

Phase 2: Housing Delivery on the Isle of Wight

Dr Adam Cox, Dr Alan Leonard and Professor David Pickernell



Prepared on behalf of the University of Portsmouth Enterprise Ltd.
by the Economics and Finance Department,
Portsmouth Business and Law School,
University of Portsmouth.

Contents

Summary: Phase One

Summary: Phase Two

Analysis of stakeholder evidence concerning limitations in the number of new homes built on the Island.

Figure 1: Overview of the factors affecting number of new homes built on the Isle of Wight due to physical severance

Figure 2: Return on Investment, factors increasing costs and reducing sales.

Figure 3: Demand and Supply Factors Exacerbated by Physical Severance

Figure 4: Potential Solutions to Demand and Supply Factors Exacerbated by Physical Severance: General and Island-specific

Potential Solutions to Demand and Supply Factors Exacerbated by Physical Severance: General and Island-specific

Appendix 1)

Discussions with stakeholders to evaluate the critical and most significant factors limiting the number of new homes built on the Island.

Interview process

i) Summary

ii) Not enough new homes are being built on the Island

iii) Partnership working and under resourced Planning department

iv) Construction skills on the Island

v) Large sites, delivery pipelines and market size

vi) Limited appropriate land

vii) Unrealistic land values

viii) Registered Provider issues

ix) Higher building costs

x) Demand

xi) MMC Factory

Views of those operating on the Island

Views of those operating on the mainland

About the stakeholders

References

Summary

This project delivers an assessment of the impact of physical separation from the UK mainland on the delivery of housing on the Isle of Wight. It is an independent and objective assessment, based on available data and information that is analysed and explained, resulting in a more informed and credible understanding of factors that underpin and influence strategic planning and actions at local and national levels.

1. **Phase One** identified and explained the significant factors that impact housing delivery on the Isle of Wight, focusing on the direct impacts of physical separation. The significance of these factors as influences on the delivery of housing is rated and the findings presented in a SWOT analysis with a summary analysis of each factor. This phase drew on academic literature, consultancy reports and policy papers to identify and guide the key factors. Direction from the Island Plan Review Board group helped to determine the Island specific nature of factors.
2. Phase One identified a number of highly significant constraints to delivering housing on the Island that are either unique to the Island or the local authority. However, it is the combination of these adverse factors that collectively and cumulatively contribute to the low delivery of housing.
3. This is perhaps best summarised by the perceived low return on investment. By definition, this is a measure made up of contributing factors, in this case: high cost and low revenue. The high cost appears to be driven in large part, but not entirely, by the physical separation of the Island. The potential low revenue is driven by the market conditions. Housing on the Island typically has a lower sales price, compared to neighbouring areas and at a regional level, but is still unaffordable to those working on the Island. It is believed that this low return on investment, a measure which can easily be compared to other competing areas/projects, is acting as a deterrent to other national housebuilders from entering the market. However, there are developers and housing associations that do continue to operate on the Island despite the comparatively low returns on investment, so there are clearly other limitations on delivering the required amount of housing on the Island.
4. **Phase Two** evaluated the priorities identified in Phase One by conducting a more detailed analysis and in-depth investigation focussing on the limitations resulting from the physical separation of the Island from the mainland. This uses a combination of qualitative and quantitative techniques, such as interviews and discussions with key stakeholders and some data analysis, to help address which factors are truly Island specific and unique. In particular, the exacerbating effect of the physical separation and dislocation from the rest of the UK is explored.
5. A series of diagrams are used to show the interactions and linkages between factors, and highlight where problems and issues are specific to the Island or exacerbated by the Island's physical severance. Furthermore, potential solutions and interventions that could 'break the cycle' are presented. Where applicable, this is drawn from the evidence presented in more detail in the Appendix: *Discussions with stakeholders to evaluate the critical and most significant factors limiting the number of new homes built on the Island*.
6. The analysis of the evidence suggests that there was not one single overriding issue or limiting factor. Instead, it is the cumulative impact of a concentrated combination of factors acting at the same time. This cumulative feedback cycle is magnified and exacerbated by the physical severance of the Island from the mainland.

7. In general terms, profit margins appear too tight to attract more large, national, developers to the Island to accommodate a sufficient number and share of affordable private house building (and related affordable housing) in larger developments.
8. Figure 1 presents an overview of the feedback cycle of factors affecting number of new homes built on the Isle of Wight. Insufficient return on investment, a dearth in large sites and development opportunities and a lack of large or national housebuilders are exacerbated by a combination and negative interaction of Island specific supply and demand factors because of the Island's physical separation from the UK. The cumulative result: not enough new homes are being built on the Island.
9. Figure 2 identifies the significant factors behind the low return on investment that deters national housebuilders and developers from the mainland from competing on the Island. Specifically it identifies the factors that raise the cost of building houses on the Island, and those that reduce the sale of final houses.
10. Figure 3 highlights the demand and supply factors that are Island specific and exacerbated by the Island's physical separation from the rest of the UK.
11. Demand side market conditions are driven by net inflows disproportionately dominated by those over 65, whilst outflows are mainly from those under 65, creating perceived distortions in the market that are again at least partly affected by island status (e.g. as an attractor of retirees whilst those requiring work are more affected by a relatively limited local labour market with less option to work in surrounding off Island areas whilst still living on the Island. Overall this has an effect in terms of affordable (for Island residents) new housing that is not met by social providers, again at least partly because of the absence of Island based knowledge of the market.
12. Supply side factors: Due to the dislocation of the Island, there appears to be enough profit to allow a number of Island-based housebuilders to survive and earn monopoly profits on smaller developments, given the higher "barriers to entry" created by island status for potential off Island competitors. This creates a housebuilding inertia, with an "equilibrium" quantity that is much lower than the number desired by government and severely lacking in the social and affordable housing elements. This is reinforced by higher materials costs that are partially compensated by lower labour costs which, again supported by barriers to entry generated by island status, create an equilibrium labour supply around current numbers, reinforcing the inertia. On top of this, landowner expectations of higher prices, whilst not unusual, are also supported by Island specific factors that include high proportions of land that is not suitable to build upon, and, crucially, a lack of competition from geographically but not temporally adjacent land on the mainland.
13. Overlapping both demand and supply issues are infrastructures (road, ICT, health and education etc.) that if put in place prior to new home building may assist on both the demand and supply side. The fiscal impact of island status, however, makes this more difficult.
14. Figure 4 proposes potential solutions to Island exacerbated demand and supply factors, both general and Island-specific.
15. A combination of "normal" interventions (e.g. infrastructure improvements, particularly ICT), island specific (e.g. fiscal settlement to account for island disadvantage) and island-affected (e.g. modern methods of construction, local authority acting as land developer in own right) would seem to be necessary. This is needed to both remove the inertia in the current system AND put the Island's demand and supply conditions on a more level playing field in comparison with the mainland.

