour found that gangs of bogus self-employed workers

> were not yet prevalent on the large commercial sites, which remained, by and large, *'well organised sites'*, but they were much-evidenced on smaller, house-building sites, and they were clearly operated by gangmasters (Wilkinson 2010, p. 52)

The upshot is that it is widely recognised in the construction industry that "housebuilders are lousy employers".[46] Indeed, one union interviewee even reported anecdotally that workers who had been blacklisted from employment by major construction firms complained about being forced to take work in housebuilding because they were unable to get employment in other types of construction.

[44] Though notably it only applies within the construction industry, which is a source of a great deal of controversy (Elliott 2012).
[45] Steve Murphy, UCATT General Secretary, interview September 2013.
[46] Neal Evans, UNITE, researcher, interview September 2013.

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The prevalent employment structure in housebuilding also has repercussions for skills and for health and safety. Skills training in the construction industry traditionally takes place through apprenticeships. Apprenticeships only make sense when employment is direct and relatively long-term, so should be expected to decline with direct employment: "the decline of direct employment opportunities continues to significantly reduce the number of apprentices coming into the industry and also limits the opportunity for the existing workforce to upskill" (UNITE, *date not available*). As a result, most apprenticeships tend to be with small- and medium-sized enterprises (SMEs), but there is a long-term decline in such firms, which has sped up since the financial crisis hit. As Neal Evans from Unite put it,

> SMEs have historically been the backbone of such traineeships but many of them have folded. Larger contractors don't directly employ a lot of workers relative to their size so don't have a lot of apprenticeships.[47]

The lack of training for workers coming into the industry combined with an aging workforce led the unions I interviewed to say that there is a skills crisis in the pipeline, which will likely become visible when the market picks up. This view is corroborated elsewhere (for example, Public Sector Executive 2013, UKCES 2012). UKCES (2012) also find that employers in construction tend to be more sensitive, negatively, to the costs of training than employers in other industries.

Opinions of housing developers and associated experts were more mixed. Some (for example, UKCES 2012) agreed that shortages of skilled labour are a concern, especially because they create bottlenecks during booms. Others were more sanguine about the capacity of the market to resolve any shortages, arguing that migrant labour will move into the industry when the price is right.[48] Relying on the market to address skills shortages does not, of course, preclude bottlenecks. On the contrary, it implies that they will occur as the price of skilled labour is bid up before

[47] Neal Evans, UNITE, researcher, interview September 2013.
[48] Professor Michael Ball, Housing expert, interview September 2013; Ian Fletcher, British Property Federation, interview September 2013.

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greater numbers of skilled workers are attracted back to the industry. Ball and others accept this as an inherent feature of the cyclical character of the construction industry. However, unions suggested several reasons other than bottlenecks to be concerned about relying on migrant labour to address any skills shortages. First, the presumption that migrant labour will have acceptable skill levels may not be justified. While the pre-crisis construction boom was famously staffed by migrant labour from Poland, Evans argues that we may not be able to rely on such waves of migrant labour in future (Evans 2007). Concerns have also been raised about the level of health and safety training provided to migrant workers (see WPGLA report and below). Second, the current political direction is towards tightening up immigration restrictions, though this may change under a new government or if economic activity picks up. Finally, there is concern that migrant labour is used not simply to fill skills gaps but to undercut standards and wages expected by the domestic workforce (Wilkinson 2010).

Unions also expressed concern that, because self-employed workers are not legally categorised as employed, their entitlement to health and safety protection is diminished,[49] and that the fragmented structure of employment on housebuilding sites makes it harder to organise and to have a trade union health and safety officer on site.[50] It is also widely reported that self-employed gangs of workers working under gang masters do not get adequate standards of health and safety training and protection (Wilkinson 2010). It is because of all of this that, "(r)esearch has revealed that sites using bogus self-employment have a higher rate of injuries and fatalities" (TUC Commission on Vulnerable Employment 2008, p. 182). The contrary view – that health and safety restrictions have become excessive – has been vocal in recent years, with Prime Minister David Cameron saying in 2012 that he is "waging a war against the excessive health and safety culture that has become an albatross around the neck of British business".[51] But significant cuts to funding for the Health and

[49] Neal Evans, UNITE, researcher, interview September 2013.
[50] Steve Murphy, UCATT General Secretary, interview September 2013.
[51] http://blogs.bcu.ac.uk/bsbe/has-health-and-safety-gone-mad-2/

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Safety Executive (HSE), the enforcement body, may mean that the pendulum is swinging back the other way. An all-parliamentary report found that the cuts would result in a reduction of services provided by the HSE, and my interviewees agreed that the impact will be felt on site: "resources for health and safety enforcement have fallen dramatically; when activity in the industry picks up again, we will see more deaths".[52]

In conclusion, the terms and conditions of employment in the housebuilding industry are widely recognised to be poor, even by the standards of the construction industry. It is not only labour that is harmed by having temporary employment and limited de facto and/or de jure rights; arguably employers and the industry as a whole also suffer from skills shortages and the leakage of value from the industry into the profits of payroll companies and labour agencies. At the beginning of this section I argued that employment practices and the experience of labour in the housebuilding industry should be understood as being the result of pressures on housebuilders to keep low both costs of production and the amount of capital tied up in production. This is made clearer by contrasting the employment practices of contemporary housebuilding firms with DLOs. Prominent in the 1960s, DLOs were teams of construction workers directly employed by local authorities for the purpose of building and maintaining council housing. One of the reasons for DLOs is that local authorities tended to have relatively large and geographically concentrated housing stocks that provided a steady stream of maintenance work in addition to construction. In addition, local authority housing was not rented at market rents and did not have to be built at a profit. The housebuilding programmes of local authorities were relatively more immune from the vagaries of the market than those of housebuilders, which permitted the long-term, direct employment of labour. Arguably, local authorities were also more subject to pressures over employment conditions than private companies. The rapid fall in council house building in the 1980s ended the conditions for large-scale DLOs to exist, though their decline had

[52] Steve Murphy, UCATT General Secretary, interview September 2013.

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begun earlier when local authorities were forced to open up construction work to tender from private competitors (Leopold 1983). Small-scale DLOs still exist to carry out maintenance work in some HAs, but the use of DLOs for construction has disappeared from the contemporary UK housebuilding industry.

7. The State

Literature on the role of the state in housing provision has tended to focus on state subsidies and their impact on welfare and social justice. Indeed, as mentioned in the introduction, it was this preoccupation with state subsidies and their distributional consequences that prompted Michael Ball to develop his structures of provision approach – a major precursor to the systems of provision approach – in the first place (Ball et al 1988). Ball's first concern is one that is illustrated throughout this case study – that housing outcomes, including welfare and distributional outcomes, are not determined by state subsidies alone but rather depend on the whole chain of provision of housing. His second concern is that state intervention in housing cannot be reduced to consumption subsidies. Rather, the state helps to shape the housing sop repeatedly both directly and indirectly throughout the chain of provision. In addition to influencing the tenure configuration and social and distributive outcomes by providing subsidies or tax breaks to different types of tenure or consumer, the state: sets the regulatory framework within which financing, production and employment occur; designs and enforces the planning system and thereby impacts on geographical patterns of development, land values, and production strategies; helps to shape the character of housing producers by engaging in direct provision or, conversely, by privatising provision; and shapes the broader welfare and economic backdrop against which provision takes place.

Relatedly, the state is not a single monolithic entity. It is constituted by many different bodies and branches, which may sometimes overlap and even conflict with each other. For example, planning guidance is set by central government but local

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government is responsible for implementing the guidance and making day-to-day planning decisions. The two face different political pressures and incentives and, consequently, central-local government tension and a disjuncture between national planning policy and its implementation are recurrent features of the UK planning system. There has also been conflict between central and local government over the level and character of social housing provision since Thatcher constrained local authorities' ability to borrow to build council housing in the 1980s and imposed the Right to Buy* on all councils. But the central-local divide is not the only site of intra-government tension. This may also occur, for example, between different government ministries. One interviewee, who asked to remain anonymous on this issue, described the pro-growth character of the current Government's planning policy as the result of the Treasury intervening against DCLG's* instinct to be more supportive of NIMBYism.

The general political backdrop against which housing policy has been formed since the 1980s is one of neo-liberalism. While this term has been criticised for being vague and over-used, it is helpful in capturing the political reforms that have accompanied the rise of financialisation since the 1980s: "neo-liberalism is the ideological expression of the reasserted power of finance" (Duménil and Levy 2005, p. 17). Most distinctive to neo-liberal ideology is a belief that state failure is more pervasive and serious than market failure and that provision via the market is superior to provision via the state. This despite neo-liberal practice having been distinguished by the extensive use of the state to promote markets and profit-making. Related though not reducible to this preference is an (albeit inconsistent)[53] concern for fiscal conservatism, low inflation, private property and profitability.

This is not the place for a thorough discussion of the nature, causes and consequences of neo-liberalism. Rather, the point is that the term captures many of

[53] The financial crash and government bailouts that followed demonstrated the willingness of even the most ardent neo-liberals to use the state and take on huge fiscal deficits in order to rescue the market.

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the processes and (re)structuring that have defined the UK's housing sop over the period we are looking – privatisation, financialisation, deregulation, concentration etc – and that the state is one of if not the key agent in the introduction of neo-liberalism. Like the state, evidence of the influence of neo-liberalism on the housing sop is ubiquitous, including the greater subordination of housing production and planning decisions about patterns of development to considerations of profit, ideological and attitudinal changes in housing consumption, and financial liberalisation. The most striking means by which the neo-liberal state has helped to shape the current housing sop is through the transformation of the welfare system.

7.1 The State, Welfare, and Housing Consumption

Payne (2012) characterises neo-liberal welfare reform as a transition from collective and universalist welfare provision within which people exist as citizens with rights, to a system that combines individualism and self-reliant individuals functioning as entrepreneurial consumers with a minimum welfare safety net for a marginalised underclass. In Malpass's words, neo-liberal welfare reform involved "a marked redistribution of risk and responsibility from the state to the individual, loading financial costs on to individuals as the price of increased choice" (Malpass 2005, p. 6).

Although neo-liberalism is often characterised as shrinking of the state, this is inaccurate. First, the character of state intervention has changed – in a way that was underpinned by "the view that it was not the state's responsibility to provide but to enable others to do" (Cowan and Marsh 2001, p. 266) and guided by principles such as privatisation and fiscal conservatism – but the state has continued to play an active role in shaping the economy and society. Second, even where reducing the size of the state was the objective, it has not always been achieved. For example, Edmiston (2011) finds that welfare spending actually increased between 1979/80 and 1995/96.

Arguably, however, housing was one of the areas of welfare in which neo-liberal reforms were most successful in reducing government spending and expanding the role of the private sector. Perhaps because housing had never been an integral element of the welfare state and state-provided housing was only used by worse-off sections of society rather than being universally provided like health or education, the Thatcher Government of the 1980s was able to make more headway in cutting subsidies and privatising than it was in say health or education. Even if overall welfare spending was not reduced, the amount spent on housing was:

> The balance of welfare spending changed between services – towards health and social security at the expense of housing and education – but the overall total remained at or around a quarter of national income (Hills 1998, p. 2).

Furthermore, the character of social housing provision has changed dramatically since the 1980s as a large council housing sector has been all but replaced by a smaller HA sector and expanded owner-occupation.

These changes have been implemented by successive governments each of which remained committed to welfare reform and promoting private markets, though the particular form and focus of housing policy has evolved. Broadly speaking, Thatcher focused on the withdrawal of direct state provision and the restructuring of provision around the private sector, which in housing meant limiting local authorities' capacity to build new council housing and imposing the Right-to-Buy on all council housing, as well as the financial deregulation that led to a large expansion in mortgage lending. In the second half of the 1980s, emphasis shifted from the promotion of owner-occupation towards the "demunicipalisation of rented housing" (Kemp 2002, p. 128), though it was not until under the New Labour Government that significant progress was made with this. New Labour gave more attention to reconstructing a heavily modified form of social housing. They made money available for social housing improvement that could only be accessed if councils set up arms length management organisations (ALMOs), signed up to a Private Finance Initiative (PFI) deal to fund public housing projects using private capital, or transferred local authority housing to HAs. With a financial incentive in place, local authorities took up these options in numbers not achieved by Thatcher (80% of all stock transfer sales since Thatcher's 1988 legislation made it possible have occurred since 1997).

Although the Labour, unlike the Thatcher, Government, were willing to invest in social housing to improve quality, they went about it in such a way as to advance the neo-liberal agenda for housing, concretising the role of local authorities as enablers rather than providers. Peck and Tickell (2002) explain this evolution in the content of actually-existing neo-liberalism by distinguishing between its ''roll-back'' and ''roll-out'' stages. While "the former focused mainly upon processes of economic restructuring and a rolling back of the welfare safety net, under the latter new discourses of welfare ''reform'' and new institutional arrangements have emerged" (May et al 2005, p. 703). Thus, Thatcher presided over the "roll-back" period: social housing was marginalised, owner-occupation became the dominant tenure form, and finance played an increasingly important role in expanding the number of people who could access home-ownership via easier access to credit. These patterns continued under New Labour, but were coupled with new discourses about welfare reform in the 'roll out' phase. The New Labour government was more successful at establishing a new model for providing social housing, albeit as a safety net meant to serve only the most marginalised.

These reforms to social housing policy had profound consequences for housing consumption in both the socially rented and other sectors. Though usually associated with initial refurbishment, HA transfer often also meant rent increases and loss of accountability for tenants. Social housing tenants also became more socially marginalised. Housing policy was delegated to the Social Exclusion Unit during Labour's first two terms and treated as but one facet of tackling neighbourhood renewal and anti-social behaviour in relation to people with overlapping disadvantages.