16. The supporting evidence collected from stakeholder interviews is included as an Appendix, and summarised below:
Discussions with stakeholders to evaluate the critical and most significant factors limiting the number of new homes built on the Island. Phase Two delved deeper into the factors identified in Phase One to answer what is limiting those that do operate on the Island and what is stopping other developers and national housebuilders from operating on the Island?
17. Analysis suggests there was not one single issue or limiting factor. Instead, it is the exacerbating nature of a combination of factors acting at the same time. Profit margins appear too tight to attract more large, national, developers to the Island to accommodate a sufficient number and share of affordable private house building in larger developments. However, there appears to be enough profit to allow a number of Island-based housebuilders to survive and earn monopoly profits on smaller developments. This creates a housebuilding “equilibrium” quantity that is much lower than the number desired by government and severely lacking in the social and affordable housing elements. This is then reinforced by a perceived lack of partnership between council, planning, and private housebuilders, and a lack of council resources to facilitate the relationships and processes necessary for an increase in annual housebuilding numbers. General labour supply issues were not seen as significant, though in some specialist areas there were shortages, and this must be seen in the context of housebuilding numbers being considerably below those needed to meet the government target.
18. Suggested solutions included the need for a shared vision with a more joined up approach between council departments and with other public bodies and private housebuilders in order to: create greater consistency of decisions, set of design principles beforehand, and remove obvious bottlenecks in the process.
19. Other potential opportunities and options available, included direct stimulus / financial intervention, deemed more relevant to the affordable housing market.
20. A reduced profit margin, due to higher build costs and lower sales prices, reduces the appetite for risk. As developers are more cautious in their approach, there will be a reduction in the appetite for creativity, including the use of non-traditional building materials and processes, and the testing of new markets as represented by approaches such as prefabrication. Solutions that could reduce this risk include greater public sector infrastructure investment (e.g. access roads) that benefit those currently on the Island and encourage other developers. Unlocking more development sites and making these more attractive propositions could attract higher prices and reduce building costs.
21. Discussions about demand suggested a degree of change in trends, with a greater increase in new houses from existing Island residents (where advertising was Island only, or residential restrictions applied) or a younger demographic moving to the Island, for larger properties, particularly those with an increased ability to work remotely. This suggests, of course, that more Island focused eligibility and marketing and greater focus on infrastructure promoting remote working coupled with marketing of the Island to the “creative class” able to benefit from this, may also be of relevance.
22. The impact of a prefabrication factory located on the Island was mainly seen in terms of increasing the potential annual supply of houses (at similar cost to present) but at the potential cost of reducing perceived quality and (possibly because of higher supply) lower sales cost of the resultant houses.

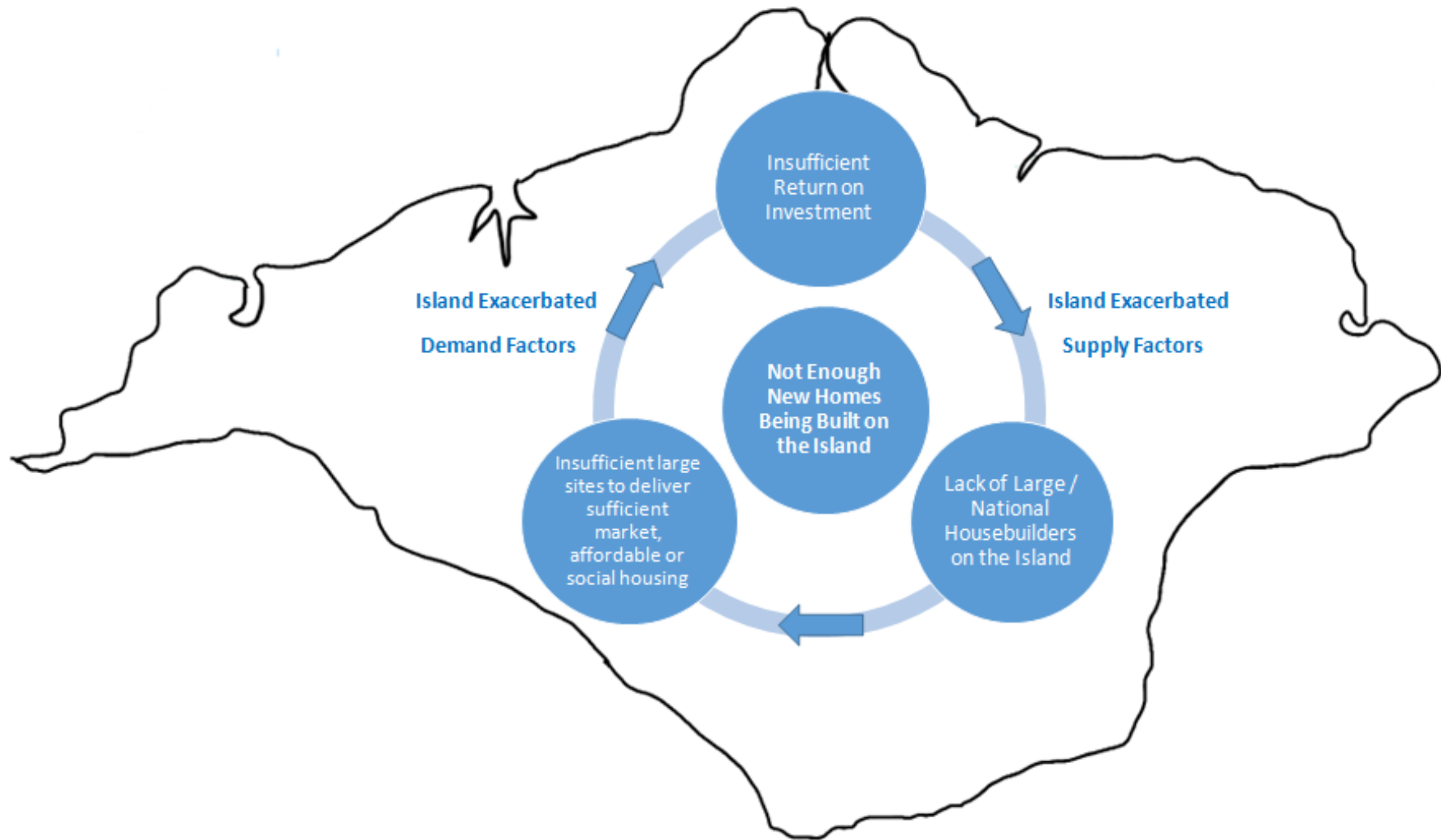
Analysis of Stakeholder Evidence Concerning limitations in the number of new homes built on the Island.

The analysis of the evidence suggests that there was not one single overriding issue or limiting factor. Instead, it is the cumulative impact of a concentrated combination of factors acting at the same time. This cumulative feedback cycle is magnified and exacerbated by the physical severance of the Island from the mainland.

In general terms, profit margins appear too tight to attract more large, national, developers to the Island to accommodate a sufficient number and share of affordable private house building (and related affordable housing) in larger developments. The diagram below illustrates this, and specifically identifies island exacerbated demand and supply factors that are helping to cause the relative lack of return for housebuilders that are then discussed in more detail.

Figure 1 shows an overview of the feedback cycle. Insufficient return on investment in housing, a dearth in large sites and a pipeline of development opportunities to deliver sufficient market, affordable or social housing leading to a lack of large or national housebuilders. These are exacerbated by a combination and negative interaction of Island specific supply and demand factors because of the Island's physical separation from the UK. The cumulative result: not enough new homes are being built on the Island.

Figure 1: Overview of the factors affecting number of new homes built on the Isle of Wight due to physical severance



Return on Investment, factors increasing costs and reducing sales

Figure 1 shows some of the feedback mechanisms: such as the low return on investment resulting in less interest from national housebuilders and other developers from the mainland. The evidence in the Appendix clearly identifies the low expected return on investment as being one of the critical factors in national housebuilders decisions not to enter the Isle of Wight housing market. Therefore it is worth expressing the relationship in another way to reinforce these negative interactions.

Given that the simplest Return on Investment is calculated as $(\text{Sales} - \text{Cost}) / \text{Cost}$ this has been used to demonstrate the impact of Island specific and the compounding effect of other factors evident on the Island.

The diagram identifies the significant factors that raise¹ the COST of building houses on the Island, and those that reduce the SALES price of final houses. Most of the factors identified here are also included in Figure 3 as part of the *Island Exacerbated Demand and Supply Factors* with accompanying solutions suggested in Figure 4.