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Meanwhile, the partial privatisation of the council housing stock through the Right to Buy, and restrictions imposed on local authorities building more, increased both the residualisation and shortages of council housing and pushed demand into owner-occupation. The state also promoted owner-occupation through mortgage interest subsidies (in place until the early 1990s) and through the use of 'naturalising' discourses about owner-occupation (see section on consumption).

The austerity and anti-welfare agendas of the current government are leading to further changes to the availability of social housing. Housing benefits have been capped and the aforementioned bedroom tax introduced. Both of these reforms reduce the number of properties available to people on housing benefit, especially in areas such as London and the south east where housing markets are tighter and rents higher. The character of housing provided by HAs is also changing as a result of cuts to the social housing grant. The 2010 Comprehensive Spending Review introduced the euphemistically titled 'affordable rent programme', which reduced the proportion of funding for affordable housing developments that could come from the social housing grant from approximately 30% to 5%.[54] In exchange, Registered Social Landlords were allowed to charge 'affordable' (up to 80% of market rents) rather than 'social' rents (up to 40% of market rents). The result has been significant increases in rents for social housing and greater poverty levels among tenants living in homes built under the affordable rent scheme compared to tenants living in existing social houses.[55] The Social Housing Grant has since been cut further. Although the Government presented the £3.3 billion devoted to affordable housing in its 2013 budget as an investment, over three years it is actually a cut from the previous affordable housing programme, which committed £4.5 billion over four years.

[54] Paul Williams, B3Living Housing Association, interview September 2013.
[55] Inside Housing (2013), 'Affordable rent model under threat', 19 June 2013, http://www.cml.org.uk/cml/media/press/3606

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HAs report that these funding changes are putting pressure on their ability to fulfil their social role: "For some associations, the growing emphasis on the commercial aspects of the business is moving the sector away from its social roots" (Chevin 2013, p. 6). Paul Williams, of a HA called B3Living, reports that the traditional social housing tenants often cannot afford the new 'affordable rents', especially in London where they exceed the new housing benefit cap. Consequently, new HA properties are increasingly being rented to working people who in the past would not have qualified for social housing, rather than the severely disadvantaged. In order to fund new housebuilding, HAs are having to make forays into the private sector, with the implication that their activities are becoming more profit-oriented: "Cross-subsidisation is probably the only way forward, whether through entering the PRS or selling units for owner-occupation".[56] There is also concern that the ending of the system whereby housing benefit is paid directly to landlords with the introduction of universal credit will cost HAs in the form of rent arrears as tenants facing benefit cuts struggle to pay their rent. To sum up, financial pressures mean that HAs are less and less able to provide a safety net, which in turn is putting a greater burden on the bottom end of the PRS and leading to deteriorating conditions there (see section on consumption for more on this).

7.2 The State, Housing Production and Employment

The state's retreat from direct production had an impact on the overall character of production. Whereas local authority building was often carried out by DLOs, HA building is usually carried out by speculative housebuilding firms,[57] with obvious implications for labour relations. Furthermore, build rates have never come close to matching those of local authorities in their heyday (see chart below). Less directly,

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[56] Paul Williams, B3Living Housing Association, interview September 2013.

[57] A variety of arrangements occur: housebuilders sell a portion off-plan to HAs, which helps them with capital flow issues; housebuilders sell portion of total units to HA under S106 agreements; HAs commission housebuilders to build units to their specification.

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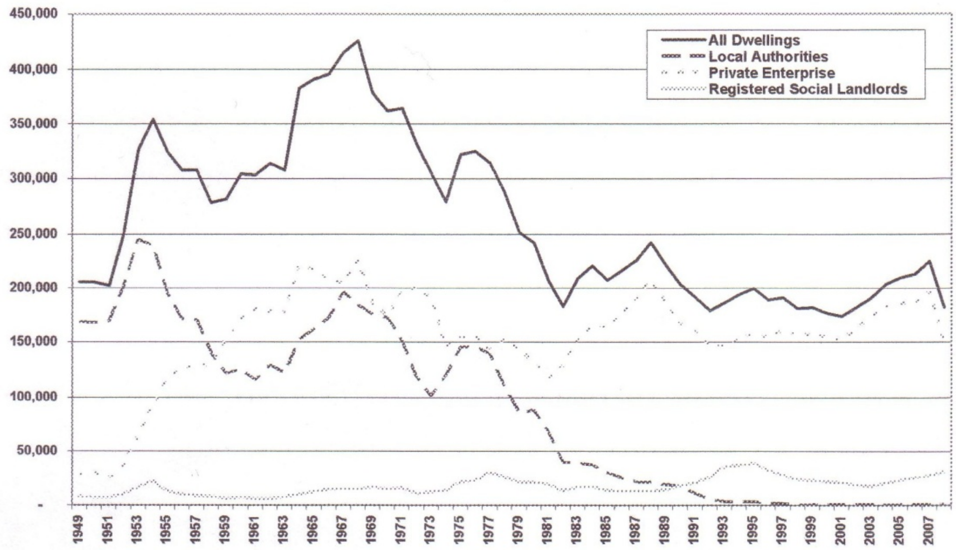
the state sets the legal and regulatory framework within which production strategies develop. This includes employment and planning regulations which, as seen, have a significant impact on the character and outcomes of production. The subcontracting system and bogus self-employment have developed because tax and employment legislation currently permits it. Indeed, UCATT argues that abolishing the Construction Industry Scheme (which allows companies to subtract tax from the pay of self-employed subcontractors at source) and special dispensations for payroll companies, would lead to a significant fall in bogus self-employment (Elliott 2012).

Figure 5: House building in the UK, permanent dwellings completed, by tenure, 1949 to 2008[23]



Source: Pattison (2010)

7.3 The State and Planning

The impact that the state has on the housing system via planning law is even more significant. As explained in the section on land, planning helps to determine land values and their appropriation by intervening in the competition between housebuilders and landowners over land uplift in a way that may have implications for housing supply. Since the 1980s planning decisions have increasingly taken a

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distinctively neo-liberal form. The state has sought to replace public investment in housing and public space with private investment and has, consequently, become constrained by the need to accept that development should only occur in places where it is profitable.

But the state does not just help to shape the competition between landowners and housebuilders over land uplift. It also intervenes in that struggle more directly by trying to appropriate for itself some of the development gain created in the course of development in the form of S106 agreements and similar conditions attached to land. This has become more important since the 1990s when the Major government turned to the planning system to address affordable housing shortages arising as a result of Thatcher's reforms to social housing provision (Gallent 2000).

Planning also provides a striking example of conflict between different parts of the state and, in doing so, of the latter's non-homogeneity. Under the plan-led system, national planning guidelines, including housing targets, were set by central government but had to be implemented by local government. Conflict often arose because many local authorities, who did not want developments taking place in their area, would not produce local plans or award planning permissions that would deliver the target number of houses, and central government struggled to put the right incentives in place to encourage them to do so. Planning reforms introduced by the coalition Government have been presented as the return of localism, and they are insofar as they give local authorities more control over the character and location of local development, but only on the condition that they have plans in place that secure a five year supply of land for housebuilding.[58] The powers of the planning inspectorate have been beefed up to be able to override decisions to turn down planning applications made by local authorities that do not yet have a plan in place, demonstrating that the terms of the power struggle between central and local government evolve in ways that are not straightforward. Note that variation in

[58] Dharmesh Nayee, HM Treasury, interview September 2013.

attitudes towards development and the operation of planning across local authorities and different government departments is another example of the non-homogeneity of the state.

7.4 The State and Finance

Turning to finance, as discussed above, in the 1980s the mortgage market underwent substantial deregulation in a way that led to significant changes in the housing sop. The state was central to this deregulation which, as Aalbers (2009a) points out, it is more accurate to call reregulation because it represented a change in, rather than the disappearance of, regulation, which is always present in markets: "To cut a long story short: no state regulation, no property rights, no mortgage market" (Aalbers 2009a, p. 282). As pointed out in the section on finance above, although financial reregulation was an international phenomenon in the 1980s, it took nationally-specific forms. This is true even of finance in its most international forms. National states even played crucial facilitating roles in the change in the mortgage markets from an 'originate to hold' model to a neo-liberal and financialised 'originate to distribute' model through the rise of securitisation: "Mortgage loan securitization … is essentially an invention of government and government-erected institutions like Fannie Mae and Freddie Mac" (Aalbers 2009a, p. 283).

Thus "the secondary mortgage market is increasingly becoming globalized, while most primary mortgage markets remain largely national" (Aalbers 2009b, p. 389). Ball (1990) argues that: "much of the impetus for the mortgage finance revolution arose as a result of growing problems in previous systems" (Ball 1990, p. 3) and that the content of reforms was a product of the way the state identified and characterised problems and how they addressed them. This is another illustration of the way in which the state intervenes in the construction, perception and presentation of social problems as well as trying to redress them.

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The state was also important in shaping another way in which the intervention of finance has influenced the housing sop and behaviour of agents within it, namely, via the role of financial assets in the neo-liberal welfare model. Watson (2009) argues that, for New Labour, it was central to a welfare system in which individuals bear responsibility for their own welfare and social security that individuals become active consumers of financial assets. He argues that this transformation is crucial to understanding the contemporary UK housing system because, for most people, their home is their main asset: "much of the process of asset accumulation in contemporary Britain takes place through investments on the housing market" (Watson 2009, p. 43).

One should not exaggerate the extent to which neo-liberalism succeeded in making individuals consumer entrepreneurs who accumulate assets in order to provide for their welfare. As already mentioned, neo-liberal welfare reforms were implemented unevenly across different areas of welfare and people relate to their housing in contradictory ways – as homes as well as investments and much more besides. But Watson is right to say that the rolling back of state support and declining wage growth put pressure on households to borrow more to maintain the standards of living enjoyed by previous generations, and to accumulate assets in order to extend this standard of living into old age. For owner-occupiers, their home is their most important asset and it has become more common to borrow on the value of one's house to support one's standard of living. This is demonstrated in the chart below, taken from Smith and Searle (2008), who find that "overall, through the millennial peak, more than three times as much equity was routinely being extracted as in the 1980s" (Smith and Searle 2008, pp. 24-25).

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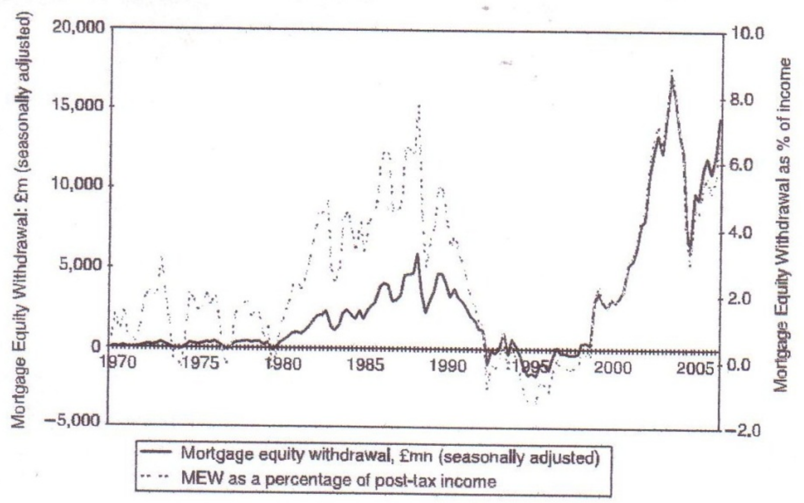

Figure 1. Mortgage equity withdrawal, 1970–2005, aggregate figures. *Source:* Bank of England Quarterly Figures.

Source: Smith and Searle (2008)

I conclude this section by re-emphasising one of its central messages, which is the redundancy of state-market binaries. In contrast to narratives that associate neo-liberalism with the encroachment of state by markets, the state remains central as both an agent within the UK housing sop and by conditioning its structures and the terms and conditions under which different agents relate to each other.

8. Consumers

Having some sort of shelter is a basic human need and everyone is therefore an actual or potential consumer of housing. Of course, in practice some people may be unable to access any shelter at all but they are still part of the housing sop in the sense that exclusion is a characteristic of that sop and not some external pathology. Beyond housing being a universal need, there is a great deal of variation across and within countries in what constitutes a shelter and how it is accessed – standards of housing consumption are strongly socially and historically determined.

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This is true of all aspects of housing consumption, but it helps to identify three main dimensions. First, the quantitative demand for housing depends not just on population change but also on patterns of household formation. In the UK, the trend over most of the 20th century was towards smaller households; whereas extended families were common at the beginning of the 20th century, by the century's end couples and single-person households represented a growing portion of total household formation. There are signs that this is changing again in response to housing shortages and high house prices as young people live at home for longer or stay in shared private rented accommodation beyond university.[59] Household formation patterns are the product of decisions that people make in response to a complex set of considerations that include but are not limited to the housing sector. These decisions will respond to and in turn influence the cost and availability of housing, but will also reflect factors like cultural and legal constraints on marriage.

Second, the quality of housing standards that are regarded as acceptable also change over time in response to social and economic development. In this sense housing is part of what Marx called the socially and historically determined portion of the wage bundle. The evolution of housing standards has been mixed through the 20th century. Many areas of housing provision were characterised by rising standards, with high levels of slum clearance in the inter- and post-war periods, the gradual introduction of features such as indoor toilets and central heating across the entire housing stock, and an upward trend in room to people ratios. These improvements in standards were not uniform or uninterrupted. The prefabricated tower blocks built by some local authorities in place of slum housing suffered from problems of damp and structural weaknesses,[60] while the trajectory of size standards has fluctuated, with a general decline in recent years (Milner 2005).