Overall, it is evident that it is more expensive to build houses on the Island, that *if/when* they are sold will be at a price generally below neighbouring areas.

Again, this suggests that there is not one single overriding issue causing the low return on investment, which in turn limits the interest from national housebuilders and competitors from the mainland. Instead, it is the cumulative impact of a concentrated combination of factors acting at the same time. This cumulative feedback cycle is magnified and exacerbated by the physical severance of the Island from the mainland.

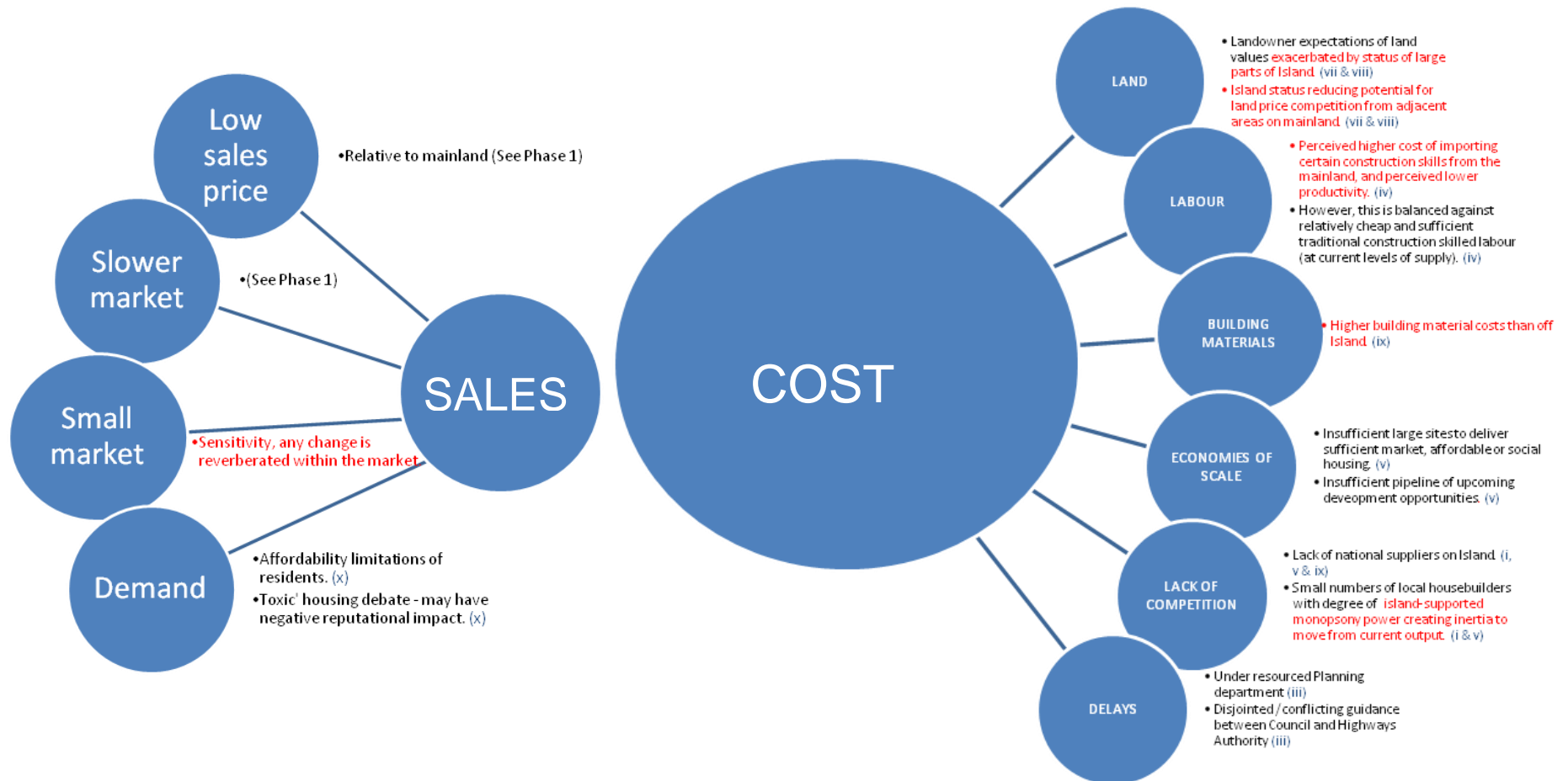
Furthermore, the low expected return on investment also magnifies other indirectly related issues and limitations of building on the Island, such as the underfunded Planning department, or the limited infrastructure in some areas, as developers are less able to take on any additional risk. In other words, if the returns on a project are already tight, and there are other opportunities elsewhere to take advantage of, then a developer will not have capacity to take on more risk, or jeopardise already tight profit margins.

Moreover, the following diagram details how there are additional feedback loops, as the low return on investment results in less national housebuilders, which feeds back into the small market/lack of competition and monopoly issues, which in turn raises the cost and therefore lowers the return on investment further.

¹ The only factor that actually reduces the cost of development on the Isle of Wight is the relatively cheap and available labour force with traditional construction skills. While this is certainly a belief held by those currently operating on the Island, it is not shared by all on the mainland who generally perceive a higher cost of importing certain construction skills from the mainland, and perceive potentially lower productivity of the 'cheaper' labour force. Furthermore, it is noted that the sufficient quantity of skilled labour is at current (low) levels of housebuilding. This is analysed in more detail in section (iv) of the Appendix.

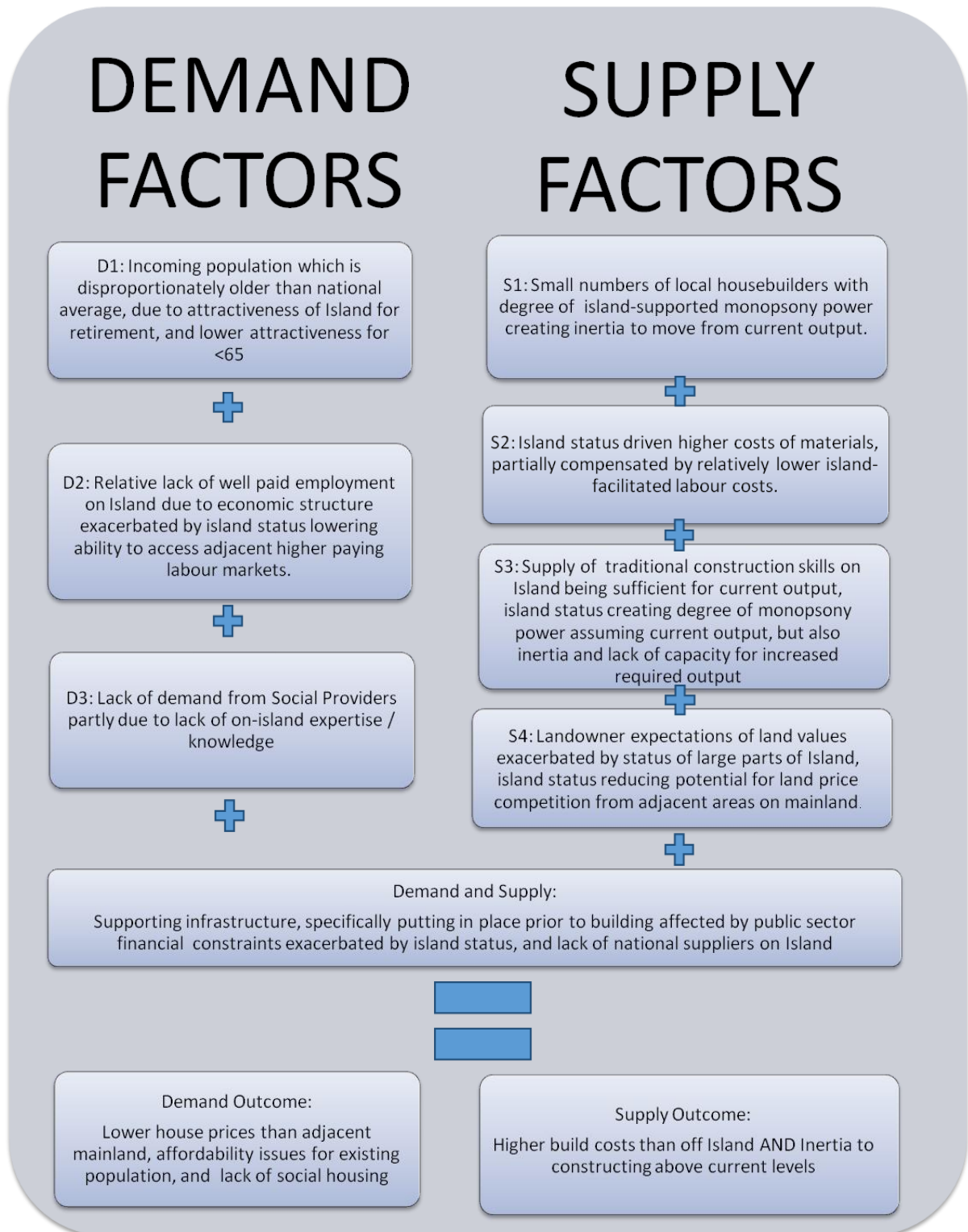
Figure 2: Return on investment, factors increasing costs and reducing sales.