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[59] Professor Tim Allen, former director of analysis and research at the Local Government Association, interview September 2013.

[60] In one particularly high-profile case, Ronan Point, a tower block in Newham in East London, partially collapsed following a gas explosion in 1968.

Notwithstanding these exceptions, for most people, housing quality was significantly better at the end of the 20th century than it was at the beginning. Like household formation, this may also be changing, at least in some respects, as a result of pressures on affordable housing availability. At the bottom end of the private rented sector, there has been a proliferation of illegally overcrowded property in which one room may be shared by an entire family or by four single adults. The phenomenon of 'beds in sheds', whereby landlords erect sheds in property gardens and rent them out to poor (and usually migrant) tenants has also expanded, with 6350 such sheds estimated in one small English town alone, (the Daily Mail 2013).[61] This slide in standards has not affected the entire PRS equally. On the contrary, standards seem to be improving in some subsections, fed by demand from more wealthy young professionals spending longer in privately rented accommodation while they wait to get on the housing ladder. Alex Marsh, a researcher on the PRS, argues that we are experiencing divergence between submarkets within the PRS and anticipates that this will get more extreme. In another development, the euphemistically titled 'spare room subsidy' – popularly known as the bedroom tax – introduced in 2013 imposes size restrictions on the kind of property that can be rented by tenants in receipt of housing benefit, reinforcing the idea that we are moving to a situation where (some) people are expected to expect less from their housing.[62]

The final main dimension, and the one that has received most attention in discussions of housing consumption, is tenure. Tenure defines the terms and conditions under which people access housing. As described above, tenure patterns in the UK have changed significantly in the course of the last century. The UK changed from having 77% PRS at the beginning of WWI to a more mixed system of owner-occupation and local authority subsidised rented housing by the 1970s. From the 1980s local authority housing went into decline and owner-occupation became

[61] One investigation in the London Borough of Newham even found an instance of someone living in a walk-in freezer (The Guardian (2010), 'The Woman who Lives in a Shed: how London Landlords are Cashing in', 9th May 2012, http://www.theguardian.com/society/2012/may/09/london-landlords-desperate-tenants)
[62] Professor Alex Marsh, managing editor of Housing Studies journal, interview September 2013.

the dominant tenure. It never reached the proportions reached by the PRS at the beginning of the century – at its peak owner-occupation represented 70% of housing – but made up for this by establishing a powerful cultural hold on the population. Since the 1980s, Britain has widely been perceived as a nation of home-owners with owner-occupation not only the largest and most popular, but also the default tenure form. Other tenures did not disappear – the PRS continued to exist at just above 10% of the total stock, council housing has declined but remained significant, and housing associations have emerged as a significant housing provider, to some extent filling the gap left by council housing or directly replacing it through stock transfers. But these other tenures have mostly served as transitional bridge to owner-occupation (the PRS) or as a safety net for those unable to get on the housing ladder (housing associations) who are in turn consigned to the margins of society.

The growth of owner-occupation since the 1980s is crucial to the present analysis because it complemented and reinforced expanded access to finance, and created the conditions for the financialisation of housing assets. Explaining this growth is key. The sop approach is in part an attempt to move beyond two extremes in consumer theory of post-modernism and rational choice. These two approaches to consumption, although polar opposites in their characterisation of human subjectivity – the first taking preferences as heavily prone to manipulation by marketing and advertising, the second as fixed and given because determined by a rational calculation of costs and utility – both nonetheless share the attempt to explain consumption through subjective factors alone. The sop approach, by contrast, recognises that human beings are inherently social and, further, gives weight to both material and cultural factors. The sop approach seeks to explain how consumption is shaped through material and cultural factors, with people understood to be social yet reflexive beings. Thus, the rise of the culture of owner-occupation should not be assumed or taken for granted, but rather explained through an account of how the practices and meanings associated with consumption of different types of housing evolve in response to material and cultural factors.

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This is in strong contrast with neo-classical approaches, which assume that individuals optimise over a fixed utility function subject to a budget constraint. Taking preferences as given, the neo-classical literature does not explicitly discuss the expansion of owner-occupation. That its analysis of housing consumption focuses on costs and budget constraints is evident in Himmelberg et al (2005) and DiPasquale (1999). It follows from their general methodology that the expansion of owner-occupation would be explained as the result of individuals with a pre-existing preference for owner-occupation responding to cheaper or greater ease of access to mortgages and discounts on council houses by adjusting their consumption choices and forming a new equilibrium in which the level of owner-occupation is higher. While the tenure shift can be putatively explained by changes in relative prices, the sop approach challenges neo-classical economics' prioritising of this factor irrespective of the explanatory power of alternatives, especially in light of its tendency to deal with anomalies through the ad hoc introduction of additional factors (and thus begging the question of why these additional factors were not considered to begin with).[63]

The sop approach's demand that housing consumption decisions be explained in terms of material and cultural factors is also in contrast to a school of thought subscribed to by Saunders (1990) and consecutive governments, which holds that people have an innate desire for owner-occupation because it provides them with the comfort, security and stability that are essential to 'ontological security'. Ontological security refers to a sense of identity and belonging.

Against these two approaches, the sop approach holds that both the characteristics of each tenure and people's attitudes towards them are malleable and change over time. Recall that tenures refer to the different terms and conditions under which housing may be accessed. Beyond the terms of access, the characteristics of, and conditions within, each tenure are not inherent but rather depend on how housing in

[63] See Fine et al (1995) for an elaboration of this practice in relation to food consumption.

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that tenure is (re)produced and the social, economic and legal context in which it is consumed. Owner-occupation will not necessarily provide ontological security; whether it will depends on the material attributes that tenure acquires in the course of its production, acquisition and consumption, each of which changes over time. Furthermore, the relevant material attributes are much broader than the prices and budget constraints that preoccupy neo-classical economics. Not only do people have a broad range of material needs that they want to get from their housing, but housing is also tied up with lifestyle and identity in ways that an anaemic focus on prices and budget constraints cannot capture. Because people's housing decisions depend on the material attributes of their consumption options, their preferences too will change over time, though the way in which they do so is mediated by cultural discourses, and are more complex and cannot be reduced to "utility functions" or preference orderings.

I argue that the expansion of owner-occupation which, as emphasised, fed mortgage lending and the financialisation of mortgage assets, should be understood as the combined result of use-value, context and discourse. Use-value refers to the material attributes that people want from their housing which, as just argued, are not inherent in any given tenure but depend on the way in which the housing in different tenures is provided. People do not just care about having a roof over their heads, they care about house size, style, quality, whether it has a garden, and location, especially in relation to schools, green space, transport links, neighbourhood, etc, as well as what these mean culturally. Because of the ways that different types of housing have been provided over the last century, which has a cumulative impact on the housing stock, owner-occupied housing does tend to score better than housing in other tenures on these fronts. The PRS suffered from under-investment for most of the 20th century (Oxley and Smith 1996). Council housing set the bar for housing standards earlier in the century, as the Tudor Walters Report of 1918, the Dudley Report of 1944, and the Parker Morris standards set in 1967, all of which recommended high space and amenity standards, were only enforceable over

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local authority housing. But most of the best of the stock was sold off under Right to Buy and transferred to the owner-occupied sector. Consequently, the best of the UK housing stock in terms of quality and state of repair currently tends to be in owner-occupation.

When the speculative housebuilding industry emerged in the 1930s, mortgage lenders played a central role in classifying types of borrowers (usually families in work) as 'safe' and in standardising housing built for owner-occupation. Together this meant that housing built for owner-occupation in that period tended to be semi-detached or terraced family housing, built in suburban areas and having a garden – in other words, it possessed many of the attributes people see and seek as desirable (Kintrea 2007). The stereotype of council housing as urban tower blocks is misleading as the local authority housing stock was and is more diverse, incorporating some more rural housing and lower density developments. However, the residualisation of council housing since the 1970s and sale of the best parts of the stock under Right to Buy since the 1980s, has concentrated society's most deprived and marginalised groups in social housing, which is consequently associated with undesirable neighbourhoods. By contrast, owner-occupation is only available to wealthier groups, who can be more selective about where they live and then price out less wealthy groups, creating a mutually reinforcing cycle whereby owner-occupation becomes associated with more desirable neighbourhoods. Since the 1980s, speculative housebuilding has been as much associated with the gentrification of inner city areas, as developers seek to profit from the rent gap (Smith 1979) arising from decades of under-investment in inner city housing. In extreme form, gentrification becomes an invasive process, displacing less well-off inhabitants from gentrifying areas.

In addition to these contingent but real advantages of owner-occupation in terms of stock quality and location, a change in the use-values people seek from their housing has given owner-occupation a further advantage. The change is that large numbers of people now see their home as an asset as well as a form of shelter;

unlike other tenures, owner-occupation offered the possibility of capital gains and so became more appealing. To understand this change in use-values sought from housing, we need to turn to the economic and political context that accompanied the rise of the culture of owner-occupation, namely, neo-liberalism. Payne (2012) argues that one of the main goals of consecutive neo-liberal governments (and one which they went some way towards achieving) was to transform the welfare state from a system centred around state provision to one in which the individual bears more responsibility for their own welfare and social security by becoming an active consumer of financial assets. He argues that this transformation is crucial to understanding the contemporary UK housing system because, for most people, their home is their main asset: "much of the process of asset accumulation in contemporary Britain takes place through investments on the housing market" (Watson 2009, p. 43).

Payne and Watson sometimes get carried away and attribute too much success to neo-liberal reforms of the welfare state. Contrary to what they sometimes seem to be implying, many forms of collective welfare survived under New Labour, for example, health and education, and the perception of housing as an asset co-existed in tension with, rather than replacing, housing as a form of shelter. Nonetheless, I agree with Watson that the neo-liberal welfare reforms made the asset role of housing more important and that the pursuit of capital gains helped to fuel if not to lead the growing popularity of owner-occupation.

Neo-liberal welfare reform did not just make owner-occupation more attractive, it also restricted the amount that councils could borrow to spend on council housing and imposed the Right to Buy across the country, so that access to council housing increasingly became limited to a hard-to-reach substrata. Thus push factors as well as pull factors underpinned the rise of the culture of owner-occupation. This is the other way in which context was important - that the popularity of owner-occupation depended not just on the merits of that tenure but also on the lack of investment and resulting unavailability or unattractiveness of other tenures. For example, Clapham

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(1996) attributes the rapid recovery of house prices after the house price crash at the end of the 1980s to people continuing to lack alternatives to home-ownership. Despite many people having a negative experience in that crash – levels of negative equity and repossessions were high – owner-occupation remained a better option than a PRS that had suffered years of neglect and the diminishing and increasingly residualised council housing stock, with rising social stigma on top.

To sum up, a wide range of material and contextual factors affecting both the attributes of different tenures and the desires of consumers underpinned the increased popularity of owner-occupation since the 1980s. It is central to the sop approach that individuals are social beings who, contrary to neo-classical analysis, do not have full information or infinite cognitive and calculating abilities. It follows that their understandings and perceptions of these material and cultural factors were mediated by public discourse and shared cultural frameworks. This insight drove the constructionist turn in housing studies in the 1990s. For example, Gurney (1999) argues that government policy documents cultivated an image of owner-occupation as natural, homely and as encouraging the attributes of a good citizen (hard-working, stable, self-reliant, etc). He argues that these documents fed a discourse which 'naturalised' owner-occupation and then uses interviews with working class households to show how this discourse and imagery has been internalised by consumers of housing. This argument need not collapse into ideas of false consciousness that individuals are readily duped by powerful persuaders. It merely requires that individuals are social and not omniscient and so use public images and representations in making decisions, interpreting material and cultural factors reflexively in light of each other.

8.1 Homelessness

As I said above, homelessness is an integral part of the housing system, lying "at one end of a spectrum of housing need/experience" (Neale 1997, p. 48). Beyond this basic fact, however, there is a lot that is contentious about both the definition and the causes of homelessness. On definition, it is widely recognised that the most visible and extreme form of homelessness, rough sleeping, provides an overly narrow definition. Homelessness is better thought of as a continuum that also encompasses complex typologies including the temporarily and inadequately housed (Neale 1997). Beyond this point about breadth, definitions of homelessness will be culturally relative, depending on social perceptions of what constitute acceptable housing conditions, and legally relative, depending, for example, on how priority and non-priority groups are defined and what access to support they get, respectively. It is an illustration of this that in the UK homelessness was not isolated as a distinct problem until the second part of the century. Poor general housing conditions in the early part of the century meant that homelessness was viewed as a facet of a broader category of general destitution (Anderson 2004). Even after homelessness was acknowledged as a problem in its own right, it was not until 1977, sometime after the wave of welfare expansion and when general housing conditions had improved significantly, that homelessness was recognised as a distinct problem and the state began to take decisive action on it (Anderson 2004).

The character of intervention, when it did start to take place more systematically, was tied up with the debate about the causes of homelessness. Whereas, up until the 1960s, homelessness was viewed as an individual pathology (Fitzpatrick 2005), a burgeoning literature on homelessness in the 1960s and 70s stressed the importance of structural causes, such as employment levels and affordability in the housing market (Cronley 2010). This recognition of homelessness as a structural as well as an individual problem coincided with greater state intervention to alleviate homelessness. Somewhat counter-intuitively, interventions targeting homelessness post-dated the Golden Age of welfare and increased significantly between 1979-97. Some (for example, Anderson 2004) take this as an illustration of how neo-liberalism responds to crises of its own creation: housing and other policies implemented by neo-liberal governments generated a growing problem of homelessness, which put

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pressure on those same neo-liberal governments to develop further policies to manage.[64]

8.2 Tensions, contradictions, and well-being

The dominance of housing consumption by owner-occupation is the product of material and cultural factors and their interaction. Prior to the financial crisis, material and cultural factors cohered with each other, as each reinforced the idea of owner-occupation as the default tenure form. Since the crisis, however, tensions are intensifying between the material and the cultural. Whereas the desirability of owner-occupation still seems to be lodged in public and political consciousness, it is increasingly unattainable for growing numbers of people because mortgage lending has become tighter but house prices have not fallen enough to compensate. If people's material housing options and dominant cultural discourses are out of step with each other for a significant number, this begs the question: what, if anything, will give?