Key: **Red text highlights those factors that are Island specific &/or exacerbated by the island status.** Roman numerals refer to the section of the Appendix where further details on that factor can be found.



Which factors are Island specific and unique - because of the physical severance from the rest of the UK.

Figure 3: Demand and Supply Factors Exacerbated by Physical Severance



Demand and Supply Factors Exacerbated by Physical Severance

On the demand side market conditions are driven by net inflows disproportionately dominated by those over 65, whilst outflows are mainly from those under 65, creating perceived distortions in the market that are again at least partly affected by island status (e.g. as an attractor of retirees whilst those requiring work are more affected by a relatively limited local labour market with less option to work in surrounding off Island areas whilst still living on the Island. Overall this has an effect in terms of affordable (for Island residents) new housing that is not met by social providers, again at least partly because of the absence of Island based knowledge of the market.

Looking at the supply side issues, there appears to be enough profit to allow a number of Island-based housebuilders to survive and earn monopoly profits on smaller developments, given the higher “barriers to entry” created by island status for potential off Island competitors. This creates a housebuilding inertia, with an “equilibrium” quantity that is much lower than the number desired by government and severely lacking in the social and affordable housing elements. This is reinforced by higher materials costs that are partially compensated by lower labour costs which, again supported by barriers to entry generated by island status, create an equilibrium labour supply around current numbers, reinforcing the inertia. On top of this, landowner expectations of higher prices, whilst not unusual, are also supported by Island specific factors that include high proportions of land that is not suitable to build upon, and, crucially, a lack of competition from geographically but not temporally adjacent land on the mainland.

If there is clear pent up demand, with house prices increasing over a long period of time, but construction not keeping pace or even falling, this implies a binding long-run supply constraint is in place. An econometric study (Hilber & Vermeulen, 2016) that models the causal effects of local supply constraints on house prices in local planning authorities across England found that it was tight planning policies that had the largest impact on increasing prices. The study finds that while the local scarcity of developable land does still matter, it is only really important in the most urbanised areas.

Overlapping both demand and supply issues are infrastructures (road, ICT, health and education etc.) that if put in place prior to new home building may assist on both the demand and supply side. The fiscal impact of island status, however, makes this more difficult.

Furthermore, it could be argued that it is a fairly unique situation that there is only one national housebuilder, and it appears that they do not intend to remain on the Island. Moreover, Barratts David Wilson’s ‘over exposure’ has sent a signal to other national developers.

Figure 4: Potential Solutions to Demand and Supply Factors Exacerbated by Physical Severance: General and Island-specific



SUPPLY FACTORS

S1: Small numbers of local housebuilders with degree of island-supported monopsony power creating inertia to move from current output.

S2: Island status driven higher costs of materials, partially compensated by relatively lower island-facilitated labour costs.

S3: Supply of traditional construction skills on Island being sufficient for current output, island status creating degree of monopsony power assuming current output, but also inertia and lack of capacity for increased required output

S4: Landowner expectations of land values exacerbated by status of large parts of Island, island status reducing potential for land price competition from adjacent areas on mainland.

D&S: Supporting infrastructure, specifically putting in place prior to building affected by public sector financial constraints exacerbated by island status, and lack of national suppliers on Island

Supply Outcome:
Higher build costs than off Island AND Inertia to constructing above current levels

SUPPLY SOLUTIONS

S1 Solutions: Attract new national housebuilders onto the Island (In short term, question of how given existing issues).

Attract new MMC builder/factory onto Island with guaranteed demand pipeline through social housing, on which private sector demand can be built over time.

S2 Solution: MMC type solutions to drive down materials costs through economies of scale and stimulate higher demand (and wages) for labour through increased output.

S3 Solution: MMC type solution to stimulate higher demand and wages for labour through increased output.

S4 Solution: Council to operate as land developer in own right

D&S Solution: Island specific financial solution to give resources to build infrastructure / access to specific funds to facilitate infrastructure.

Supply Outcome:
Reduced build costs AND constructing above current levels

Potential Solutions to Demand and Supply Factors Exacerbated by Physical Severance: General and Island-specific

In terms of solutions, a combination of “normal” interventions (e.g. infrastructure improvements, particularly ICT), Island specific (e.g. fiscal settlement to account for island disadvantage) and Island-affected (e.g. modern methods of construction, local authority acting as land developer in own right) would seem to be necessary. This is needed to both remove the inertia in the current system AND put the Island’s demand and supply conditions on a more level playing field in comparison with the mainland.

The current market is characterised as stable, but there is a lack of competition and inertia, with no social housing being built. A step-change would be required to address this. It is clear that acceptance of the current system is not sustainable with a growing population of circa 300 people per annum, and a backlog of affordable housing need. It is unclear exactly what would happen if the number of houses targeted to be built did not occur. The mix between residents being crowded out of the market and either adding to the housing register or leaving the Island could be offset by the disincentive effect for potential new residents. Current disparities in purchasing power would likely suggest a continuation in current trends, in the absence of restrictions on non-local resident purchasing.

These proposed solutions are not standalone tweaks to the current system. For example, the attraction of a pre-fabrication/MMC factory is one ‘solution’ that touches on many of the Island exacerbated demand and supply factors and their proposed solutions, but would also require other significant changes to take place to be successful.

One way to increase the amount of new housing on the Island would be to pre-fabricate housing over the long term (e.g. 20 years). This would likely require attracting a new MMC builder/factory onto the Island with guaranteed demand pipeline through social housing (Supply 1 Solution). This has the potential to drive down materials costs through economies of scale and stimulate higher demand (and wages) for labour through increased output (Supply 2 & 3 Solution).

If a national housebuilder was still not attracted, then this may require the creation of an Island-based provider (either Council owned or facilitated) of new social housing given the lack of demand from social providers (Demand 3 Solution). Where large sites are available, and given that there may be no national housebuilder on the Island, then ‘partnership working’ with a combination of smaller Island builders would be a viable response. However, the discussions in Appendix 1 may suggest that the Council is not necessarily best-placed to act as the coordinator. See section (iii) regarding partnership working and an under resourced Planning department. Some stakeholders suggested the need for a shared vision with a more joined up approach between council departments and other public bodies and private housebuilders in order to: create greater consistency of decisions, set of design principles beforehand, and remove obvious bottlenecks in the process.

Moreover, for the MMC solution to be successful it would require a guaranteed demand pipeline, most likely through social housing. There are related concerns and potential issues with creating and delivering integrated communities with such a heavy focus on social housing. Furthermore, this would need to be supported by additional infrastructure,

specifically putting in place prior to building. This would clearly be affected by current public sector financial constraints exacerbated by island status.

The impact of a prefabrication factory located on the Island was mainly seen by stakeholder in terms of increasing the potential annual supply of houses (at similar cost to present) but at the potential cost of reducing perceived quality and (possibly because of higher supply) lower sales cost of the resultant houses.

Most noted that this could only ever be one part of the solution for more housing. In order for it to be viable, then it would require a serious commitment to a pipeline of delivery on the Island over time. While the numbers of production required were not necessarily deemed unrealistic, it would need a serious commitment to “release” the required land. There was a repeated sentiment, that if MMC were to be used, then it would need to be high quality and appropriate. While the numbers of properties could be there, the desire from the public may not be. Section xi) of Appendix 1 goes into more detail about the stakeholders opinions and critiques of a potential MMC factory.

There are a number of potentially conflicting solutions to address the demand side factors of an incoming population which is disproportionately older than the national average, and the relative lack of well paid employment on Island due to economic structure exacerbated by island status lowering ability to access adjacent higher paying labour markets.

Firstly, preference for primary residents, or some restriction on the right to buy homes and second homes on the Island could be considered. However, a recent study by Hilber and Schöni (2018) found that constraining new second home ownership, as seen in St Ives in Cornwall may have overwhelmingly negative effects on the local area.

It found competing effects, for example, the ‘amenity effect’, whereby a ban on new second homes may help to preserve the local character and natural beauty of an area, could theoretically be positively reflected in the house price of both primary and second homes. However, if primary and second homes are poor substitutes (with second homes taking the most advantage of the preserved ‘amenity effect’, while primary homes are located closer to schools and shops) then it would likely be expected that the price effects work in opposite directions: positive for second homes and negative for primary homes. A constraint on new second homes would also likely increase the demand, and therefore price, of existing second homes.

Furthermore, there would be a ‘local economy effect’ whereby a constraint on building new second homes would directly and adversely affect local construction and related local economic activity (such as tourism). This would likely result in lower incomes, or unemployment, for local residents. This in turn would reduce demand (ability to pay) and therefore the price of primary homes. In the context of the Isle of Wight, this could be seen as even more construction companies avoiding the Island and potentially more economically active residents leaving.

Their findings suggest that the negative 'local economy effect' outweighs the positive amenity-preservation effects. Furthermore it may reinforce wealth inequality, benefitting the existing second home owners while costing the local residents.

An alternative solution would be to accept in-migration, but attempting to attract a younger generation through general improvements in communications infrastructure (transport and / or ICT) to facilitate higher value added on-island economic activity. This would likely require a joined up Island-wide strategic approach.

Discussions about demand (Appendix 1, section x) suggested a degree of change in trends, with a greater increase in new houses from existing Island residents (where advertising was Island only, or residential restrictions applied) or a younger demographic moving to the Island, for larger properties, particularly those with an increased ability to work remotely. This suggests, of course, that more Island focused eligibility and marketing and greater focus on infrastructure promoting remote working coupled with marketing of the Island to the "creative class" able to benefit from this, may also be of relevance. For example, any large scale development would need to build around those who work from home, so building in the relevant facilities and infrastructure such as fibre broadband. Furthermore, the importance of a 'green' or carbon-neutral Island could be addressed. Both at a macro level, in terms of roads and infrastructure, public transport and different fuel driving development, as well as a micro level with electric vehicle charging and domestic scale renewables. The infrastructure would likely need to be there first, acting as a pull to the Island and then the mechanism of the house being built causes the younger people to stay. This may require some form of Community Infrastructure Levy not previously used on the Island.

A solution that crosses both demand and supply factors was an Island specific financial solution to give resources to build infrastructure, or at least access to specific funds to facilitate infrastructure. At the minimum this would involve highlighting national funding for accessing sites, e.g. Homes England grants.

Appendix 1)

Evaluate the critical and most significant factors limiting the number of new homes built on the Island.

This section delves deeper into the factors identified in Phase One through a series of discussions with stakeholders both currently operating on the Island, and those in related sectors on the mainland. This section aims to answer the following questions:

- What is limiting those that do operate on the Island?
- What is stopping other developers and national housebuilders from operating on the Island?

This report aims to draw together some common findings, and highlight any conflicting perceptions, from these discussions. Furthermore, the discussions scoped out some of the potential opportunities and options available, including the impact of a prefabrication factory located on the Island.

Interview process

Telephone interviews were conducted with a variety of stakeholders. This included those with a current presence on the Island, as well as those not currently on the Island.

The Island companies represented different aspects of the housing market: the construction sector - both private and affordable housing, the private sales element and the Rills in terms of delivery and ongoing operation of housing stock.

The three stakeholders from the mainland asked for their identities to remain anonymous so as not to prejudice or cause harm to any future business opportunities on the Island. Stakeholders based on the mainland, that do not currently operate on the Island, included a national housebuilder that does not have a presence on the Island but operates on the South coast, a groundworks contractor based in Hampshire and a private developer in Portsmouth and Southampton.

The interviews followed a semi-structured interview script with some questions that were tweaked for each interviewee. Prompts included:

- To what extent do you agree that not enough new homes are being built on the Island?
- What do you find to be the limitations of building homes on the Island - Generally?

Specifically? Are they specific to the Island, or the industry/UK?

Demand factors? Supply factors:

- Relative lack of construction skills on the Island,
 - Extra cost of importing materials and skills
 - Unrealistic land values
 - Limited appropriate land
 - Planning
 - Lower returns on investment
- What could be done to address these limitations?
 - Hypothetically, if there was a prefab / MMC factory on the Island - Would you use it? Could you foresee it working on the Island?

i) Summary

An overarching comment from stakeholders was that there was not one single issue or limiting factor. Instead it was the combination of factors, creating a spiral/cycle, because of the exacerbating nature of a range of factors.

Overall, the housing market appears to present somewhat of a contradiction. On the one hand, margins are too tight to attract more large / national developers to the Island, and too tight for developments to seriously accommodate a larger share of affordable housing. On the other, the market is clearly healthy enough to accommodate a small number of operators who can survive solely by serving the Island.

In some ways, this is a logical and self-perpetuating system - the tight margins are effective barriers to entry for other large firms to enter, so less competition means those that have already committed to operating on the Island can extract monopoly profits. Whilst this may be a desirable position for existing Island-based builders to be in, it is not a situation that lends itself to the step-change in the delivery of new housing on the Island required by government targets.

This was reflected in a generally optimistic outlook about the 'health' of the private sector housing market, while accepting that there was clearly a problem in delivering (particularly affordable) large numbers of new housing on the Island.

ii) Not enough new homes are being built on the Island

There was broad agreement with the opening statement that not enough new homes are being built on the Island. This was generally described in terms of being an accepted matter of fact, although some noted that this statement could also be applied to the wider housing market in the UK since the 1960s.