We have not yet seen much indication that cultural attachments to owner-occupation are declining. Certainly, the government remain committed to the idea that home-ownership should be an aspiration for everyone but the severely marginalised. As Prime Minister David Cameron said while defending his Help to Buy policy: "I'm not going to stand back while people's aspirations to get on the housing ladder ... are being trashed".[65] And the plight of first-time buyers struggling to get on the housing ladder features prominently in the media.[66] But the low-equity mortgage lending that many need to realise it, is no longer forthcoming. The Council of Mortgage Lenders found that 84% of first-time buyers under the age of thirty needed help with their

[64] See section of state for further discussion of this tendency.

[65] BBC news, 'David Cameron brings forward Help to Buy scheme', 29 September 2013, http://www.bbc.co.uk/news/uk-politics-24319583

[66] For example, see Green (2011), The Financial Times (2011), 'The plight of first-time buyers', 15 February 2011, http://www.ft.com/cms/s/0/cc8b5e7a-390e-11e0-b0f6-00144feabdc0.html

deposit in 2009, compared with 38% in 2005.[67] This has given rise to a growing contour, which to some degree corresponds to a generational divide, between those who are equity rich because they are home-owners and those who are equity poor because not yet on the housing ladder.

With policies such as Help to Buy, the Government is trying to plug this gap by guaranteeing portions of mortgage debt and de facto recreating the 95% mortgages that lenders will no longer provide themselves. In an interview, a Treasury official said that this policy is meant to be temporary – in place only until mortgage lending picks up again. But others, for example, Ian Fletcher from Miller Homes, were more sceptical about mortgage lending returning to pre-crisis levels any time soon, arguing that lenders have become much more sensitive to downside risk. Thus the fundamental contradiction between the objectives at the root of the neo-liberal housing policy – namely, that home-ownership can both serve as a lucrative asset and be accessible to all but the marginal has come to the surface. So long as easy credit was available, it was used to overcome affordability problems for those on the cusp of home-ownership and thus expand the pool of home-owners. Since the onset of the credit crunch, home-ownership no longer appears so widely realisable. At the root of this contour between home-owners and those aspiring to home-ownership is the contradiction between rising aspirations for home ownership and under-supply of housing, which has given rise to affordability problems. Loose mortgage lending could temporarily transcend this contradiction (or at least create the illusion of doing so) but since the onset of crisis the contradiction has been exposed.

It is not yet clear how or whether the dysfunctionality of the UK housing system will be overcome. The PRS is growing and the Government wants it to grow further – indeed, is trying to encourage institutional investment. However, it is not clear that this amounts to a desire for the PRS to become a desirable alternative to owner-occupation so much as a practical recognition that more and more people are being

[67] The Financial Times (2011), 'The plight of first-time buyers', 15 February 2011, http://www.ft.com/cms/s/0/cc8b5e7a-390e-11e0-b0f6-00144feabdc0.html

forced to spend a significant amount of time in the PRS while they wait to get on the housing ladder. Buy-to-let mortgage lending has recovered well since the crisis (Council of Mortgage Lenders 2013) reflecting demand in the PRS. However, as Alex Marsh, an expert on the PRS, pointed out in an interview, this type of landlordism reinforces the division between equity-rich and equity-poor. He also argued that the private landlord still needs to be sanitised in the public consciousness before significant levels of institutional investment will be forthcoming. Due to its association with Rachmanism[68] and exploitative and underhand practices, private landlordism was denigrated through most of the 20th century and is still in need of rehabilitation.[69] Thus, despite growing, the PRS remains strained, and it does not look like leading a cultural shift in the way that housing is consumed in the UK any time soon.

As discussed in the section on the state, support for the marginal has been squeezed at the same time as problems accessing decent housing have become more widespread. Access to, and availability of, social housing or other forms of housing subsidy are becoming much more restricted, leading to a deterioration of housing standards among certain substrata. Unsurprisingly, these changes are impacting on homelessness. Current reforms to housing policy, whose impact on HAs and the PRS have already been described, are also being felt in the area of homelessness, where "after years of declining trends, all forms of homelessness are rising due to a combination of the economic downturn, the shortage of housing and the government's welfare reforms" (Crisis 2013, p. 1). Government figures of 2309 people sleeping rough in 2012 represent a rise of 31% over two years and the number of households approaching a council as homeless in England in 2012 (113,260) represents an increase of 11% over two years (Crisis 2013). In line with current theory, this can be attributed to housing availability and affordability problems in combination with economic crisis. The impact is worsened by cuts to the

[68] The term derives from Peter Rachman, a London landlord notorious for his exploitative and intimidating behaviour towards his tenants.
[69] Professor Alex Marsh, managing editor of Housing Studies journal, interview September 2013.

safety net in the form of housing benefit, social housing and emergency housing such as hostels.

To conclude this section, housing consumption in the UK is in flux. The model dominated by owner-occupation that has been in place since the 1980s no longer looks viable. But the accumulated condition of the housing stock and years of political consensus in favour of owner-occupation means the aspiration of home-ownership still has a strong hold on public imagination. Changes are occurring – the PRS is growing and owner-occupation is falling – but so far this is happening in chaotic and unpredictable ways. The outcome is that social tensions over housing are increasing – particularly between home-owners and others and between older and younger generations – and that the position of those dependent on state support for accessing housing is deteriorating. For some at least, gains in housing quality made in the course of 20th century are starting to be eroded.

9. Conclusion

The starting point for this case study is the sop methodology and the view that the financialisation of the UK housing system must be grasped not through a generalised account of mortgage market liberalisation and growth, but through tracing how finance relates to other agents involved in housing provision in the UK and how it influences the structures and processes within which they operate.

More specifically, I have attempted to show the way in which housing consumption in the UK is shaped by a unique structure of provision that is increasingly skewed by, and in the interests of, private financial capital. Financial deregulation fed mortgage lending and demand for owner-occupation. The resulting influx of financial capital into the housing sector, which was capitalised in land and house prices, has had implications for the operation of the whole housing sop. On consumption, in addition to increasing demand for owner-occupation, the inflow of finance encouraged a

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tendency to treat housing as an asset, providing the potential, realised by some, to be borrowed against through equity withdrawal. There were also consequences for consumers in other tenures. Having been marginalised for most of the 1980s and 1990s and partially revived during the 2000s in the form of HAs, social housing is now facing growing accessibility issues as a result of pressure on public spending. The PRS, by contrast, is expanding more than at any time in the last century, as it absorbs spillover from both owner-occupation (due to aspirational first-time buyers being unable to get on the housing ladder) and social housing (due to limited space and declining affordability in HAs). One result is greater diversification within the PRS, with standards rising in some submarkets and rapidly declining in others.

Finance did not flow into housing development to the same extent that it did with house-purchase finance. This combined with private landownership, a restrictive planning system and a speculative supply structure to inhibit the supply response to price inflation caused by mortgage lending. Ongoing price inflation in turn encouraged further mortgage lending and further accumulation of housing wealth by consumers. Rising house and land prices in turn exacerbated low supply-responsiveness by making housebuilder profits more and more dependent on canny land acquisition, speculative on-selling, and subcontracting, than on efficient production. Rising prices increased the stakes in the struggle between landowners and housebuilders to appropriate land uplift and attached a premium to developing the capacity to manipulate the planning system to one's own advantage. They also increased housebuilders costs, and the resulting pressure on housebuilders to preserve their profit margins and the value of the land they held in reserve created a tendency for house prices to be sticky downwards. This tendency was reinforced, first, by the secondary housing market, which was dominated by homeowners concerned to preserve the value of their housing asset. Second, by shareholder pressure on housebuilders to protect long-term cash flow by liquidising stocks rather than expanding production at the peak of the cycle. There were knock-on effects for labour. As housebuilders pursued subcontracting to reduce costs, labour

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conditions have deteriorated across a range of dimensions including working rights and conditions, training and health and safety.

The state has been involved in all these developments, at different times both leading and responding to them according to context. It led the initial financial deregulation in the 1980s and has since continued to promote finance. Welfare reform played a role both directly, through the transfer of council housing to owner-occupation under the Right to Buy and the diminution and residualisation of social housing provision and, indirectly, through reductions in collective welfare provision and the (albeit partial) move to an individualised asset-based welfare system. The state's retreat from direct production elevated the role of private production for profit. It also helped to shape the structures that accompany that type of production by setting the legal and political framework within which planning and production decisions are made.

A result of the housing sop's responses to the financialisation of the sector is that the UK housing system appears increasingly dysfunctional. There is a chronic undersupply of housing, which can be traced through a number of intermediate causes to the subordination of provision to profitability. This has had consequences for welfare and equity. Although the majority of the population continues to be well-housed, a growing portion of it is not. There are growing regional, generational, and socio-economic divides, and standards are slipping in some areas. The high proportion of personal wealth tied up in housing gives rise to conflicting political pressures on house prices, not least by prohibiting decisive action to address affordability problems for those not on the housing ladder. It may also increase the exposure of the broader economy to volatility in the housing sector, though this is beyond the scope of this paper.

In addition to helping us to identify and explain these dysfunctionalities, the sop approach provides us with a framework for thinking about policy solutions that goes beyond the popular market versus state framework. The sop approach highlights

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two problems with that framework. First, the terms market and state are not dichotomous because the state always and necessarily intervenes in markets. Second, both terms are broader than is often recognised in their use. The term state refers to a variety of multifaceted activities and heterogeneous agents, while the term market encompasses numerous sets of arrangements for distributing goods, which vary significantly by content, form and outcome. The implications of organising provision around either the state or markets cannot be known without the kind of detailed analysis advocated by the sop approach. By characterising economic activity in terms of structures, processes, agents and relations instead, the sop approach gives us a better understanding of how current problems with the UK housing sop arise, and provides a better starting point for thinking about how to use policy to address them.

Other than these findings on UK housing provision, the case study also contains lessons on financialisation. First, the intervention of finance reshapes sops because the behaviour of agents within them, interactions between them and, therefore, processes of provision, respond to its presence. Beyond this, and as has been noted elsewhere, 'financial agencies are often proactive in trying to shape sops in favourable directions' (Bayliss et al 2013 p11), which is evident in the case of UK housing in both the heavy-handed promotion of mortgage debt and equity withdrawal by mortgage lenders and in shareholder pressure on housebuilders to adopt certain kinds of business strategies.

Second, although financialisation is commonly discussed as an international phenomenon, not least in the internationalisation of mortgage finance, it is clear from this case study that the way it is realised and its implications are variegated by both country and sector. This finding will be explored further in the synthesis report on case studies on housing provision in other countries, and through comparison with the water case studies.

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Glossary

Building societies – a financial institution owned by its members as a mutual organisation. Until the 1980s, non-state mortgage lending was restricted to Building Societies. These were substantially demutualised from the 1980s.

Buy-to-let – the buying of a property specifically to rent out, usually using a specialised mortgage product.

The Coalition Government – the Conservative-Liberal Democrat Government formed after the May 2010 election.

Collateralised debt obligations – a structured asset-backed security.

DCLG – Department for Communities and Local Government, the central government department responsible for housing and planning.

Gangmaster – the person who organises and oversees casual manual workers.

Gearing – the ratio of equity to debt.

Housing Association – a third-sector, non-profit organisation that rents homes to people on low incomes or with particular needs.

Housing benefit – means tested financial support for housing rental payments.

Land uplift – the increase in land value arising from development.

Loan-to-income ratio – the ratio of a loan to the income of its borrower.

Loan-to-value ratio – the ratio of a loan to the value of the asset purchased with it.

Local authorities – the branches of local government in the UK.

Monopoly rent – rent appropriated by land-owners out of the circulation of revenues in virtue of demand for that land and the impossibility of replicating it exactly elsewhere.

Mortgage equity withdrawal – the practice of borrowing against the value of one's home and thus reducing the amount of equity one has in it.

National Insurance – compulsory payments out of wages paid by employers and employees, ostensibly to fund welfare and benefit payments but they are not ring-fenced for such uses.

Originate to Distribute – making loans with the intention of selling them on rather than holding them to maturity, and thus reducing capital requirements.

REITs – Real Estate Investment Trusts, a trust that uses the pooled capital of many investors to buy and manage property.

Right to Buy – the right of council house tenants to buy their property at a discount, conditional on longevity of residence. The right became national in the 1980s.

S106 agreements – Section of the Town and Country Planning Act 1990 under which planning authorities impose (negotiated) obligations on developers. The obligations are meant to be proportionate to planning gain (the uplift in land value arising from the granting of planning permission) and to meet local social needs.

Secondary housing market – the market for second-hand homes. Approximately 90% of housing transactions in the UK are in the secondary housing market.

Securitisation – the process of pooling financial assets and then dividing the pool into new financial instruments to be sold to investors.

Social housing – subsidised housing to which access is generally conditional on some social need.

Speculative housebuilders – private housebuilders who buy and prepare land for development as well as building houses, usually without a pre-arranged buyer.

UCATT – Union of Construction, Allied Trades, and Technicians. The UK's only union specialising in construction.

UNITE – the UK's largest private sector union.

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