There were also various reasons given why the focus for solutions should be more strongly targeted on affordable housing. These included this being the area that has the highest immediate demand, that affordable housing is the area that has been the most neglected or 'left behind' in recent years, to it being the area that could be most easily addressed while leaving the private market, and those that operate there, relatively untouched.

iii) Partnership working and under resourced Planning department

The message was that this was not just about 'the Council' - but the collective public realm. A common area for improvement was related to the joining up of decision makers, expressed in terms of a clear shared vision and strategy for the Island. It was felt that some opportunities for 'joined up working' on the Island - a prime candidate for such activities - were not being well utilised. The result being less opportunity for new housing and delays or additional costs in delivering housing where sites had been identified.

At a micro level, severe underfunding and understaffing of the Planning department was just one aspect identified here. Although it was noted that individual planning officers are very helpful and proactive - it is simply that they are understaffed, so new housing was delayed from the outset as developers were not getting what they needed to progress. Further criticism related to the under resourcing in terms of reduced office resources over an extended period of time, such as a lack of a dedicated housing professional since 2015.

Others focused on the additional bureaucracy, or unclear and contradictory planning steps when dealing with more than one public body, such as Highways Authority. Making it harder to start a project at all, delaying work and extending the time to get projects up and running (once they have the site and initial plans). This adds additional (potentially unnecessary) costs. While this might be seen to some extent on the mainland, it was felt to be exacerbated by understaffed Planning departments and an inconsistency of decisions with different Highways Authority.

For some firms, this was *the* most important limitation to building new homes on the Island.

Solution: more joined up approach e.g. with the different Highways authority - would benefit from consistency of decisions, or set design principles/standards shared beforehand. Would avoid additional cost of having plans re-drawn and re-submitted with the resulting delays.

More concerns were raised regarding the issues with the Planning system specifically:

- Not focused on delivery – inflexible and process driven
- No expertise to properly judge viability
- Time delays in dealing with issues/ applications
- Purist view about certain issues – e.g. trees

At a more macro level, others reflected on the difference of opinion in permitting new developments expressed by the elected MP and the Council. The local authority was described by some as having no real understanding of partnership working. One practical example referred to the potential for 'joined up' working with other 'public' bodies being able to release land for housing (e.g. freeing land a 'cheaper' option, but council would say they do not own any land, but this may simply be held by Public Health - often seen as a completely separate issue rather than a joined up approach). Given that a number of 'partners' operate on the Island and within its boundaries, it was put forward that more could be made of working together. The example of a clearer vision for the Island leading to a virtuous cycle of housing, employment, health and mental health, crime and education.

Some criticism was made of the local authority in terms of its perceived lack of strategic vision over the last decade, e.g. "no Housing Strategy since 2012", lack of strategic approach to land assembly/CPO and being focussed on process rather than on outcome. It was argued that a couple of large strategic sites have somewhat mitigated this, e.g. Pan Meadows and East Cowes. For some, the local authority was *the* main limiting factor for new housing being built on the Island.

Solution: The Council needs a clear strategic view (e.g. delivery of a number of homes linked with a 5 year land availability guaranteed) and needs to make more progress in the potential for a single public realm approach. It is also worth noting that it was only the

political turbulence/toxic debate element that was considered as a limiting issue to those not currently operating on the Island because of the associated reputational risk.

iv) Construction skills on the Island

Overall, there appeared to be little concern that there wasn't enough skilled labour on the Island. If anything, the discussions around labour supply were fairly positive, and with the exception of some very specific trades, the lower wage was a redeeming / counterbalancing factor on the Island. Several stakeholders commented on the anecdotal evidence of the number of trades seen leaving the Island on the ferry/hovercraft every morning.

One local developer stated that the majority of their workforce was from the Island. Stonehams, as an established construction business on the Island, stated that they do not struggle to find suitable skills on the Island. For example, they do not use any agencies, have 35 PAYEs and the rest are subcontracted. Ironically, when doing work on the mainland - although material costs are less, labour costs are higher (in part because of travel costs of using the Island workers). This is somewhat flipped when pricing work on the Island - paying less for labour, but more for material.

In general, firms operating on the Island reported no unexpected higher cost of importing skills, with access to a good labour force on the Island. Several stakeholders, including those based on the mainland reported the anecdotal evidence of the number of trades seen going to the mainland for work on the hovercraft/ferry. The bigger problem was identified as a wider scarcity of employment opportunities on the Island more generally.

While labour costs on the Island may be cheaper - those on the mainland questioned the productivity and therefore the total amount to pay to complete a job. Furthermore, where specialist skills do need to be brought in from the mainland - the costs are significantly greater in part due to the financial cost of travel and board, but also the reduced number of hours (therefore more days) that trade will be on site (due to travelling).

This also needs to be seen in the context of current housebuilding numbers being significantly below government targets over the next 20 years or so. Overall, these perceptions may also reinforce the view that there is a current supply side "equilibrium", able to deliver the current average of 400 houses per year, but with question marks over capacity to deliver the greater numbers required by government targets.

v) Large sites, delivery pipelines and market size

The relatively small size of developments was noted as a contributing factor to both the lack of affordable housing (even where contributions were being made, they were often only a fraction of one property so were not being physically delivered on the small sites), and to the lack of interest in the Island from most of the national housebuilders. It was commented that affordable housing needs larger sites, which require a financial stimulus/intervention. There was reportedly "no scope" within the private sector to be relied on to deliver/contribute the

numbers needed. Instead, the Island is characterised by smaller developments, which don't deliver much affordable housing.

Solution: Direct Stimulus / financial intervention required. Again, this was deemed to be more relevant to the affordable housing market.

Whilst there was a "Need to be the right homes in the right places" one reported concern is that the Island has over-relied on a couple of big sites (e.g. Pan Meadows and East Cowes) to address the need for affordable homes needs - rather than an ongoing pipeline. Furthermore, it was noted that it was not in the commercial interests of developers to "flood the market" - potentially reducing the saleability and value of their product, or damaging the very characteristics of the Island that makes it such a desirable place to live.

Those operating on the Island deemed it important/vital, or a requirement to successfully operate, to have a 'satellite office' and some presence on the Island. This was portrayed as another barrier to entry - for smaller developers who could operate at a small site level this was unfeasible, for larger organisations and housebuilders there was simply not the critical mass of opportunities to make this feasible.

Those based on the mainland somewhat agreed with the need for a satellite office - although they stated this was usual practice for most large sites. However, the main distinction came from this being viewed as of a temporary nature. If the numbers were there, they would come to the Island - but could not foresee (currently) any long-term 'pipeline' that would feasibly support a long-term commitment and investment. This was further supported by a previous survey of mainland based companies covering a range of sectors: "The size of the relevant market on the IoW is not considered sufficient to justify a local office or indeed an operational facility."²

There is therefore a Catch 22 situation: Typical developments coming on stream have 10-20 properties, which is not enough to attract the national housebuilders. Therefore most national housebuilders do not have a presence on the Island. So when/if a larger site is released, then most of the national housebuilders are not prepared enough to take advantage.

On a related note, there was some 'criticism' of those national housebuilders and Housing Associations that were purely "operational" in their presence. In other words, they technically had a satellite office on the Island as part of a much larger national structure, but these were far more operational in nature, without necessarily the strategic role/vision to contribute to the Island.

Related arguments about the relatively small market size of the Island acting as a barrier to entry or supporting monopoly/oligopoly operations have also been made in previous publications.

"The relatively small size of the market on the Isle of Wight is a recurring theme and an often cited issue, be it for attracting new businesses and competition, sustaining

² Phase 2: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery (2017). p.7.

those in existence or justifying public service provision. ... a few examples of natural (or government granted) monopoly market conditions on the Isle of Wight.”³

“Insularity implies isolated and small markets, monopolies and oligopolies are more often the reality than free competition; therefore, prices for transport and goods are higher compared with prices on the continental mainland.”⁴

However, this does not exactly align with housing market demand where the customer base is less localised and restricted to the Island population - as described in the comments about demand (below) and in Section 2.

vi) Registered Provider issues

There are a relatively small number of Registered Providers on the Island. Some concerns were raised that where these were purely operational agencies, as one small part of a national group, then there was a lack of interest or understanding of Island dynamics/issues/market. Moreover, investment decisions were being made by staff remote from the Island with comparisons made against mainland opportunities, resulting in a lack of strategic investment. This has been further reinforced by a relative lack of success for sales initiatives. The disconnect from the Island was further evidenced by the absence of local companies or contractors employed. This also reinforces the potential for the direct stimulus / financial intervention solution to be necessary

vii) Limited appropriate land

Somewhat related to the small market size, the issue of ‘limited appropriate land’ is regarded as a given on an Island, particularly with large swathes of AONB and rurality being intrinsically linked to the appeal of the Island. However, it was commented by one developer that there was “still enough land to develop”. Furthermore, there are enough development sites for a business based solely on the Island to make a reasonable turnover.

As mentioned above, the main limiting factor, at least in attracting larger national housebuilders and being able to deliver enough affordable housing, was the number and availability of larger sites, rather than land per se. Some of the mainland based businesses also disagreed that this was necessarily an island specific issue, as well as citing examples of similarly populated areas around the UK that had found large enough sites for them to develop.

viii) Unrealistic land values

Unrealistic land values were repeatedly cited as an issue resulting in lower returns on investment, with some feasibility studies showing that the price asked for some land would

³ Phase 1: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery (2016). p.26.

⁴ The ESPON 2013 Programme, The Development of the Islands - European Islands and Cohesion Policy (EUROISLANDS), 2011. p.12.

mean they cannot make any profit (or even make a loss). Furthermore, it was often stated that some land values do not reflect recent higher (and rising) building and material costs compared to relatively stagnant sales values.

This issue was described strongly by some as the actions of a “cartel of landowners with unrealistic views of land values”. However, others argued that this is a problem ‘everywhere’, i.e. not a unique situation to the Island, but may appear to be worse because of the lower average sales price of the resultant houses. Those operating on the mainland tended to see this as a fairly common pattern observed over parts of the UK, with the driving force being the reportedly very high sales prices in a few pockets.

Therefore, it was seen as part of the problem but not the main limiting factor. In other words, it is a factor that drives up the cost of a development and lowers the return on investment, which is then compared with other areas in the UK. However, it was not the part of the formula that was dramatically different to other areas of the UK, areas which would offer higher returns overall. The main sticking point came from the limited number of opportunities for larger scale developments that would allow a better profit to be made (e.g. via economies of scale). A related limitation was the irregularity, or dearth in opportunities over time, to commit to a longer-term lower risk strategy by having a number of sites, or “pipeline” of delivery. There was also little evidence of ‘landbanking’ by developers. Instead, it was more the case that sites were taking a longer time to develop (see comments on Planning).

ix) Higher building costs

There is strong supporting evidence, going back a long time, that it simply costs more to build on the Island. Previous studies have mostly attempted to use an accounting style to quantify the additional costs of building on the Island. Many have attempted to focus on the severance by sea element by filtering out other market related factors such as the smaller market, lack of economies of scale and limited number of suppliers.

For example, New Systems Group⁵ found typical overall cost of +4% for traditional builds, but closer to +10% if buildings require significant quantities of structural steelwork, precast concrete and cladding. In terms of individual materials, heavy and bulky building goods tended to cost considerably more, with bricks +16%, cement +20% and steelwork +12%. They also found an oncost of 10-25% for delivery of construction materials (based on highways).

Coopers & Lybrand⁶ found building costs (for the council) were approximately 7% higher than the mainland, with building maintenance costs 10-15% higher. Similarly, highways maintenance costs were 19-39% higher.

⁵ New Systems Group, (1989), “An island apart, the cost of severance by Sea for the Isle of Wight”

⁶ Coopers & Lybrand, (1996), “Wight weighting: the case for a special Island grant”

Price Waterhouse Cooper⁷ found building projects on the Island were 12% higher overall, when compared to nationally published rates (SPONS) and more detailed comparison on specific projects in nearby authorities.

More recently, The Isle of Wight Council Case for Fairer Funding⁸ reported evidence from the Education Funding Agency that some developers applied a specific 30% up-lift to costs for Island development projects. However, the limited level of developer interest played some part in this.

Phase One reported other additional building costs of 6% associated with the smaller sites (10 or fewer homes) typical on the Island.

Unsurprisingly, however, for those businesses that already operate on the Island, the 'cost' element did not appear as a major limiting factor. While all were clearly aware of it, and acknowledged that "“Everything from the ground up costs more on the Island”, once the decision has been made to operate on the Island, these higher cost implications were simply accepted. In fact, some operators described the relatively low employment costs on the Island (where there were regular employees) as somewhat offsetting higher material costs.

This is also not unique to the housing sector on the Island. The sentiment expressed by those in the housing sector chimes with the findings of a previous survey⁹ conducted by the University of Portsmouth with a range of businesses operating on the Island:

“Although these costs are well tracked for accounting purposes and represent a sizeable component of the business operating costs, they did not appear to be cause for special concern; a sense of resignation was perceived as a consequence of the unavoidable geography”

“None of the respondents have been able to monetise the cost and benefit of isolation; perhaps an additional symptom of resignation towards geography and demographics.”

However, there was some acknowledgement that the higher build costs, along with the lower sales price did reduce the profit margin and therefore reduce the appetite for risk. While this would clearly “put off developers from the mainland”, it also influences the behaviour of those operating on the Island. For example, it may limit their access to required funding or cause them to opt for specific types of marketing to guarantee a sale in order to manage the risk. It was also described as making developers more cautious in their approach, as the tight margins reduce the appetite for creativity, including the use of non-traditional building material and processes, and the testing of new markets

Cost of materials was therefore one of, but not the main, limitation for those not currently operating on the Island. Material costs were equally ranked against restricted sales prices, the combination of which was reported as impacting their ability to secure suitable finance.

⁷ Price Waterhouse Cooper, (2002), “An Island Apart: Identification of additional costs of service provision arising from severance by sea”

⁸ Metcalfe, J. (2016). The Isle of Wight Council Case for Fairer Funding. p.12.

⁹ Phase 2: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery (2017). p.6.

What was emphasised, therefore, was limiting the risk and reassuring/improving the security of a consistently large enough 'pipeline' of projects, although it was acknowledged that this would not have been as necessary, or as important, if the return on investment was greater to begin with.

There were also perceived to be higher 'start up costs' of doing business on the Island as opposed to the mainland. Some described this in purely logistical terms, others referred to the long-term commitment (aftercare) of delivery - essentially the fear that the project would not only not make enough money in the first instance, but that the relatively high running costs of operating at arms length / travelling would continue indefinitely.

There were some discussions around the potential damage to reputation, and the additional costs to ensure goodwill in the community. In particular, there were fears regarding the commercial success and negative publicity surrounding the more recent experience of Barratts David Wilson.

Solution: Public sector infrastructure investment (e.g. access roads) was a potential solution proposed to the low cost / high risk conundrum - that could impact both those currently on the Island and encourage other developers. This would unlock more development sites and make them more attractive propositions. This was proposed by a firm currently operating on the Island.

x) Demand

Demand was not seen as a limiting factor in its own right, by those based on the Island, except in terms of the perceived low sales values or market takeup affecting other developers/housebuilders plans to operate on the Island. However, demand was "not an issue (in terms of the volume)" - with stakeholders reporting there is enough demand to support their business. This is also suggestive of a supply side that has adjusted its capacity to deliver current levels of housing, but with several factors likely to create inertia to move to the higher levels of building government targets suggest.

Those on the mainland were more interested in the final sales price. However, there was some acknowledgement of the sensitivity of marketing opportunities and the potential reputational risk that they would not wish to receive the negative backlash/ public goodwill from not building homes for local people. Similarities to developments in and around London and Cornwall, in terms of the community backlash, were identified.

All operators on the Island were also keenly aware of the debate (occasionally described as toxic) surrounding the need of housing for local residents versus those moving onto the Island. Those who dealt with the final sale of new properties noted that a fair proportion of inward migration is seen in the market for housing. However, it was noted that whether the new properties were mostly for Islanders or not mostly depends on the location of the houses themselves. Contrary to the common perception, for example, one developer described how they had received 114 enquiries for a development of 80 new homes recently, having only advertised locally (on the Island), with no mainland advertising.

Furthermore, in contradiction to the longer term population estimates, some developers are noticing a change to a younger demographic moving to the Island, for example, those moving for a larger property, especially those with an increased ability to work remotely. This paints a slightly different picture to the official statistics summarised above. The comments from stakeholders specifically relate to 'new' housing, however, whereas the migration figures simply refer to those moving to/from the Island across all property types.

Similarly, a developer of two sheltered retirement schemes built recently commented that most of the units sold to those from the mainland were moving to be closer to their families who were already on the Island. If the new homes are classed as affordable housing provided by one of the RPs, then the identity of those moving in is somewhat clearer. The majority of affordable homes are for those with 5 year residential qualifications, or in some cases (e.g. Shalfleet) they were described as only being for those with a proven link to the village.

Solution. More Island focused eligibility and marketing and greater focus on infrastructure promoting remote working coupled with marketing of the Island to the "creative class" able to benefit from this infrastructure may be of relevance.

xi) Modern Methods of Construction Factory

This section scopes out one of the potential opportunities and options available to significantly increase the building capacity on the Island. This focused on the impact of a prefabrication/Modern Methods of Construction (MMC) factory located on the Island. Questions were asked around the potential viability of such a venture, and (where relevant) whether the stakeholder would use it.

Views of those operating on the Island

This can be summarised by the quote from one of the interviewees: “There has been the odd one built on the Island”.

The majority of stakeholders on the Island had conducted their own investigations into the use of MMC. For example, Savills have had discussions with Boklok (the housing arm of Ikea), and Stonehams have looked at the methods before with Boutique Modern and Ilke Homes. Some mentioned that they already use the two timber framed factories on the Island.

However, most noted that it was not necessarily cheaper overall. Generally, the higher cost (particularly, but not solely, the delivery element) had impacted decisions not to use prefab/MMC as the cost/difficulty of delivery means the overall build cost is the same. Others referred to the construction costs not being hugely different on the Island, but highlighted it was more about the reduced time to construct and the lower prelims. Specific details about the cost reductions of having an MMC factory on the Island would be required to make a firm statement about their potential use of it. However, all appreciate that it could reduce the delivery costs to the Island significantly.

While there was no major objection to the idea of a MMC factory on the Island, there was a degree of cautiousness expressed. In particular, most noted that this could only ever be one part of the solution for more housing. In order for it to be viable, then it would require a serious commitment to a pipeline of delivery on the Island over time. While the numbers of production required were not necessarily deemed unrealistic, it would need a serious commitment to “release” the required land. There was uncertainty about whether it could have a long-term future on the Island. Moreover, it was proposed that any factory would be limited to the local (Island) market as they would have the higher delivery cost if serving the mainland market.

There was a repeated sentiment, that if MMC were to be used, then it would need to be high quality and appropriate. While the numbers of properties could be there, the desire from the public may not be. There was uncertainty expressed about the customer demand on the Island for such buildings. For example, “Does one house type fit into every village? Do our customers want it? Are they ready for it?”

There were also some ‘concerns’ raised about the potential deskilling of current ‘traditional’ building trades, or the unintended consequences of the displacement of jobs. This is interesting in the context of the potential need to significantly increase the number of houses

built per annum to meet government targets, as the focus seems to be on the substitution rather than additional capacity effects of MMC building approaches.

Views of those operating on the mainland

Those operating on the mainland were asked how the existence of a MMC factory on the Island would impact their decision to operate on the Island. Unsurprisingly, there was little impact on the smaller businesses decision to operate on the Island - although it is worth noting that the method is not their speciality. The larger housebuilder had some experience of using similar methods of construction before, but cited public perception and acceptance as the largest hurdle. The larger housebuilder described it as being a potentially persuasive factor in terms of operating on the Island. However, the overriding limitation would be if there was a regular/consistent supply of development opportunities.

However, despite the perceived lower cost, there was a concern that it would/could result in reduced sales values / turnover if not executed and promoted sensitively. In particular, when applied to the Island context (a relatively small market), a potential conflict was raised in terms of oversaturation of the market. In other words, lower costs and higher numbers of houses being built may simply be offset by (even) lower end values. This was a similar viewpoint to those already operating on the Island.

About the stakeholders

Telephone interviews were conducted with a variety of stakeholders. This included those with a current presence on the Island, as well as those not currently on the Island.

The Island companies represented different aspects of the housing market: the construction sector - both private and affordable housing, the private sales element and the RSLs in terms of delivery and ongoing operation of housing stock.

Stoneham Construction Ltd. has been on the Island since 1992. Post-recession needed to diversify to 25% on mainland - but market has picked up on the Island, with all of their projects over the last year having been on the Island. Approximate turnover £12 million. Worked with Sovereign Housing Association on the Island.

<http://www.stonehamconstruction.co.uk/>

Vectis Housing Association are a small, independently-run housing association operating exclusively on the Isle of Wight. They currently own and manage over 400 general needs dwellings, most of which are in schemes built by Vectis.

<https://vectishousing.co.uk/>

Captiva Homes is an independently owned Isle of Wight company that has been building homes on both the Island and the mainland for nearly two decades.

<https://www.captivahomes.co.uk/>

Savills are experienced in advising on buying, selling and renting property for over. Savills have a presence on the Island and cover a range of property markets, not just housing. Discussions were held with their planning department.

<https://www.savills.co.uk/>

The three stakeholders from the mainland asked for their identities to remain anonymous so as not to prejudice or cause harm to any future business opportunities on the Island. Stakeholders based on the mainland, that do not currently operate on the Island, included a national housebuilder that does not have a presence on the Island but operates on the South coast, a groundworks contractor based in Hampshire and a private developer in Portsmouth and Southampton.

References

Coopers & Lybrand, (1996), "Wight weighting: the case for a special Island grant"

Hilber, C. and Schöni, O. (2018) 'The Economic Impacts of Constraining Second Home Investments', CEP Discussion Paper No. 1556 (<http://cep.lse.ac.uk/pubs/download/dp1556.pdf>).

Hilber, C. and Vermeulen, W. (2016) The Impact of Supply Constraints on House Prices in England. Economic Journal, Vol. 126, No. 591, 358-405.

Metcalf, J. (2016). The Isle of Wight council case for fairer funding.

New Systems Group, (1989), "An Island apart, the cost of severance by Sea for the Isle of Wight"

Price Waterhouse Cooper, (2002), "An Island Apart: Identification of additional costs of service provision arising from severance by sea"

University of Portsmouth, (2016) "Phase 1: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery".

University of Portsmouth, (2017), "Phase 2: Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery"