



## **All Party Urban Development Group**

*promoting sustainable development and urban renewal*

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### **Inquiry 3:**

### **Delivering a good urban housing offer**

3 December 2007

Written evidence

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## All Party Urban Development Group

The All Party Parliamentary Urban Development Group (UDG) is a dynamic non-partisan Parliamentary body of MPs and Peers committed to progressing urban renewal and sustainable development in the UK.

The group was formed to raise the profile and understanding within Parliament of the urban regeneration process and the role that can be played by the private sector, particularly the property investment community.

The group's remit is to take a holistic approach in the examination of all the constituent elements that bring about truly sustainable communities, and to review policies that will increase the quality and pace of urban renewal and sustainable development nationally.

### Current membership

Clive Betts MP (*Labour, Sheffield Attercliffe*) (Chair)

Rt Hon Nick Raynsford MP (*Labour, Greenwich and Woolwich*) (Hon Chair)

Lord (Richard) Best (*Crossbench, Life peer*) (Vice chair)

Andrew Pelling MP (*Conservative, Croydon Central*) (Vice chair)

Baroness Scott of Needham Market (*Liberal Democrat, Life peer*) (Vice chair)

### Publications

The reports and evidence of the Group are published and available on the internet at [www.allparty-urbandevelopment.org.uk](http://www.allparty-urbandevelopment.org.uk).

### Staff

The British Property Federation has been formally registered by the Office of the Parliamentary Commissioner for Standards to provide secretariat services for the Group in partnership with the Centre for Cities, the independent research unit carrying out the Group's research.

### Contacts

All general enquiries should be directed to the Group's clerk, Kurt Mueller, Public Affairs Manager at the British Property Federation, 7<sup>th</sup> Floor, 1 Warwick Row, Victoria, London SW1E 5ER, 0207 802 0128 or [kmueller@bpf.org.uk](mailto:kmueller@bpf.org.uk).

Research enquiries or responses to calls for evidence can be directed to Catherine Glossop, Centre for Cities, Enterprise House, 59-65 Upper Ground, London SE1 9PQ, 020 7803 4308 or [c.glossop@centreforcities.org](mailto:c.glossop@centreforcities.org).

## **All Party Urban Development Group**

The following are written submissions received for the All Party Parliamentary Urban Development Group's third inquiry into housing delivery.

### **Written submissions were received from:**

Arnold White Estates Ltd  
CB Richard Ellis  
Campaign to Protect Rural England  
Council of Mortgage Lenders  
Environment Agency  
ISIS Waterside Regeneration  
King Sturge  
Mature Times  
National House Building Council  
North West Housing Forum  
North West Regional Assembly  
PRUPIM  
Sarah Payne PhD, University of Glasgow

## WRITTEN EVIDENCE SUBMISSION FROM ARNOLD WHITE ESTATES LTD

### Introduction

This document has been prepared by Hives Planning on behalf of Arnold White Estates Ltd (AWEL) in response to the call for evidence as part of the All Party Urban Development Group's housing inquiry.

AWEL owns and/or manages major landholdings throughout England and is currently promoting significant housing and mixed use development in the east of England, south west and south east regions. In total it is estimated that AWEL could deliver some 15,000 – 20,000 dwellings, a significant contribution to Government objectives of a step change in housing supply. AWEL regard the developments, which are in the form of urban extensions and redevelopment of brownfield sites, to be sustainable and they include essential infrastructure, employment related development, education provision, health provision, retail development, open space and other leisure provision.

AWEL's particular expertise is the development of former quarry sites, typically located on the edge of settlements and well related to existing urban areas.

AWEL welcomes the All Party Urban Development Group's inquiry. Below we address the five questions set out in the call for evidence.

#### **1. What are the key housing challenges facing the 'north' and the 'south'?**

1.1. The crude labels 'north' and 'south' mask a wide variety of conditions. Whilst there are differences *between* regions there are also important differences *within* regions. For example, output per worker in Berkshire is two and a half times that of the Isle of White though both are in the south east region. Within the north west region, Greater Manchester South grew by over 76% between 1995 and 2004, compared to less than 31% in Greater Manchester North, and less than 23% in West Cumbria. In terms of housing the problem of affordability afflicts all regions though it is particularly acute in the south east. Housing affordability issues exist in all regions. The notion of 'north' and 'south' is also undermined by the realization that annual house price inflation peaked at near or over 20% between 1999 and 2003 in all regions.

1.2. A concerted effort to address housing affordability through increased housing supply in one region will simply lead to inter-regional migration thereby undermining any benefits. Rather than focusing upon 'north' and 'south' what is more important is to examine challenges facing the country as a whole and develop national responses in relation to housing supply and affordability. There are a range of underlying national trends that are driving the current concern with housing delivery:

- Household size is decreasing whilst demand for living space is increasing. In 1981 the average household size was 2.65. In 2005 it was 2.31 and is projected to be 2.1 in 2026.
- Government projections also suggest an absolute population increase in England to around 55m by 2020.
- A 10% increase in population translates into a 23% growth in the number of households.
- In 2005 net migration was 185,000 and is projected to increase significantly by 2016.

1.3. Whilst demand has grown and will continue to grow, supply has not been keeping up:

- From a peak of around 350,000 completions in the late 1960s housing supply now runs at around 160,000 per annum.
- The elasticity of housing supply in the UK is 0.5 compared to 2.1 in Germany. This means that a 1% increase in housing demand equates to a 0.5% increase in supply.
- Supply is largely dictated by planning controls. The time taken to secure an allocation in a plan and secure planning permission can be at least five or more years.

1.4. There is wide agreement that these trends point to a significant growing demand for housing over the next decade and beyond, which the Planning White and Housing Green Papers seek to address. The implications of worsening affordability are clear:

- The affordability ratio (lower quartile house prices to lower quartile earnings) rose from 3.65 in 1997 to 7.12 in 2006.
- Declining affordability has had the effect of increasing the age of owner occupiers. Only 14% of owner occupiers are under the age of 34.
- In 2006 first time buyers were taking out mortgages that were 3.24 times their incomes compared to 1.7 in 1980.

- First time buyers took 41% of total UK mortgages in 1979. In 2004 the figure was 29%.
- A concerted effort to address housing affordability needs to be undertaken nationally.

## **2. Is the Government right to aim to increase home ownership? How could the private rented sector and buy-to-let help meet housing needs?**

2.1. Over the past century home ownership has increasingly become the dominant tenure of choice. The British Social Attitudes Survey in 2001 found that 87% of the population aspire to become homeowners. However, the proportion of under 25s wishing to own their own property within 2 years fell from 79% in 1983 to 43% in 2004. The current national owner-occupied rate is around 70%. However, rates vary significantly between regions. The lowest levels of owner occupation were in London (58%) and the north east (65%). The highest levels were in the south east (75%). The UK ranks somewhere in the middle of European owner occupancy rates with figures in other countries of over 90%.

2.2. Fulfilling owner occupation aspiration through increased housing supply is not simply a matter of pleasing the population. There are strong economic and social reasons to improve housing supply. Owner occupation is a key indicator of wealth and contributor to wealth inequality. As house prices rise, the wealth gap between homeowners and others widens. This widening has implications for inter-generational equity. Studies have shown that those whose parents have housing wealth are more likely to be advantaged in childhood and to benefit from financial assistance. Homes now account for 57% of total household net wealth compared to just 41% in 1977.

2.3. The Barker Reviews highlighted how affordability and availability of housing also underpins economic performance and growth. As Sir Digby Jones has stated: *'Reduced housing supply constrains labour mobility, damaging the flexibility and performance of the UK economy and has a negative impact on business location decisions and competitiveness'*. The housing market is linked to financial markets via mortgage lending and to aggregate consumer spending via the use of housing wealth as collateral. These links to the wider economy mean that a well functioning and stable housing market is a key issue for macro-economic stability.

2.4. Government intentions to increase home ownership echo people's aspirations. Such aspirations are built upon the range of advantages, including:

- Security of tenure;
- 'Insurance' against future house price increases;
- Favourable tax treatment – capital gains on homes not taxed unlike other assets;
- Homes can be used as collateral for borrowing, and;
- Homes provide financial security in retirement.

2.5. However, there are good reasons to also focus on low cost homeownership. Owner occupation includes risks for those on low incomes, particularly concerning employment status and interest rate changes. Low cost homeownership can also take pressure off social housing and reduce key worker shortages in high demand areas. The measures currently being pursued by Government to encourage low cost homeownership should continue.

2.6. The private rented sector (PRS) will also play an increasingly important role in housing supply and affordability. In areas of high demand such as London the PRS plays an important role through providing flexible accommodation arrangements for the young and mobile and for providing a residual role for those who currently cannot afford to buy. Increasingly, buy-to-let (BTL) is an important component of the PRS. Around 3% of housing stock is now BTL. BTL expanded from 5% of PRS in 2000 to 25% in 2005. However, the PRS has remained at about 10% of housing stock for a number of years. This implies that BTL is not crowding out first time buyers but leading to a change in the structure of the PRS. Between 1996 and 2004 the percentage of 'decent homes' in the PRS increased from 38% to 54%.

2.7. Equally the Housing Corporation (to be merged with Communities England) has a longer term perspective and role. Currently the Housing Corporation Grant is too time limited. The slowness and vagaries of the planning system often mean that the grant deadline has passed before planning permission is granted. Once approved, the grants should be given a longer period for take-up.

2.8. More public money is required to deliver affordable housing and the Housing Corporation should receive significantly more resources. This must be a Government priority. The house building sector will not be able to meet the need.

2.9. An obvious way to improve affordable housing supply would be to substantially increase the overall supply. Increased supply not only reduces cost such that more housing becomes inherently affordable, but also larger numbers of housing can produce

larger numbers of subsidised affordable houses without increasing the proportion. In any event to seek 50% affordable housing is commercially unworkable.

2.10. In short, the Government is right to increase housing supply. There are strong social and economic reasons to encourage continued owner occupation though a balanced housing market that will also include a high quality PRS.

### **3. How can infrastructure supporting housing growth be more effectively delivered? What are the key actions for central Government and for city leaders?**

3.1. Housing delivery must be supported by infrastructure. The current approach relies heavily on planning agreements (section 106 of the 1990 Planning Act). Following the recommendations of the first Barker report current proposals in the 9 October Pre Budget Report are for the introduction of a 'planning charge', to contribute to the provision of infrastructure. A form of negotiated obligation system through section 106 covering site related infrastructure would remain. The Planning Gain Supplement or PGS has now been abandoned.

3.2. Whilst developers and landowners accept that contributions towards essential infrastructure should be made, both the current and proposed system do not achieve this effectively. At present, the system invites local authorities to prepare 'shopping lists' of items that should be paid for through planning obligations despite the requirements of Circular 5/05. Obligations and contributions have been growing over recent years as public bodies have increasingly sought to pass on the costs of infrastructure to developers. Negotiated obligations also cause delays. In 2005/06 63% of planning applications took longer than a year to decide, recorded 'agreeing section 106' as the main reason for the delay.

3.3. The statement by Yvette Cooper on 9 October on the 'planning charge' is quoted below and then commented upon:

*"The main features of the planning charge will be as follows:*

- a. Subject to low de minimis thresholds, residential and commercial development will be liable to pay the planning charge.*
- b. Where appropriate local authorities will be able to use planning charges to supplement a negotiated agreement. Negotiated agreements will still be necessary to secure affordable housing and to address costs related to the specific development site.*

- c. *Planning charges should be based on a costed assessment of the infrastructure requirements arising specifically out of the development contemplated by the development plan for the area (which comprises the regional spatial strategy and the local development framework), taking account of land values.*
- d. *Planning charges should include contributions towards the costs of infrastructure of sub-regional and regional importance identified in development plans.*
- e. *Planning charge policies in development plans will be tested through the development plan process, in consultation with developers, stakeholders and the community to ensure they support the viability of new development and levels of new housing required. “*

3.4. The Government proposes to incorporate the planning charge in the forthcoming Planning Reform Bill, and alterations to Circular 5/05 will clearly be required. It is essential that the scope and scale of any charges are clearly set out by Government.

3.5. Fundamentally a planning charge should be set at a level which assists in infrastructure provision to support essential development rather than seek to provide regional level infrastructure which would result in a level which would be so high that no development could afford. Infrastructure required to support several developments in a town may be achieved by a pooled planning charge, but a new motorway or major hospital must still remain the responsibility of a central exchequer. Point d. above therefore needs reconsideration.

3.6. There is no need to set *de minimis* levels of contributing development too low, for example every dwelling unit should contribute. Every dwelling houses people who use the infrastructure. Once rates are established a 'roof tax' can be applied to even the smallest development. Point a. above needs careful consideration.

3.7. There is a question of timing. Already section 106 allows negotiation on a level of contributions. If point e. above is to be followed it could be many years before a system of planning charges and agreed rates is in place. The growth agenda cannot wait for that and yet major developments cannot be allowed to go ahead with capturing a charge. Urgent interim guidance needs to be provided perhaps by way of an amended Circular 5/05.

3.8. A 'banker' needs to be identified to provide pump priming infrastructure then collect the planning charge over the course of later development. English Partnerships provide this role at Milton Keynes. The new Communities England Agency or the regional development agencies, if not local authorities, could take on this role and fund essential upfront infrastructure and be paid back through planning charges. Major developers could accept responsibility for up front funding so long as refunds were made in a commercially timescale.

3.9. However, local authorities could become the 'banker' with access to Government funds which could be borrowed far more cheaply than local government can obtain.

3.10. The University of Sheffield study found that in the vast majority of cases, those authorities using standard charging secure more planning obligations than those that do not.

3.11. Two further issues arise in relation to the current system:

**Inconsistency.** The scope and scale of contributions through planning obligations varies significantly between authorities. As highlighted above, obligations are increasing across the board. A study by the University of Sheffield for the DCLG in 2006 found that the proportion of planning permissions accompanied by planning agreements (including unilateral undertakings) has risen from 1.5% of all permissions in 1997/98 to 6.9% in 2003/04. Further, planning agreements are now attached to 40% of planning permissions for major residential developments; the equivalent proportion in 1997/98 was 26%. Section 106 contributions are now also increasingly required for employment uses. The total value of all types of obligations delivered in 2003/04 is estimated to be about £1.15bn. Clearly, an additional uplift tax would be on top of increasing contributions through obligations.

**Uncertainty and risk.** Even in those authorities that have standard charging, developers do not know in advance what is going to be included in obligations and how much it will cost. Negotiations with local authorities over planning obligations are lengthy and costly.

3.12. The Government's target is for 60% of new development to be on previously developed land. Such land tends to be in multiple ownerships, have high costs associated with development (e.g., decontamination, demolition, etc.) and have lower returns and higher risks for investors.

3.13. The Government's commitment to focusing new development on previously developed land has been successful in reducing the demands upon greenfield land and

has helped underpin urban regeneration. In some cases the success has exhausted the supply of brownfield land. However, there is a broad spectrum of land types between derelict brownfield land and virgin greenfield land. Previously used land, for example, is excluded in some circumstances from 'previously developed'. Former minerals workings that have been restored, or are committed to be restored, are considered as greenfield. This puts disturbed land with a history of intrusive activity on a par with virgin countryside. However good restoration may be, and although the mining and minerals industries would argue that restoration is of a high standard, such sites are distinguishable from virgin land. To exclude 'previously used land' including former mineral workings from 'previously developed land' misses an opportunity to increase the supply of development land thus reducing the need for genuinely open and virgin countryside.

3.14. Areas of land that have been used for a variety of uses in the past and abandoned are also considered greenfield for the purposes of PPS 3. The need for more housing to address the affordability gap will require more land to be identified for development. It is essential that local planning authorities are given more guidance on how to identify such land.

3.15. One way forward would be to provide qualitative assessment criteria for local authorities that moved beyond simplistic brownfield/greenfield designation. A range of examples of different types of land and their suitability would help developers and local authorities identify land suitable for further sustainable development.

3.16. AWEL are concerned that local authority targets will involve inconsistency between adjacent areas and could be used by some authorities to resist development rather than facilitate it. Setting high brownfield targets in areas with relatively few opportunities for brownfield development would be a simple way of thwarting development if safeguards were not in place.

#### **4. Do towns and cities need more strategic and financial freedoms to deliver local housing offers? Can existing powers be better exploited? Will the proposals in the Housing Green Paper improve the situation?**

4.1. The emphasis on 'new localism' in the current local government White Paper is to be welcomed though this should not permit those areas that wish to avoid necessary development from doing so. A more fundamental issue relates to the administrative boundaries of local government. The current Treasury led consultation on sub-national

economic development proposes more formal arrangements between local authorities to create functional planning areas. It is crucial that 'functional' or 'sub-regional' planning is the basis for RSSs and LDFs. The spatial implications of designations of employment land also need to be coordinated. It is of little use agreeing future demand in a travel to work area between a number of authorities if land is then allocated in such a way that it meets the needs of one authority (e.g. to pay for infrastructure or to protect an environmentally sensitive area) while undermining the demand and needs of the sub-region as a whole. A further level of political control should be avoided in sub-regional work. Existing arrangements for sub-regional working need to be strengthened.

4.2. However local politics should not seek to obstruct Government policies, especially those seeking a 'step change' in housing supply.

4.3. Importantly there needs to be a 'culture change' within local and regional authorities to deliver change and growth. Political differences need to be ironed out of the system. The presumption in favour of development must be paramount.

4.4. As a case example, Bedfordshire authorities are seeking to use the growth pressures in the Milton Keynes South Midlands Sub Regional Strategy (MKSM SRS) to pressure Government into bringing forward road proposals. This seems to be extending to rejecting the AWEL urban extension to Leighton Linslade (included in the MKSM SRS and which does not require publicly funded infrastructure) as a further pressure to provide roads for Luton, Dunstable, Houghton Regis. This political brinksmanship should not be allowed to get in the way of sustainable housing delivery at Leighton Linslade. In addition local government reorganisation in Bedfordshire (proposals for unitary authorities) is causing serious problems for delivery. A joint committee of South Beds, Luton and Bedfordshire has taken over two years to set up, but may now be undone whilst local authorities devote time and resources to reorganisation, diverting them away from delivery

4.5. AWEL have already made substantial submissions on the Planning White and Housing Green Papers and welcomed a number of proposals whilst criticising others. In summary, AWEL's comments on the Housing Green Paper were:

- Regional development agencies taking over responsibilities for the preparation of regional spatial strategies is welcome. The combination of regional economic strategies and regional spatial strategies is long overdue.

- Linking housing to economic growth through the combined new regional strategy makes good sense. For too long the critical link between economic development and housing supply has been ignored.
- The early review of current RSSs to reflect new national housing targets. However, there is still no guarantee that local authorities will take increased numbers on board in LDFs.
- There is insufficient brownfield or previously used land to meet the Government's aspiration for 60% of new development to be located there. Greenfield sites, including suitable and sustainable sites in greenbelts must be developed. The definition of previously used should also be widened to include restored mineral workings.
- Proposals to speed up LDF preparation are welcomed though do not go far enough. There is still a huge shortage of skilled planners within local authorities as well as an anti-development attitude.
- In addition to encouraging developers to put forward sites where an LDF does not have at least five years supply of land a presumption in favour of development should be re-introduced, although developments should be sustainable.
- Strengthening the link between community strategies and LDFs will lead to further delays and undermine the proposals to speed up plan preparation.
- New guidance on the preparation of housing and employment land availability studies is welcome.
- The new emphasis in the Planning and Housing Delivery Grant upon delivering development is welcome.
- Comments on the proposals for PGS and alternatives have been made above.
- AWEL welcomes the commitment to zero carbon development though more guidance and national rather than local targets are necessary.
- Whilst consultation on planning matters is crucial the current system is being abused by well organized and financed community groups. Essential development is being delayed through tactics such as judicial review.

**5. Are there mechanisms that would boost the private sector's contribution to housing delivery, for example through leveraging investment, public/private partnership or ongoing property management?**

5.1. Below we set out some measures not included in the Planning White and Housing Green Papers that would help improve housing supply.

- a. **The re-introduction of a presumption in favour of development.** This was last a feature of UK planning in the 1980s. Such a presumption requires the local planning authority to show why a development should not proceed rather than, at present, requiring the applicant to show why it should.
- b. **Incentivising local planning authorities.** Other EU countries such as Spain link housebuilding far more explicitly to local taxation revenues. The Government propose to re-orientate the Planning Delivery Grant to achieve a similar effect. Far more could be done to overcome local resistance to development by better linking local revenues to housing development and thus providing the opportunity to stimulate the local economy.
- c. **Streamlining the planning process.**
  - There is a problem with the current RSS process but a wider problem with the plan making process as a whole. Whilst not entirely sequential, LDFs cannot really begin to shape local policy until the RSS is at an advanced stage. RSSs have taken at least 4 years to reach adoption and core strategies much the same time so that it takes about 6 to 8 years to have an adopted core strategy from the start of the policy process, and this is not the end of the plan making process. The planning process is taking far too long to deliver Government policy. An urgent overhaul of the plan making system, as signalled strongly in the Barker reports, is essential to streamline the system and actually achieve a 'step change' in housing delivery when it is required, which is now, and not in a decade's time.
  - Delivery of housing through the planning system is currently a 4 stage process which takes far too long. The RSS and LDF relationship has already been mentioned above. LDFs have too many stages: the core strategy indicates the quantum and broad areas of growth; a site allocations/action area LDD defines detailed boundaries and a planning application finally produces a detailed scheme. The LDF could be condensed to a single stage – the core strategy indicating areas of growth

in sufficient detail for planning applications to be made. Experience shows that a typical timescale for delivering an urban extension takes about 10 years from the start of the RSS process to commencement of development.

- However, the Government needs to go further if housing supply through the planning system is to be increased. The 'plan-led' approach and development 'control' encourages local authorities and planners to look for reasons why proposals should be refused rather than approved. It is up to the applicant to demonstrate why a proposal is acceptable rather than, as natural justice requires, that there be a presumption in favour of development unless there are sound reasons for it not to proceed.
  - There is still a lack of skilled and qualified staff within local authorities. Large staff turnovers do not help consistency of approach.
  - Notwithstanding the proposals in the PWP on LDF preparation and adoption procedures there are further changes that would speed up plans. Sustainability appraisals are complex and add little to the process generally. They should only be required for core strategies. Other requirements for supporting information are excessive as the second Barker Report noted. There should be a review of all supporting information with a view to rationalisation and a more consistent approach.
  - EIAs and environmental statements require huge volumes of material produced over long timescales at significant cost. The suspicion is that little is read or considered; a much simpler and slimmer process is required. Whilst development must respect its environment and mitigate its impacts, the current system is in urgent need of reform.
- d. **Planning at the right level.** Local authority boundaries are often based on historic areas that bear little relation to modern 'functional' planning areas such as commuting patterns into a town. In practice this can mean that one local authority is resisting housing growth essential for another local authority. Sub-regional planning is essential to allow housing demand to be properly met.
- e. **Combining plan and permission.** The UK is unique in requiring separate planning applications once land is allocated in a plan. Combining plan with permission and having requirements in the plan such as density would reduce

complexity, time delays and costs while ensuring necessary environmental considerations are taken into account.

- f. **Reducing information requirements.** There is an urgent need for a comprehensive review of information requirements with a view to consolidation and reduction. Such requirements fall disproportionately on smaller housebuilders.
- g. **Re-assessing affordable housing requirements.** The present approach and requirements to 'pepper pot' affordable housing delays start on-site and results in management problems for RSLs.
- h. **Permitting local authorities and others to build affordable housing schemes.** This would enable a start to be made to reduce affordable housing shortfalls. Such an approach will require Government to allow recycling of local authority assets and receipts into new affordable housing stock.

## WRITTEN EVIDENCE SUBMISSION BY CB RICHARD ELLIS

CB Richard Ellis is the world's largest commercial real estate services firm, offering strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting.

The residential arm is a fully integrated service line providing residential expertise across the entire CB Richard Ellis network. Staff are based in all of CBRE's offices around the UK and are able to provide expert advice on a whole range of specialist subjects relevant to residential development markets, from affordable housing strategies to estate management planning.

Q1) ***Institutions:*** *The Government has committed to the creation of a new Homes and Communities Agency – the product of a merger between English Partnerships and the Housing Corporation. **How could the HCA help to deliver a better housing offer, with specific emphasis on cities and towns?***

A) The English Partnerships/Housing Corporation Boards will clearly have invested considerable amounts of time in addressing this question, and we would not want to second guess their conclusions. However, there are 3 areas where we would specifically want to comment:

- i. ***Simplifying procurement.*** The system for procuring private sector partners is a major bar to private sector participation and innovation within the housing and regeneration fields. Consideration needs to be given to simplifying the current procurement regime to make it as simple as possible for private sector organisations to participate in the delivery of public sector housing, whilst maintaining appropriate standards of probity and complying with European requirements. We consider the development of local housing companies to be an important step forward in this respect.
- ii. ***Forward funding of infrastructure.*** There are a number of housing schemes which are not able to proceed because the market is unwilling/unable to forward fund the infrastructure required to enable housing development to proceed. We would like to see the HCA take the lead on the funding of the infrastructure for these sites by the

establishment of an infrastructure fund (possibly with private sector involvement), with the HCA's forward funding being secured on the subsequent development proceeds. We are aware that a number of the regional development agencies are currently considering such proposals, but we consider that the national agency has a role to play.

iii. **Cultivate the private sector.** We are encouraged by the emerging consensus that is developing on how our nation can best meet the growing housing challenge. Clearly, the private sector is going to have a very key role to fulfil in enabling the Government to meet its target of building 3 million new homes by 2020. The HCA needs to spend time understanding the capacity and requirements of the private sector and ensuring that these are then appropriately reflected in Government policy.

Q2) **Local delivery vehicles:** *In many cities, urban regeneration companies and urban development corporations already operate – and there are proposals to develop city development companies to promote a public-private approach to economic strategy. The Housing Green Paper has also proposed the creation of local housing companies, and many cities and towns are investigating the possibility of using asset-backed vehicles (public sector land, private sector cash) to improve the housing offer. **Are new vehicles, such as LHCs and LABVs, required to deliver a better urban housing offer? What can new local delivery vehicles do above and beyond the role of councils and existing bodies?***

A) The local asset backed vehicle ("LABV") concept has been under consideration for some time, and indeed a similar model has been successfully implemented by a number of regional development agencies. To date no local authority has formally committed itself to the setting-up process. However, as advisers in this area, we are now seeing a significant number of local authorities wanting to investigate the role these vehicles could play in the provision of housing. Whilst not appropriate in all circumstances, we consider that LABVs could have an important role to play in the delivery of significant numbers of new homes for the following reasons:

i. **They could enable local authorities to raise significant sums to invest in housing.** Many local authorities have very significant land and property holdings, the value of which can only be realised through sale, as they are not empowered to charge

their assets. By transferring a portfolio of assets to the LABV, which can then be used as security for both debt and equity, local authorities are able to raise significant amounts of cash to fund and accelerate the delivery of regeneration and housing schemes.

ii. ***They combine local public sector knowledge with private sector delivery skills.*** A LABV is a true partnership between the public and the private sector.

In forming the special purpose vehicle which lies at the heart of the LABV, a specialist management team comprising representatives from both the public sector and the private sector is required. The public sector brings deep knowledge of the geographical area and its housing requirements, whilst the private sector brings the delivery expertise and the commercial know-how to make it happen.

iii. ***They are designed to have a catalytic effect in uniting differing public sector organisations behind a common delivery objective.*** The regeneration and housing landscape is highly fragmented and often pulls in opposing directions. Participation in a LABV is open to any public sector asset owning organisation (including the RDA, educational bodies, local health trusts, fire service, English Partnerships etc.) and thus is intended to unite a group of public sector organisations behind a common objective.

iv. ***LABVs are long-term by nature, and therefore free from short-term political considerations.*** These vehicles are commonly deadlocked joint ventures, and thus the objectives can only be varied with the agreement of all parties. As part of the set-up process, the relevant public sector organisations will have agreed a detailed business plan with the private sector partner detailing the public sector assets to be transferred and the regeneration/housing objectives to be delivered. Once established, there are legal commitments on both side to deliver the business plan, and as such, we consider LABVs are vehicles which transcend the short term political considerations which often bedevil the delivery of public sector housing.

v. ***LABVs provide a clear point of entry into the market place.*** We should not underestimate the difficulty investors face in engaging in regeneration/housing projects. Given the fragmentation of the regeneration/housing landscape and the proliferation of public sector bodies active in this area, we consider that private sector investors lack a clear point of entry into the market. We believe that the creation of relatively

standardised vehicles such as LABVs and LHCs will provide an easier point of entry for investors and could well stimulate private sector investment in housing and regeneration.

vi. ***Successful vehicles may well generate significant returns to the public sector for further investment in housing.*** These vehicles are intended to allow the public sector participants to share the risks and rewards on an equal footing with the private sector, and thus a successful LABV may well generate a significant return to the local authority for reinvestment in housing or other projects. This contrasts with more traditional models of public/private sector collaboration, where the local authority's upside is usually restricted to overage.

The position with local housing companies is less clear as to date there has been no formal guidance issued as to how these vehicles are to be constituted. However, our view is that any vehicle which positions local authorities at a stronger point in the development process and allows them to capture a share of increasing land values is a positive step.

With regard to the role of local delivery vehicles (CDCs, URCs and UDCs), we consider that vehicles which provide an obvious forum for the private sector to contribute to the economic growth and development of an area have a valuable role to fulfil. We also consider that LDVs could have an important role to play in the establishment of LABVs. We would expect to see CDCs and URCs acting as a co-ordinating and representative body on behalf of the public sector organisations investing in the LABV - in this way, the private sector investing partner deals with only one public sector body - the LDV - rather than a plethora of public sector investors, each with subtly differing agendas.

Q3) ***Managing 'communities of choice': A good urban housing offer is more than just bricks-and-mortar construction. To ensure that new urban housing is sustainable and popular over time, new communities require continued investment and strong management. How can the public and private sector work together over time to manage and maintain a strong urban housing offer? What changes and incentives, for example in the private rented sector, could help to do this?***

If we are truly to deliver a better urban housing offer, we should perhaps be looking to the United States for inspiration, where a robust private residential sector has for some time provided well managed, purpose built accommodation that gives good service to tenants and, at its best, encourages the development of fully formed and self-reliant communities.

The private rental sector represents over £500bn, or more than a trillion dollars of capital value. Over 75% of this is made up of individual investors, otherwise known as buy-to-let investors, and so it remains an attractive proposition with rents, and consequently yields, starting to rise. For this reason alone we should be extremely wary of vilifying buy-to-let or penalising private investors because of the risk of collapsing the housing market altogether.

Instead, the industry should be encouraged to recognise the potential that exists in this area of the residential market and focus on bringing institutional money into the buy-to-let sector, an area that is already twice as large as the measured (IPD) institutional investment into commercial property. In order to do this, the public and private sector need to work together, with the private sector playing a vital role in bridging the gap between social housing and privately owned accommodation for young families, or newly qualified professionals, for example.

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## WRITTEN EVIDENCE SUBMISSION FROM CAMPAIGN TO PROTECT RURAL ENGLAND, LONDON

### Introduction

1. CPRE London is the London Branch of the Campaign to Protect Rural England. We are concerned with reducing the impact that public policy in London has on the countryside both within London and beyond. The most significant impact in that regard is caused by the very substantial net outward migration of people from London to the rest of the UK. The magnitude of that net outflow varies somewhat from year to year but is in the order of 100,000 individuals *per annum*<sup>1</sup>. The great majority of those individuals relocate within the 'greater south-east' of England and add considerably to the demand for building land in that area. The outflow largely comprises families with young children and the reasons for their relocation are very often 'housing related'.

2. CPRE takes the view that, if the housing offer within London were improved, then the net rate of out migration to the rest of the UK – and its associated environmental impact – could be much reduced. We recognise that there are many other factors driving out migration – including the quality of schools, fear of crime, and general environmental quality – but, nevertheless, the quality, suitability and price of housing remains a major factor.

3. In addition to adding to the harm caused by urban sprawl, urban out-migration should be recognised as a problem in respect of the additional demand that it loads onto transport networks; many of the individuals leaving London, for example, continue to commute back into London to work. But because those people who leave London are those who can afford to do so, and are therefore likely to have valuable employment skills, out migration is also likely to add to the difficulty that employers in London have in recruiting skilled labour<sup>2</sup>. There are also issues of concern around the effect of social polarisation caused by urban out migration. For all these reasons, the phenomenon of net out migration from London and other UK cities needs to be addressed, and housing

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<sup>1</sup> Data published quarterly by the Office for National Statistics: *Inter-regional migration movements within the UK*. Despite the very substantial net outflow from London to the rest of the UK, London's population continues to rise as a result of international immigration and a high natural birth rate in London.

<sup>2</sup> This issue is recognised by the Mayor of London in his November 2006 publication 'Towards the Mayor's Housing Strategy' (Paragraph 7.4, page 27).

policy is a key tool with which to do so. The undesirability of urban out migration from London is recognised in a precursor document to the Mayor's Draft Housing Strategy:

*"Lack of access to affordable homes in other tenures increases demand for social housing. It also encourages out-migration and contributes to employers' difficulties in recruiting and retaining workers with key skills in the capital."*<sup>3</sup>

4. CPRE London has a strong track record in policy development with regards to urban regeneration and housing issues. In particular, we have contributed to the development of the Government's Thames Gateway Programme, through which we hope to see substantial amounts of attractive new housing provided in regenerated urban areas in East London and throughout the Thames Gateway. We strongly support the Government's intention to transform the Thames Gateway into an area which will provide attractive locations for its present communities as well as for incomers from elsewhere (such as London).

5. The inquiry will examine the changes needed to deliver a better urban housing offer. The following comments concentrate on the third of the inquiry's three 'key delivery issues': *Managing communities of choice*.

### **Family housing**

6. It is now widely accepted in public policy that London needs to provide more – and more affordable – housing suitable for families with children. The public policy interventions that are necessary to achieve this in London may be applicable elsewhere. For the sake of argument, 'family housing' is taken here to be any housing unit with three or more bedrooms and with direct access to a private garden.

7. **Needs assessments** – There is no significant likelihood that, in the foreseeable future, the scale and rate of housebuilding in the UK will be so much accelerated as to enable the market to adequately satisfy demand – or, indeed, satisfy need – in respect of all kinds of housing and across all tenures. There is therefore inevitably an important

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<sup>3</sup> *Towards the Mayor's Housing Strategy*. Mayor of London, November 2006. Page 27.

role for Government and public sector agencies to exert their influence so as to ensure the best possible fit between housing supply and the range of needs.

8. The first stage in providing for that ‘best possible fit’ is for all local planning authorities (LPAs) and regional planning bodies to undertake an assessment of housing need within their area. We recommend that the APUDG highlights the importance of housing needs assessments. We are concerned, however, that the element of need represented by out migrants is not always recognised by local authorities as ‘unmet need’. We contend, therefore, that, insofar as migration is driven by the unavailability of appropriate housing at an affordable price, that out migration most certainly reflects a degree of unmet need.

9. An apparent example of out migration being seen as a ‘benefit’ to London rather than being illustrative of unmet need is in the report of a research study that was undertaken as part of the London Housing Requirements study in 2004:

*“Overall, when in and out migration are considered together, migrant households will generate a net supply of housing in the region – as more households leave London than move into the area.”<sup>4</sup>*

10. This statement appears – wrongly – to accept the net outflow as inevitable and, moreover, there is no acknowledgement that it might be a cause for concern. It is seen as a benefit in that it will “generate a net supply of housing”. Worryingly, despite acknowledging last year the problems caused by net out migration, the Mayor of London has recently indicated that he wishes to *encourage* out migration in order to make it easier to meet residual need from within the available housing stock.

*“The Mayor will, and boroughs and members of the Housing Investment Panel should, work with the regions adjacent to London to maximise housing development and to create more affordable housing opportunities for Londoners, and also seek to expand the Seaside and Country Homes scheme.”<sup>5</sup>*

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<sup>4</sup> Greater London Housing Requirements Study. Mayor of London, December 2004.

<sup>5</sup> The Mayor’s Draft Housing Strategy, November 2007. Policy Statement 1.1: Meeting demand, page 38.

11. Such a policy is not necessarily limited to the social rented sector and would be directly at odds with the first objective of the London Plan, which is:

*“To accommodate London’s growth within its boundaries without encroaching on open spaces”<sup>6</sup>*

12. We therefore further recommend that the APUDC urges urban planning authorities and the Mayor of London, through their housing needs assessments, to recognise the unmet need represented by a significant element of out migration and also urges them to address this issue through planning policy.

13. **Meeting housing needs** – The cost of market housing in London is likely to be a significant factor driving migration to neighbouring regions (and beyond). In London (and possibly in many urban areas elsewhere), where family housing is beyond the affordable reach of a substantial proportion of the working population, its affordability is very unlikely to be substantially improved through additional market supply, except perhaps in the very long term. This is because the supply of homes for sale is overwhelmingly dominated by second hand homes. The Mayor recognises this, as, indeed, does the Government’s former housing market advisor, Kate Barker. The Mayor’s proposed solution is to greatly increase the number of family size homes which are made available for shared ownership (i.e. ‘intermediate’ tenure).

14. London’s out-migrants overwhelmingly comprise individuals on moderate incomes and they will therefore not qualify for social rented accommodation. In principle, therefore, the Mayor’s proposed approach of providing more family size homes in the intermediate sector is to be welcomed. Currently, some 96% of new intermediate housing comprises one and two bedroom flats<sup>7</sup> and only 4%, therefore, *might* be classifiable as being suitable for families. Given the Mayor’s target that 15% of new housing should be in the intermediate sector, that 4% amounts to less than 180 dwellings *per annum* (assuming a total build rate of 30,500 dwellings – the Mayor’s current target). Given that net out migration from London comprises some tens of

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<sup>6</sup> *The London Plan*. Mayor of London, February 2004. Policy I.1: The Mayor’s Objectives.

<sup>7</sup> The Mayor’s Draft Housing Strategy, November 2007.

thousands of families each year (perhaps 20 or 30 thousand or more), the current level of provision of intermediate housing suitable for families would need to be very substantially increased in order to have any chance of having a discernable impact.

15. The Mayor's Draft Housing Strategy does, however, propose a target for substantially increasing the proportion of all intermediate housing which is three bedrooms or more: it proposes increasing the current 4% to 16% by 2010/11. Nevertheless, given the Mayor's current housebuilding target of 30,500 units *per annum*, that 16% would still only amount to less than 750 intermediate housing units. Again, this is unlikely to be significant in the face of the level of need indicated by the scale of net out migration from London.

16. To conclude on this point, therefore, it is far from clear that the Mayor has any intention to meet the need for more affordable family size homes outside the social rented sector in London and, if he does, then there does not appear to be any strategy in place which is likely to be effective in meeting that need. There appears to be little scope for increasing the proportion of new housing which is affordable beyond the current 50% target, nor (given the need for social rented accommodation) to increase the proportion of affordable housing which is in the intermediate sector. The most appropriate solution to meeting the needs of London's out migrants is therefore likely to be to greatly increase further the proportion of intermediate sector housing which is large enough to be suitable for families. The currently proposed 16% could, for example, be increased to 50% although the proportion should be based on an objective assessment of needs. It is not clear that Mayor's proposed 16% is based on any objective assessment of needs.

17. The power of the public sector to determine the mix of housing types within both the affordable and the market sectors is very substantial. In addition to planning powers, it includes the conditions placed on funding within joint venture projects. Arguably, it also includes conditions covering market housing but accompanying public sector funding of the affordable housing element of individual development. We urge the APUDG to propose that all possible mechanisms are deployed to the maximum possible extent.

## **Design quality**

18. In order that London and, indeed, any urban centre, might be able to provide for the greatest possible range of its housing needs, it is crucial that new housing is attractive to those individuals who can afford to have a choice as to where they live. The question of ensuring good standards of design and construction within the generality of development (i.e. not limited to a small number of iconic buildings) is therefore central to the question of meeting urban housing needs and, indeed, to helping areas remain popular over time. Careful attention to design quality becomes even more important for developments at the higher densities typical of urban areas.

18. We are pleased that design quality has very much risen up the political agenda in recent years and has been set on a strong policy footing in PPS1- *Delivering Sustainable Communities*. The importance of high standards of construction quality has also begun to be better recognised, although it is often conflated or confused with the issue of 'sustainable construction', which, although a significant consideration, is a different matter.

19. The attractiveness of urban areas as places to live can be enhanced by ensuring that new residential development creates a high quality urban environment, with good access to high quality public services (including public transport), local amenities and retail provision and a general improvement in the quality of public services – especially education. Generally, new housing should have good sound insulation and natural lighting, adequate car parking provision, and a high quality, well managed, clean and safe public realm. Standards for new homes (such as for internal space, natural lighting and construction quality) should be promoted through the kind of mechanisms identified above in respect of influencing housing mix and, at a national level, through tax concessions (including stamp duty and council tax concessions) and the building regulations.

20. There are several measures which can be taken by local authorities in order to help raise the standard of design in urban housing. At the heart of this question, however, are two fundamental issues. These are the availability of design expertise – either within or to – LPAs, and the strength of policies within LDFs in support of higher

quality design. Crucially, the ability of the Planning Inspectorate to uphold the refusal of planning permission on the grounds of poor design depends on the strength of the LPA's policy framework.

21. The following initiatives should be adopted by local authorities and RPBs through appropriate policies in RSS and LDFs:

- Masterplanning
- Design coding
- Development briefs
- Concept statements
- CABE's Design Quality Indicator (DQI) assessment
- Planning for Real and Enquiry by Design
- Home Zones (which are especially attractive to families with children).

22. In addition, the Government should:

- confirm that all public sector funding bodies (for example, the RDAs and UDCs) will make their contribution conditional on the highest standards of design;
- commit to overseeing an audit of the design skills available among local authorities and encourage the regional centres of excellence to address any shortcomings that are identified;
- encourage LPAs – possibly in collaboration with each other – to create a 'design advisory panel' which would have statutory consultee status and which would be required to offer an opinion on the design quality of every significant development proposal, including at the early stages of plans being drawn up; and
- confirm that it will give LPAs additional incentives to put design frameworks in place through the Planning Delivery Grant.

## **WRITTEN EVIDENCE SUBMISSION FROM COUNCIL OF MORTGAGE LENDERS**

### **Executive summary**

#### **Home ownership – at what cost?**

- We share the Government's ambition that everyone should be able to have access to a decent home at a price they can afford, in a place where they want to live and work. However, this is becoming increasingly difficult in Britain today.
- While aspirations for home ownership remain high, there are risks to extending it beyond 70%. CLG's own research suggested that increasing ownership rates beyond 71% requires more financially marginal and vulnerable households to be drawn into ownership.
- This in turn requires consideration of the safety net for those who become unable to sustain their home ownership. We call on the Government to review the safety net arrangements, in particular the operation of income support for mortgage interest (ISMI) in partnership with key stakeholders.

#### **Affordability, first time buyers and housing supply**

- Our evidence on affordability is that the position for first time buyers is not improving. Almost half of those aged under 30 are likely to be getting substantial financial help from relatives to raise a deposit. First time buyers are borrowing on average 3.35 times their income and initial mortgage payments take up 34% of their take home pay. Despite this there has been no worsening of first time buyer activity since 2004.
- Inadequate housing supply remains a critical unresolved issue in UK housing policy. We, therefore, welcome the Government's renewed determination to increase supply.

- However, delivering a greater supply of housing will be a challenge both in terms of the housebuilding industry being able to deliver it and achieving the environmental standards the Government has set. Will significant numbers of zero carbon homes be built and will consumers be prepared to pay a premium for them?

### **Improving energy efficiency**

- More should be done to encourage the provision of energy performance certificates for all homeowners as well as through home information packs (HIPs). Delivering energy performance certificates (EPCs) through HIPs means it will take more than 13 years before all homeowners have one.
- The Government should consider fiscal incentives to encourage homeowners to adopt energy efficiency measures. This could include council tax rebates, Government grants for energy efficient technologies, removing or reducing VAT on energy efficient home improvements.

### **More social housing**

- We support the Government's commitment to an increase in the provision of social housing. Private finance now outstrips grant as a proportion of new investment. Lenders have the capacity to deliver increased investment provided that their confidence in the sector continues.
- We welcome the Government's decision to follow the key recommendations of the Cave review of social housing regulation and establish a new independent regulator for housing associations. This was the lenders' preferred approach and we want to work closely with the Housing Corporation (HC) and others to ensure a smooth transition.

## **Helping first time buyers through low cost home ownership**

- Lenders are finding it increasingly difficult to deal with the complex patchwork of low cost home ownership schemes that help only a relatively small number of borrowers. This means that borrowers will not get the best mortgage deals. The Government should simplify the schemes and remind local authorities about the model section 106 agreement.
- On shared equity the Government should concentrate its efforts on publicly funded schemes linked to new supply. We are not convinced that the development of fully privately funded shared equity loans is possible at this point in the market.

## **Improving the way the mortgage market works**

- We welcome the public consultation on a statutory regime for UK covered bonds and will be submitting a separate response on this. We also welcome the Treasury's review of barriers to supply of funds to mortgage lenders. We are closely involved with the Treasury's review.
- We understand that the Government remains interested in exploring ways to make long term fixed rate mortgages more appealing to consumers, given the benefits that such mortgages confer in insulating borrowers from upward shocks to interest rates. They have emphasised the role that covered bonds could play in assisting lenders to provide more affordable long term fixed rate mortgages. However, we do not believe that the creation of a statutory covered bond regime will, of itself, achieve this aim.
- More generally, when lenders have offered long-term fixed rate loans at modest margins over their funding costs, they have not proven as popular with consumers as discounted variable or short term fixed rate loans. UK consumers are also generally quite averse to taking loans with early repayment charges for extended periods.

- The review should address the role of intermediaries in consumers' decision making about the type of mortgage they take out and the difficulty lenders face in managing mortgage prepayment risk, especially on long term fixed rate loans with no early repayment charges.

### **The importance of the private rented sector**

- The Government should recognise the important role of the private rented sector in delivering housing. The private rented sector, supported by buy-to-let lending, provides flexible, good quality and affordable accommodation.

### **Introduction**

1. The Council of Mortgage Lenders (CML) is pleased to respond to the Communities and Local Government (CLG) consultation paper Homes for the future: more affordable, more sustainable.

2. The CML is the representative trade body for the residential mortgage lending industry. Its 163 members currently lend on over 98% of residential mortgages in the UK mortgage market. Our members lend on residential mortgages and on buy-to-let. In addition, CML members also lend to housing associations for new build, repair and improvement to social housing.

3. This response has been prepared following consultation with CML members.

### **Home ownership – at what cost?**

4. We share the Government's ambition that everyone should be able to have access to a decent home at a price they can afford, in a place where they want to live and work. However, this is becoming increasingly difficult in Britain today.

5. Aspirations to home ownership remain high. 78% of adults want to be home owners within two years, and 84% aspire to owner occupation within a decade (Pannell, 2007). Both figures are significantly higher than the current level of home ownership, which

extends to 70% of the population. There are early signs that home ownership in the UK is changing and that this might have long term consequences for the housing market and wider economy (Williams, 2007).

6. There are also risks attached to extending home ownership beyond 70%. Research published for the Communities and Local Government department (CLG) in February 2007, *Social Mobility and Home ownership: A risk assessment* (CLG, 2007) concluded that increasing ownership rates beyond 71% requires more financially marginal and vulnerable households to be drawn into ownership. This, in turn, would increase the overall risk profile of the home ownership base. The report said that a riskier profile of the overall ownership base calls into question how well placed existing safety nets are to cope with the change.

7. We have suggested on a number of previous occasions that the time is right for Government to review its commitment to the public-private partnership that underpins the sustainable home ownership (SusHo) initiative and to explore with key stakeholders if there are more effective mechanisms for supporting home buyers who encounter misfortunes.

8. The SusHo initiative, launched in 1997 by the CML in partnership with the Association of British Insurers and Government, represents a unique public-private partnership. It has raised risk awareness on the part of home buyers and initially increased the take up of private insurance.

9. There are numerous coping strategies that households can rely on, including a range of insurance options, such as mortgage payment protection insurance (MPPI) and critical illness insurance, and personal savings. Unfortunately, a number of factors are now limiting the ability of the private sector to improve safety net arrangements further. With the budgets of young first time buyers in particular under pressure, the proportion of new loans sold with MPPI has dropped to only 25% and only 20% of all mortgages are now covered by such insurance.

10. In addition, investigations of payment protection insurance (PPI) by the Financial Services Authority (FSA), and the Office of Fair Trading (OFT), including the current

Competition Commission investigation, could erode the take up of MPPI still further, including among groups such as first time buyers who potentially need it most.

11. The industry is continuing to explore what more it can do to help borrowers who find themselves in difficulty at a time when the number of possessions is rising. But we call on the Government to do its part. More than half the UK's poor are home owners, but the state safety net arrangements continue to be strongly tilted towards those in other tenures.

12. The state safety net for homeowners has been largely withdrawn. Under some circumstances, the state may step in and contribute to claimants' mortgage interest payments through income support for mortgage interest (ISMI). ISMI was cut back significantly in 1995 and now it can only be claimed after a delay of nine months, and up to a maximum mortgage sum of £100,000. The Government has not increased this threshold since 1995, and the overall level of support for homeowners has dwindled to its lowest level for more than 20 years.

13. We, therefore, propose that:

- There should be a review of ISMI to include when, and for how long, ISMI is paid. The Government could also consider whether ISMI could be registered as a charge against the property to be reclaimed when the property is sold. ISMI limits should be reviewed to reflect the current market – if the maximum mortgage limit had been indexed in line with RPI it would now stand at £142,000 or around £300,000 if it had been linked to house price inflation.
- Housing benefit should also be reviewed to ensure that it does not discourage those who may want to trade down without going through the full possession process.

14. We would not support the idea of a compulsory insurance scheme for all home owners as has been suggested by the Joseph Rowntree Foundation (JRF) and the Social Market Foundation. The majority of problems encountered by borrowers today are related to over indebtedness which would not be covered by insurance and therefore this

would be unlikely to make a major contribution compared to the cost and complexity of setting up such a scheme. Research carried out for the JRF suggested that a compulsory scheme would be unpopular with the public.

### **Affordability and first time buyers**

15. One of the key strands of the Green Paper is affordability but our evidence suggests that the position is not improving. Data published by the CML in May 2007 (Tatch, 2007) suggested that, while the number of first time buyers had been surprisingly resilient, almost half (46%) of those aged under 30 were likely to be getting substantial financial help from relatives to raise a deposit. As many as 70,000 young first time buyers may have received this sort of help in 2005. This proportion has risen steadily from around 10% in 1995.

16. Our research followed a poll we commissioned in 2006 that looked at the challenges facing young people trying to buy their first home, and what might be done to overcome them. This earlier poll – carried out by YouGov – found that more than 80% of people believed that market conditions were either very difficult or the hardest they had ever been for first time buyers. Only eight out of 2,400 people taking part in the poll believed that market conditions did not present difficulty for first time buyers.

### **Affordability**

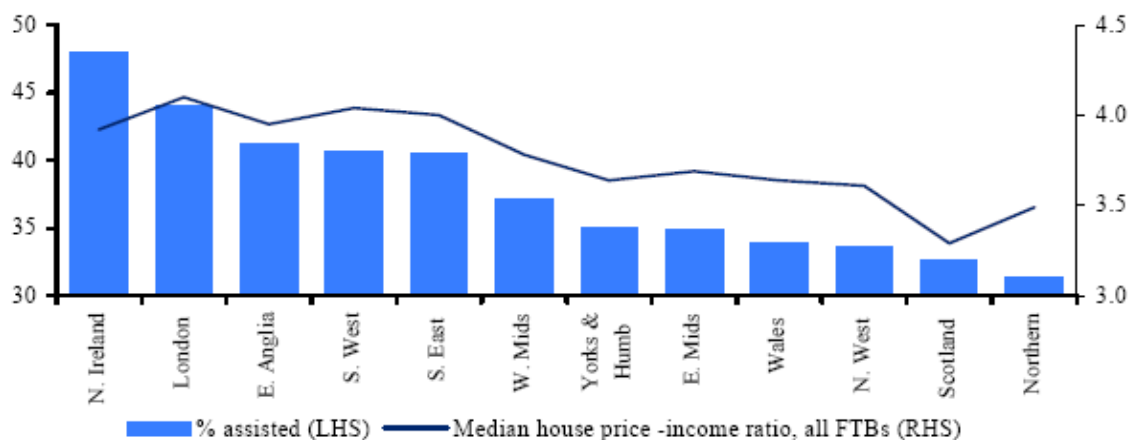
17. Since then, affordability has got no easier. The latest Housing Market Report (Stewart, 2007) showed that a typical couple, with two incomes, buying their first property in the last quarter of 2006 would have found that initial mortgage payments consumed 34% of their take home pay. Despite the challenges, however, first time buyers are now borrowing, on average, 3.35 times their income. That figure has been moving upwards since December 2005, when it stood at 3.13 times income. In addition, the proportion of first time buyers taking out larger loans relative to their income has also been growing. In April 2005, 11% of first time buyers borrowed four times their income but, by August 2007, the proportion had risen to 24%.

18. Our figures also show that at the end of August 2007, by the simple measure of mortgage interest payments as a proportion of income, affordability is now more challenging than at any time since 1992, with first time buyers now paying 20% of their incomes on mortgage interest compared to owners who pay 17.2%. However, this remains well below the spike we saw at the end of the 1980s, when mortgage interest payments consumed more than 28% of income for first time buyers, and nearly 26% for owners. Despite worsening affordability, however, there has been no decline in first time buyer activity since 2004.

### Regional differences

19. There are, of course, unlikely to be many returners among first time buyers aged under 30. A high proportion of buyers with larger than expected deposits in this group are, therefore, likely to be receiving financial help, mainly from parents or other family members. Our data suggests there is considerable regional variation in the proportion of first time buyers receiving this sort of help. Northern Ireland has the highest proportion (48%), with London – where affordability is most stretched – in second place (44%).

**Chart1: Assistance for first-time buyers under 30 vs. house-price earnings ratio, UK regions, 2006**



Source: Regulated Mortgage Survey, CML/BankSearch

20. Areas with the highest levels of help generally have low levels of first time buyer activity – hardly surprising as they are also the areas where affordability is most stretched. The exception is London, where, despite affordability constraints, there are both large numbers of first time buyers and a high degree of financial assistance for them. In the capital, first time buyers getting help with their deposit represent fully one fifth of all house purchases where a mortgage is required.

21. It is in London that the differences between assisted and unassisted buyers are most pronounced. Last year, the typical buyer receiving help put down a deposit of £57,000 – more than twice the amount in any other region, apart from the south east (£34,950). By comparison, the average London first time buyer receiving no help paid a deposit of just £12,500. The big difference in ability to put down a deposit clearly puts the assisted first time buyer at a considerable advantage in the London market.

### **Different risks**

22. Looking at all the data, we concluded that first time buyers not receiving help tended to have higher incomes and take out larger mortgages at higher loan to value ratios than those that are helped. Assisted buyers were purchasing more expensive properties and had significantly higher income multiples. That meant that buyers receiving help were potentially more exposed to higher interest rates, while those buying with no assistance were more at risk if house prices fall.

23. Although first time buyer numbers have been holding up recently, mounting affordability problems have brought about significant changes over a longer period. In 2001, 40% of people aged under 30 were buying with a mortgage, while 33% were renting privately. By 2006, those percentages had been reversed. Because renting provides greater mobility and more opportunity to live near work, it is perhaps preferred by increasing numbers of young people. However, demographic changes are set to produce an increase in numbers of young people. That should help sustain the first time buyer market in the longer term, although recent rate rises – and the possibility of another one to come – might bear down on the market in the near future.

24. When we asked people in the YouGov poll about action to help first time buyers address affordability problems, an overwhelming majority (78%) believed that something should be done. Asked who should be providing help, the Government was the most popular choice, cited by 79% of respondents. People believed that the next most appropriate sources of help were local authorities (66%), lenders (61%) and builders (48%).

25. Our poll showed that the most popular courses of action that the Government could pursue to help first time buyers were abolishing stamp duty (supported by 66%), providing subsidies for first time buyers (65%) and reintroducing tax relief on mortgages. Clearly, the re-introduction of tax relief or abolition of stamp duty would imply significant reversal of a policy approach that has relentlessly raised taxation on home ownership. The Government has shown little appetite even for modest reform of stamp duty, although the recent Pre-Budget Report suggested that they would consider the position in connection with its low cost home ownership schemes. The threshold for the basic rate of duty has been increased only twice in the last 15 years, and has risen considerably slower than the rate of house price inflation.

26. Asked what lenders should do to help, respondents favoured a variety of measures, including restructuring mortgage payments so they were lower at the start of the loan (68%), lowering mortgage rates (62%), lengthening repayment periods (62%), relaxing lending criteria (25%) and lending more money (14%). To some extent, each of these might be viewed as alternative means of easing affordability for first time buyers who cannot rely on financial help from their families. But each of the options implies greater risk for the borrower or the lender or both, and may, therefore, be possible only in some cases, perhaps where greater risk is mitigated by other factors.

### **More homes**

27. Inadequate housing supply remains a critical unresolved issue in UK housing policy. Without a substantial increase in supply, the current problems of affordability will remain significant. We, therefore, welcome the Government's renewed determination to increase the supply of housing and the proposals to build 2 million new homes by 2016 and 3 million by 2020.

28. However, delivering a greater supply of housing will be a challenge both in terms of the housebuilding industry being able to deliver it and achieving the environmental standards that the Government has set. In Great Britain as a whole, there have been more than 200,000 homes built in each of the last two years for which data is available. In 2005, almost 210,000 homes were built in Britain, while in 2004, the total was 203,000. But, before that, the last year in which more than 200,000 homes were built in Great Britain was 1990. The low point in the intervening period was reached in 2001, when only 175,000 homes were completed.

29. Even though the annual rate of British house building is now back above 200,000, current construction rates compare unfavourably with much of the post war period. In most years in the 1960s and the early 1970s, more than 300,000 new homes were built and, in both 1967 and 1968, the total topped 400,000. Part of the reason why house prices have risen so strongly over the last decade is that low levels of house building since 1990 have coincided with a rapid expansion in the number of homes needed, driven by changes in the make-up of households and more recently by strong inward migration.

30. In 2004, when Kate Barker published recommendations following her review of housing supply, (Barker, 2004) she noted that real house prices had been growing at an average of 2.4% a year over the last 30 years. To reduce the real rate of annual house price growth to 1.8%, Kate Barker said that an extra 70,000 homes were needed annually in England alone. To reduce real house price growth further to the EU average of 1.1%, we need an extra 120,000 English homes a year. Her analysis, therefore, suggests that even if the Government achieves the target proposed in the Green Paper real house prices are still likely to rise significantly faster than the European average.

31. Increasing housing supply would help ease tightening affordability constraints on home buyers. Earlier this year, the National Housing and Planning Advice Unit (NHPAU), chaired by former Bank of England monetary policy committee member Professor Stephen Nickell, published a helpful report on affordability (NHPAU, 2007). It called into question whether a target of building 200,000 new homes a year is enough. The report concluded that projections for the growth of households, together with pent-

up demand and developments in the rental sector, suggest house building on this scale will not be adequate. It pointed out that recent demographic projections by the Government indicate that the number of households in England is set to grow by 223,000 a year up to 2030.

32. The NHPAU report also concluded that higher house prices already mean that significant numbers of workers are unable to buy a home in the area in which they work. A report published by Halifax in April (Halifax, 2007) pointed out that for 'key workers' the average house price was unaffordable in two thirds of towns. The cost of housing already affects ability to recruit and retain staff in many occupations, particularly in areas with the most expensive housing, and this affects economic efficiency.

33. The imbalance between the rapid growth of house prices and much lower rates of inflation generally, including the growth of incomes, creates a range of problems. For those who do manage to buy their first home, low inflation in the wider economy means that higher mortgage repayment costs persist for longer than they did for earlier generations. But the NHPAU report also concluded that those who cannot afford to buy will "lose out" and that "younger generations will tend to face poorer housing than their parents."

### **Greener homes**

34. We note that all new homes are to be zero carbon by 2016. We fully support the drive to improve the energy efficiency of residential property as one of the major contributors to CO<sub>2</sub> emissions. The CML is committed to various measures to reduce carbon emissions and has recently signed up to the Trade Association Forum's declaration on climate change. This declaration can be viewed at <http://www.cml.org.uk/cml/media/press/1176>.

35. However, we believe the agenda for zero carbon homes is challenging, requiring contributions from a number of stakeholders, particularly manufacturers of building materials, construction firms and planners. The definition of a zero carbon home remains less than clear and agreeing a standard for new zero carbon homes is only a starting

point. The market still has to deliver them and it is important that zero carbon homes are insurable and mortgageable on normal terms.

36. Building zero carbon homes will have costs, and consumers will have difficult choices to make. Clearly, there is now a strong groundswell of opinion demanding action on the environment, but we still do not really understand how people will react when measures to reduce damage to the environment begin to impose significant constraints on lifestyles and household budgets. At this stage, we simply do not know enough about building carbon neutral homes to know when they might be built in significant numbers or whether consumers will be prepared to pay a premium for them.

37. We also believe there is more that could be done with energy efficiency on existing properties. While the CML is supportive of the concept of EPCs, providing an EPC with a home information pack does not guarantee householders will actually take energy saving measures. While EPCs are a good first step, unless householders act on the information they contain they will not improve energy efficiency and reduce carbon emissions as the government suggests. It will be important to get feedback from the HIP roll out as to what action either sellers or buyers take as a result of receiving an EPC.

38. Our view is that EPCs should be much more widely available to homeowners at all points during their home ownership. We believe householders are more likely to take action to improve their properties while they are living in the property and will be able to benefit from the savings than at the point of sale when there are other things that they would prefer to spend their money on.

39. In addition, delivering EPCs through HIPs means it will take more than 13 years before all homeowners have received one. Yet delivering EPCs is the Government's main rationale for pressing on with HIPs. We believe the Government should reflect whether EPCs could be delivered more quickly and more universally in a different way. We believe that a possible solution would be for HIPs providers to market a de-coupled EPC product that would enable homeowners to access both the current rating of their dwelling and the cost of effective improvements report that could guide their investment at any time throughout their ownership of the property.

## **Delivering energy efficiency and green mortgages**

40. The Green Paper does not specifically mention green mortgages. However, this is often mentioned as a way of helping to deliver energy efficiency. While the Government is keen to encourage the provision of more 'green mortgages', it has yet to define what it means. We are willing to explore the possibilities but there are no standard definitions badged in this way, and only four lenders currently offer the product. Several of these are carbon offsetting arrangements rather than encouraging energy efficiency measures in the home. Consumer demand for green finance products is currently small. The Energy Efficiency Partnership for Homes (EEPH) has attempted to give a standard definition of a 'green' mortgage. This can be viewed on their website <http://www.eeph.org.uk>.

41. A report in 2005 from the Centre for Sustainable Energy 'Making mortgages energy efficient' considered whether financial incentives combined with an energy efficiency report would encourage home owners to be more energy efficient. The report concluded that:

"We are faced with an indifferent homebuyer and a mortgage market unconvinced by the commercial potential of promoting sustainable energy use in their products. Changing this will require concerted effort to tackle this consumer indifference and to bring to the market competitively priced mainstream mortgage products which make it simple and enticing for the homebuyer to take action to improve sustainable energy use."

42. The report also reviewed take up in a number of countries where 'green' products were available and found that take up was poor.

43. We do not believe that 'green' mortgages are necessarily the best way to finance energy efficiency in the home. For example, some energy efficiency measures such as loft insulation or cavity wall insulation are relatively low cost, and it would not always be cost efficient to spread the cost of this over the term of a mortgage; other financing might be more appropriate. EEPH hosted a seminar last year which explored some of the drivers for 'green' mortgages and barriers to the take up of them. A report on this seminar can also be viewed on the EEPH website.

44. We believe other incentives may be more effective to encourage people to make energy efficiency improvements, including council tax rebates, fiscal incentives such as Government grants for energy efficient technologies and removing/reducing the VAT on materials and labour and/or giving tax relief for home improvement loans. We believe this, combined with readily available EPCs at all points during home ownership, is much more likely to achieve the policy aims that the government desires than development of 'green' mortgages.

### **Effective flood risk management**

45. We note that the Government wants to learn the lessons from the summer 2007 floods, but there is no outright ban on building in flood plains. As the impact and effects of climate change become more apparent it is critical that flood risk is taken into account when planning decisions are made. There are still too many planning decisions that go ahead against Environment Agency advice. If properties are built where a risk of flooding remains and preventative measures have not been taken, it will be more and more difficult for these properties to get insurance and therefore mortgages. The Government needs to monitor the operation of planning decisions to ensure that more properties are not put at risk and that properties do not become uninsurable and unmortgageable.

### **More social housing**

46. The Green Paper expresses a commitment to move progressively from the current provision of c. 30,000 new social homes a year to 50,000. We support this commitment, recognising that demographic change and increases in house prices have created a need for an expanded social rented sector.

47. Clearly it is the intention of Government that private finance will fund an increasing proportion of this expanded delivery. Private finance now outstrips grant as a proportion of new investment. Lenders have the capacity to delivery increased investment, as the rapid expansion in private finance for housing associations (HAs) over the UK to c. £40 billion demonstrates. Continued willingness by lenders to expand their commitment rests

on their confidence in the sector however. A key component of this confidence over which Government has a direct influences is the regulation of HAs.

48. We welcome the decision of the Government to follow the key recommendations of the Cave review of social housing regulation and to embody these proposals in a new independent regulator for HAs. Lenders had sought this outcome against a backdrop of capital market turbulence and uncertainty in the housing market. They will be relieved that it has been delivered and will now look forward to working closely with Government and other stakeholders to ensure that a smooth transition is achieved from the HC regime to that of the new regulator. A smooth 'safe' transition will be essential if lender confidence is to be maintained over the next two years.

49. The Green Paper draws attention to the recent study on HA financial capacity by the HC, *Unlocking the Door: Delivering more homes from the Comprehensive Spending Review 2007* (Housing Corporation 2007). The study suggests that HAs have significant unused financial capacity and the HC is known to have plans to put pressure on HAs to use their capacity. While the CML supports the use of HA financial capacity in expanded supply it is important that Government and the HC recognise that in uncertain housing market conditions there are increased risks for HAs associated with their development role. It is most important that global studies such as *Unlocking the Door* do not inform HC activity that might pressure HAs into development activity that overrides an HA's individual risk assessment. It is in this connection that the CML looks forward to a new regulatory regime where regulation and investment are clearly separated institutionally.

50. In seeking a renewed role for local authorities in delivery increased supply of social homes the Government should consider the most appropriate contribution that local authorities might make in practice. It should not be forgotten that the move away from local authorities to HAs as repositories for grant was driven at least in part by a perception that local authorities were relatively less efficient as developers and that their structures and governance meant that this situation was likely to continue. Over a number of years HAs have (as the Green Paper recognises) built up a track record in development that should not be lightly thrown away. A significant move away from HAs towards local authorities as developers of new supply would inevitably mean disruption to existing arrangements and a medium term mismatch between the distribution of

resources and experience in development and the responsibility for delivery, and could do longer term damage to efficiency in this area.

51. A further significant factor is the public sector borrowing regime. While local authorities sit within the public sector, their ability to lever in private finance is going to be severely limited compared to housing associations and hence they are unlikely in most cases to deliver best value in terms of grant deployed.

52. While some local authorities will undoubtedly produce viable development schemes using structures that maximise the amount of private finance, it seems likely that the primary roles for local authorities going forward will be in the areas of planning and in making surplus land under their control available for new development.

### **Helping first-time buyers**

53. As noted above first-time buyers are finding it increasingly difficult to get on the housing ladder. The Government's response has been to develop ever more complex low cost home ownership (LCHO) schemes. The Green Paper continues this theme and promises 25,000 more shared ownership and shared equity homes each year until 2010-11 through the HC. It also discusses a number of other LCHO schemes including shared ownership on public sector land, through developer contributions, section 106 requirements, more social homebuy, community land trusts and new local housing companies.

54. Lenders are finding it increasingly difficult to deal with this complex patchwork of schemes. Lender systems are becoming ever more automated and are not designed to deal with small schemes that benefit a relatively small number of people. Making a scheme so complicated that it has to be manually underwritten will mean that consumers do not have the best choice of mortgages since only a few lenders will choose to be involved. Even if they do they may not be able to offer the lowest price mortgages because of the extra work involved.

55. There is a risk that if the Government continues to allow LCHO scheme to proliferate at best borrowers will have a small number of lenders to choose from and at worst will

not be able to find a mortgage at all. There is also a risk that borrowers will not get best advice if there are too many small schemes for advisers to be aware of. We urge the Government to simplify the schemes available.

56. We would also encourage the Government to remind local authorities of the model section 106 agreement that CLG published in August 2006. Lenders continue to experience difficulties with restrictive covenants imposed by some local planning authorities for affordable housing. Local planning authorities are adopting different approaches to affordable housing in s106 agreements and lenders find it very difficult to deal with the variety of restrictions being imposed. There is a danger that lenders could withdraw support for these schemes entirely because the cost of continually developing systems to keep up with the new variations is not a viable option.

57. A particular concern is increasing numbers of restrictive covenants that seek to impose artificial market controls; for example, those restricting future property sales to a multiple of local or regional incomes. If a lender had to repossess a property subject to these restrictions they might be unable to obtain the best price because the resale value is restricted to an income multiple. However, even if there is a clause that protected the lender's interest, borrowers could also be affected adversely in the longer term. They could become trapped in the properties, as it is unlikely that incomes will keep pace with house price rises. Borrowers would be unable to re-mortgage and borrow above the restricted price or realise the full market value of their share of the home and move on. Lenders are therefore unlikely to support these schemes.

58. On shared equity, we would prefer to see the Government's efforts being put in to publicly funded shared equity schemes linked to new supply, like the English Partnerships first time buyer initiative. The open market homebuy scheme launched around a year ago has proved complicated and unpopular. It is difficult for lenders to price an individual equity loan product that can compete against deeply discounted best buy rates and equity loans bring with them regulatory and systems challenges.

59. Those lenders involved with the scheme (Yorkshire BS, Nationwide, Advantage and HBOS) have devoted considerable resources to overcoming these challenges only for the Government to change the parameters of the scheme before allowing the pilot to run

its course. While we understand the need to ensure that public funds are used to help key workers, for the Government to launch its own 17.5% equity loan scheme mid way through the pilot period has not encouraged lenders to engage fully with the scheme. The shared equity competition for the next round of funding from April 2008 and the review of the development of the private shared equity market by Brian Pomeroy also adds to the confusion. Privately funded equity loans will always be the preserve of a small number of lenders (because the number of people helped in this way will always be small) which means that the choice of mortgage for the borrower will be restricted.

60. We are not convinced that the development of fully privately funded shared equity loans is possible at this point in the market. If the Government is successful with a reduction in house price inflation as a result of increased supply this will work against the development of a privately funded shared equity market where investors will be looking for a return on their investment. There is still little experience about the performance of shared equity and what returns might be expected and this again makes it difficult for this market to develop. Finally, at a time when the market is still in the throes of financial turmoil it is unlikely that there will be significant appetite for new and potentially risky forms of investment.

61. Schemes like the English Partnerships one allows the lender to offer their normal product range to borrowers meaning that this is simpler for the borrower and lender alike.

### **Improving the way the mortgage market works**

62. We welcome the public consultation on a statutory regime for UK covered bonds. We have been actively involved in the public consultation process and plan to submit a response.

63. Despite the lack of a statutory framework to date, lenders have developed a vibrant covered bond market since the first UK issue by HBoS in 2003. The structure of these issues is recognised by investors as offering an extremely high level of protection to investors. However, since there is no specific public supervision, UK covered bonds do not meet the requirements of the Undertakings in Collective Investments in Transferable

Securities (UCITS) Directive, and therefore do not qualify for the preferential capital weighting for qualifying covered bonds under the Capital Requirements Directive (CRD) or for the higher investment limits available for UCITS regulated funds.

64. The Government has emphasised the role that covered bonds could play in assisting lenders to provide more affordable long term fixed rate mortgages. Although covered bonds can allow lenders to increase the maturity of their liabilities with competitive funding costs, thus potentially enhancing their ability to offer longer term fixed rate loans, we would remind the Government that there is no indication that the covered bond market has in practise altered the mix of lending maturities on UK mortgages. We do not believe that the creation of a statutory covered bond regime will, of itself, alter this position.

#### **HM Treasury review of barriers to supply of funds to mortgage lenders**

65. We welcome the Treasury's review to see how wholesale funding for mortgage lenders can be improved.

66. The Treasury statement outlining its review on wholesale mortgage funding includes notes on its terms of reference, which are:

- The supply of and demand for financial instruments to allow the risks of mortgage pre-payments to be hedged efficiently. This will include an up to date assessment of whether the debt management office (DMO) could use 'swaptions' (a financial instrument that gives the holder the option – but not the obligation – at a point in the future, to enter into a swap contract, at an interest rate that is agreed now) to better manage the Government's debt portfolio.
- The rapidly developing residential asset backed securities market, and assessing whether there are remaining obstacles or inefficiencies preventing further improvement in liquidity allowing securitisation to become a greater source of housing finance.

- The recent financial innovations aimed at repackaging housing and funding related risks which tend to be aimed at people on higher incomes, and assessing whether there may be important obstacles that prevent these opportunities from becoming more widely available.

67. We understand that the Government remains interested in exploring ways to make long term fixed rate mortgages more appealing to consumers, given the benefits that such mortgages confer in insulating borrowers from upward shocks to interest rates.

68. However, it is the experience of UK mortgage lenders that, when they have offered long- term fixed rate loans at modest margins over their funding costs, they have not proven as popular with consumers as discounted variable or short term fixed rate loans. UK consumers are also generally quite averse to taking loans with early repayment charges for extended periods.

69. The CML and individual lenders are in contact with the Treasury team conducting the review and are keen to assist by indicating what changes might be helpful. But we also want to clearly understand the Treasury view of what problems the review is seeking to overcome and what outcome is seen as desirable.

70. Some of the issues that we expect the review to address are the role of intermediaries in consumers' decision making about the type of mortgage they take out and the difficulty lenders face in managing mortgage prepayment risk, especially on long term fixed rate loans with no early repayment charges.

### **The positive role of the private rented sector**

71. It is disappointing that there is nothing in the green paper about the role of the private rented sector in meeting housing needs and delivering more homes, except a reference in chapter 4 about expecting councils to do more about properties bought on a 'buy-to-leave' basis.

72. We believe the private rented sector plays an important role in the housing sector, above all through its ability to provide flexible accommodation. It is a particularly

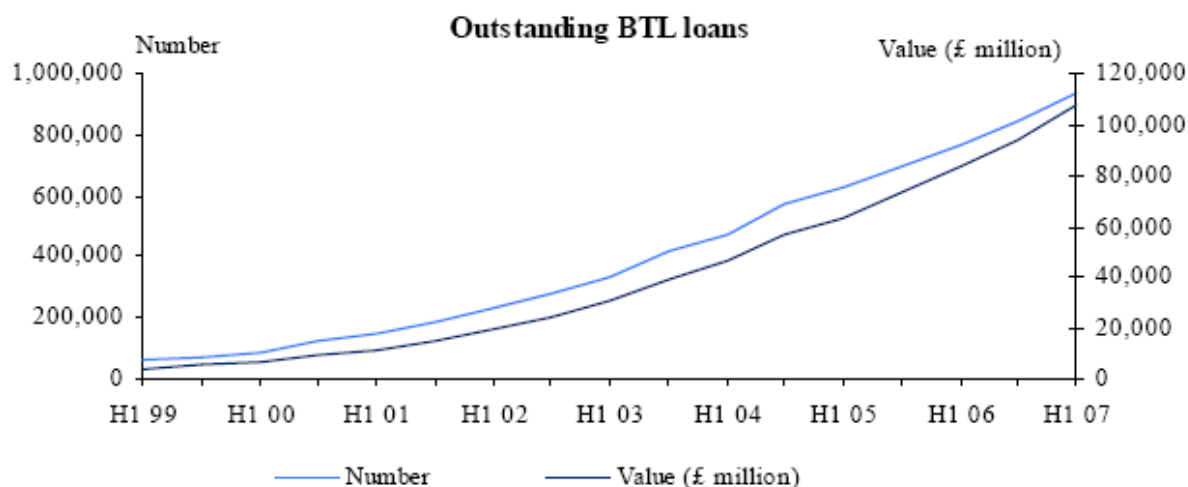
important tenure for students, recent migrants and young mobile professionals. Many of these people do not aspire to owner occupation, at least in the short term. In 1983, 79% of people aged under 25 reported that they wanted to own their home within two years but, by 2007, the proportion had fallen to 50%.

73. These findings may help to explain recent landlord survey evidence. The survey produced by Association of Residential Letting Agents (ARLA) (ARLA, 2007) has revealed that since 2003 there has been a persistent decline in the length of time rental properties are left unoccupied. The average length of a void fell from 4.3 weeks in the first quarter of 2003 to just 3.5 weeks in the same period this year. The survey also revealed an increase in the number of landlords reporting more tenants than properties available.

### The contribution of buy-to-let mortgage finance

74. Buy-to-let mortgage lending has grown strongly in the last decade and has made an important contribution to meeting rising tenant demand. In 1998, when we began collecting data on the market, there were almost 29,000 buy-to-let mortgages, worth £2 billion. As chart 2 shows, by the middle of this year, the number of loans had grown to nearly 940,000 with almost £108bn in outstanding mortgage balances.

**Chart 2**



75. The growth of buy-to-let has also played an important role in improving the quality in the stock of private housing. In 1996 just 752,000 private rented homes met the Government's decency standard. This was just 30.4% of the private rented sector. By 2004, this had increased to 1.3 million homes, accounting for 48.1% of the private rented sector. This figure is likely to be even higher now, although there is still further to go. But increasingly the buy-to-let market is providing good quality housing for people who, for the time being, do not want to own their own property.

76. Our research has revealed that the vast majority of buy-to-let landlords expect to stay in the residential rental market for sometime. In 2005 our research – The profile and intentions of buy-to-let investors (CML, 2005) – found that 60% of landlords said they expected to remain as landlords for more than 10 years. And in the second quarter of this year, a survey conducted by ARLA (ARLA, 2007) revealed that over 90% of buy-to-let landlords said they would remain in the market even if house prices started to fall.

### **Buy-to-let and first time buyers**

77. There has been considerable speculation about the extent to which the growth of buy-to-let has contributed to affordability problems for would-be purchasers of homes, particularly first time buyers. It is difficult to isolate the impact of buy-to-let purchases, which will differ from one local market to another. While it seems likely that buy-to-let will have raised property prices in some areas, it must also be acknowledged that it will keep rents lower than they would otherwise be, while contributing to regeneration. Owner occupiers are also competing with each other and, given the shortage of housing supply overall, crowding out is inevitable, with or without buy-to-let.

78. Indeed, the argument that buy-to-let investors are displacing first time buyers has been challenged based on detailed analysis of the market. Recent research commissioned by the Greater London Authority entitled 'Who buys new market homes in London?' (GLA, 2006) concluded:

"There are concerns that investment buying is hindering the ability of first time buyers and other private sector owner occupiers to access new homes in London. However, it is not true that if the investment market shrank, that owner occupiers would benefit; rather,

there is a real danger that total housing development would fall and nobody would benefit."

79. The real issue is the under supply of housing and affordable housing in particular, and this is something the Government has pledged to tackle. But what the buy-to-let market has done is helped to raise standards in the private rented sector in terms of housing quality, so it is unsurprising that an increasing number of people are opting to rent privately.

### **So-called buy-to-leave**

80. It has also been claimed recently that some buy-to-let landlords have been deliberately leaving their properties empty. Not only would this breach the conditions of their buy-to-let mortgages, it makes very little financial sense, since the landlord would then be faced with meeting council tax, service charge and other running costs as well as their funding costs, with no income from the property. The locations where it is claimed properties are being deliberately left empty are typically northern English city centres, where there appears to be an over supply of flats, which suggests that landlords do want to let the property but are, in some cases, unable to do so.

### **Buy-to-let and tax**

81. It has also been argued in some quarters that buy-to-let landlords have an unfair advantage because they can deduct interest payments against tax. This argument ignores the fact that buy-to-let is a business, which like any other business is taxed on its profits. Mortgage interest is treated no differently from other costs which landlords will face, such as insurance or repairs, as they are running costs. Businesses are taxed on their profits – rather than their gross income – because it is their profit that is the income available to the owner.

82. We do not believe that the tax system unfairly advantages buy-to-let landlords over owner occupiers. Since the removal of mortgage interest tax relief, owner-occupiers neither receive nor pay tax on their mortgages. Buy-to-let landlords also neither receive nor payment tax on their mortgage. Even if the mortgage interest exceeds their income,

the landlord receives no rebate. Owner occupiers also are not required to pay capital gains tax (CGT) when they sell their home. Buy-to-let landlords on the other hand are liable for CGT. And buy-to-let landlords do not receive any CGT roll-over relief, meaning that even if they want to sell a property and reinvest the profits, they will still have to pay CGT.

### **Regulation of the private rented sector**

83. While the buy-to-let market continues to grow, there is a danger that increased regulation – however well intentioned – could threaten the health of the sector. Over the past few years, buy-to-let has been subject to a raft of new regulatory requirements, such as:

- HMO licensing;
- selective licensing;
- the tenant deposit protection scheme; and
- new health and safety and disability related requirements.

84. These new regulations are designed to raise standards in the private rented sector, but they also come with substantial costs for landlords which will ultimately be passed on to tenants in the form of higher rents. While well balanced, proportionate regulation of the sector might have benefits, too much will burden landlords, especially those with just one or two properties. Excessive regulation also provides opportunities for rogue landlords who ignore their legal obligations over those that dutifully adhere to the new rules.

85. All the signs are that the buy-to-let sector will continue to expand. The UK has one of the lowest proportions of housing stock in the private rented sector of any industrial economy. The increasing numbers of students, the significant inflow of migrant workers and the growing demand for flexibility of tenure will all help the buy-to-let sector develop

over the coming years. It is vital that Government recognising the need for substantial additional flows of private capital to meet this anticipated demand, and does not impose any burdens that will deter landlords from satisfying tenant demand.

### **Further contact**

86. This response has been prepared by the CML in consultation with its members. Comments and queries should be addressed to Jackie Bennett, head of policy at the CML, telephone: 020 7438 8931, email: Jackie.Bennett@cml.org.uk.

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## WRITTEN EVIDENCE SUBMISSION FROM ENVIRONMENT AGENCY

### SUMMARY

The Environment Agency welcomes this opportunity to submit evidence to the All Party Urban Development Group inquiry on the practical difficulties involved in delivering an expanded, improved housing offer in our cities and towns. Our main points are as follows:

- A well planned approach to developing new communities is essential to improving and protecting the environment.
- Communities rely upon a network of essential environmental services, without which our homes and neighbourhoods would be unsustainable. These services provide clean water, handle our waste, drain and treat our sewage and protect us from flooding. They must be planned into new communities from the very start.
- The Environment Agency welcomes the emphasis that the Housing Green Paper places on greener homes. We fully support this emphasis, and the recognition that particular attention has to be paid to the implications that growth has for water and for flood risk.
- We believe the major environmental challenges that housing growth poses can be addressed through four ‘Pillars for sustainable infrastructure’:
  - **Get the location of new housing right:** The need to avoid building homes in places that we will regret in the future. Of particular concern is the location of housing in areas of high flood risk and where water quality and water resources are already at or approaching environmental limits.
  - **Joined up and long term approaches to planning:** To ensure strategic and joined up planning frameworks exist for all types of environmental infrastructure.

- **Improved resource efficiency, reduce demand for drainage and greater flood resilience:** To promote more ways of managing and reducing the demand for new environmental infrastructure, managing demand for drainage and increasing our resilience to flood events.
  - **Secure funding for environmental infrastructure early:** Clear funding streams, with costs allocated to polluters, developers, consumers and the taxpayer on clear and defensible principles.
- We welcome Government's adoption of these four pillars as guidance for the planning of growth.
  - We support the Government's planning policies for steering development away from high flood risk areas. We believe the Environment Agency's role should be extended to include taking a strategic overview for inland flooding, including urban flooding.

## 1.0 INTRODUCTION

- 1.2 We note the focus of the inquiry's barriers and opportunities around one element of the wider housing agenda – delivery in cities – and on how reformed institutions, new delivery vehicles, and better management can help cities to deliver improved housing and communities of choice. Our evidence concentrates on the practical barriers that need to be addressed, rather than the roles of the Homes and Communities Agency and local delivery vehicles. Our evidence is drawn from consideration of urban housing growth in general; of which delivery in cities is a major element.
- 1.3 New housing alone does not create flourishing communities. Behind every community lies a network of essential environmental services, without which our homes and neighbourhoods would be unsustainable. These services provide clean water, handle our waste, drain and treat our sewage and protect us from flooding.

### **Our role**

- 1.4 The Environment Agency recognises that there is a shortage of housing, especially in the Greater South East, and that our towns and cities are going to expand.
- 1.5 Our role in respect of urban housing is to provide, regulate and advise on environmental infrastructure. We therefore have a lot of experience and evidence on how it is planned, funded, regulated and how it performs.
- 1.6 We are the primary regulator for the water environment and competent authority for the implementation of the Water Framework Directive and Water Act. We regulate abstractions from, and discharges to, the water environment in England and Wales. Our Water Resources Strategy sets out a 25 year framework for planning for water demand and new resources and we are the environmental regulator of aspects of water company plans.
- 1.7 We provide data for and advise Waste Planning Authorities and we report on the state of the environment. We also deliver flood risk management across England and Wales and input as a consultee into the new system of Regional Spatial Strategies in England, Local Development Frameworks (Local Development Plans in Wales), and their associated Sustainability Appraisals.
- 1.8 On housing growth issues, we work closely with the Department for Communities and Local Government, providing initial, high level assessments of the environmental implications of the possible New Growth Points and Eco Towns. We advise on what further work may be required to demonstrate the environmental acceptability of a proposal.

## **2.0 THE PRESSURES OF HOUSING GROWTH ON ENVIRONMENTAL INFRASTRUCTURE**

- 2.1 As the Government acknowledged in the recent Housing Green Paper *Homes for the Future: More affordable, more sustainable*<sup>8</sup>, new growth brings with it environmental pressures, and these need to be planned for in a strategic way in order to minimize undesired impacts. The emphasis that *Homes for the Future* places on greener homes is essential if Government's ambitions for sustainable growth are to be achieved. We fully support this emphasis, and the recognition that particular attention has to be paid to the implications for water and for flood risk. Pressures on waste disposal, greenhouse gas emissions, and green infrastructure also need to be considered.
- 2.2 A well planned approach to developing new communities is essential to improving and protecting the environment. It is about ensuring we build homes in the right places and in the right way for the benefit of both current and future generations. The Environment Agency can help; our report *Hidden Infrastructure: The pressures on environmental infrastructure*<sup>9</sup>, provides an analysis of the issues and the resulting policy messages. These form the basis for the rest of this submission.
- 2.3 We have identified a range of barriers to delivering improved housing and communities. To address these we have formulated four pillars of sustainable infrastructure. We are pleased that Government has stated that its work to deliver sustainable communities will be guided by them:

**1. Get the location of new housing right**

- Rigorous assessments of the environmental impacts and the viability of infrastructure dependent solutions before plans for housing growth are adopted.
- Local Planning Authorities (LPAs) to rigorously apply the Government's planning policy on development and flood risk (Planning Policy Statement PPSS25 in England, Planning Policy Wales and Technical Advice Note

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<sup>8</sup> Communities and Local Government (July 2007). 'Homes for the future: more affordable, more sustainable. Stationery Office', London

<sup>9</sup> Environment Agency (2007). Hidden Infrastructure: Policy Briefing. Available at: [www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)

TAN15 in Wales) that steers development towards areas of lowest flood risk first. LPAs should refuse planning proposals that increase the risk of flooding to others.

- Fuller use of the provisions under PPS25 for the Environment Agency and local authorities to define critical or problem drainage areas in low flood risk zones where there are potential surface water and sewer flooding problems.

## **2. Joined up and long term approaches to planning**

- Better forecasting of new housing development (that accounts for Growth Area, New Growth Point and Eco Town proposals) in water company plans that is consistent with the Regional Spatial Strategies (RSS).
- 25 year planning for sewerage and wastewater infrastructure that looks beyond the usual 5 year business planning horizon. Ofwat have already asked the water companies to produce Strategic Direction Statements (SDSs) to inform the 2009 Water Price Review. The SDSs present an opportunity to ensure that the waste water infrastructure needed to support new housing growth is provided for over the longer term.
- Local authorities produce Strategic Flood Risk Assessments (SFRAs) which provide an assessment of all types of flood risk within a given district. Where an SFRA identifies concerns with surface water and sewer flooding affecting existing properties, a Surface Water Management Plan (SWMP) should be initiated involving all the key local stakeholders.
- There should be a duty for utilities, regulators and relevant agencies to co-operate with local authorities in providing information for SFRAs and producing and implementing SWMPs.
- In the Growth Areas and New Growth Points, water cycle studies should be encouraged where there are water management concerns. These studies provide integrated assessments of the environmental and infrastructure implications for water resources, waste water and flood risk management to help shape the development of these new communities.

## **3. Improved resource efficiency, reduce demand for drainage and greater flood resilience**

- In areas defined as seriously water stressed, water companies should use

their ability to meter on a compulsory basis. Metering can save at least 10% of household water use. We want to see the majority of homes in seriously water stressed areas, like the south east, metered by 2015. Due to the number of meters being installed, we recognise that some companies may not be able to achieve full compulsory metering until 2020.

- The potential use of targets for water efficiency that help to drive more efficient and sustainable use of water resources.
- Significant new housing developments, such as Eco Towns, should be exemplars for sustainable water and energy and waste reduction. For example, we are working jointly with CLG and Defra to examine the feasibility of moving towards water neutrality in the Thames Gateway.
- Ownership and responsibility for the maintenance of sustainable drainage systems (SUDS) should rest with a durable, accountable organisation that will have the financial capacity to meet its responsibilities in the longer term. SUDS can help to improve water quality and reduce the impact of urban flooding caused by heavy rainfall through mimicking natural drainage systems and slowing the movement of surface water. Options include green roofs, permeable surfacing and ponds. In the forthcoming Planning Bill, a presumption in favour of SUDS could be introduced to add weight to existing policy, for example in PPS25. Local authorities should ensure SUDS as part of planning applications for new developments by applying conditions to permissions. The government could introduce so-called General Binding Rules requiring that parking areas or other surfaces are made permeable, as envisaged in the Defra non-agricultural diffuse pollution consultation<sup>10</sup>.
- Strengthen the relevant parts of the Building Regulations to include measures for flood resistance (preventing water entering premises) and resilience (reducing damage and aiding recovery when water does enter).

#### **4. Secure funding for environmental infrastructure early**

- Funding of environmental infrastructure to support innovation and long term planning, including maintenance and renewal.

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<sup>10</sup> Defra (2007) Consultation on non-agricultural diffuse pollution in England and Wales. See p.20-21 *Options for new mechanisms*.

- A wide range of funding options to be considered through section 106 planning agreements and the proposed local tariff system.
- Investment in flood risk management to continue to increase from £800 million in 2010-11 to £1 billion in the year 2013-14.
- Water and waste water infrastructure is funded by the private sector and not the Exchequer. The next 2009 Water Price Review will therefore be particularly important for ensuring new and expanded water and waste water infrastructure is provided for.
- Reform of the charges that developers pay for connecting domestic properties to water and sewerage services for the first time. The charges could be designed to help incentivise more water efficient housing in accordance with the Government's Code for Sustainable Homes.
- Taxation and incentives should support sustainable waste management options.

## **FURTHER INFORMATION**

Further information or background to this response can be obtained from Richard Howell, Sustainable Development Policy Manager, either by telephone on 01454 205556 or by e-mail at [richard.howell@environment-agency.gov.uk](mailto:richard.howell@environment-agency.gov.uk)

Environment Agency  
1 November 2007

## **WRITTEN EVIDENCE SUBMISSION FROM ISIS WATERSIDE REGENERATION**

### **Introduction**

This is a response from ISIS Waterside Regeneration (also on behalf of our shareholders mentioned below).

ISIS is a waterside regeneration company formed in October 2002 by British Waterways with Igloo (the regeneration fund of Morley Fund Management) and AMEC Developments (now know as Muse Developments). We believe we represent the following:

- An excellent example of the governments vision of the use of public sector land being used to play a key role in regeneration
- We represent the next phase of urban living and working by delivering mixed, balanced and diverse sustainable communities
- We offer a genuine choice of housing, business and leisure amenities around land and water, within high quality innovative developments

We are leading regeneration across towns and cities in the UK with an end use value of over £10 billion.

### **The Barriers and Opportunities**

Before commenting on the three main issues identified in the call for evidence, it is important to set the context by identifying the main issues which we see as the barriers to a better urban housing offer. These comments need to be set in the context that enormous progress has been made over the past 20 years with some high quality urban redevelopment – and a huge increase in the scale of activity of the reintroduction of urban living. However, much of it really isn't good enough: it will not all be sustainable and some will be the slums of the next generation. The UK must learn from other

European and indeed international exemplars, as it has not yet created new world class destinations.

So what are the barriers to successful, sustainable urban redevelopment?

1. **Land Assembly.** Especially, the assembly of large sites which offer great scope for a variety of mixed use development including local services, schools, public spaces. Diverse land ownership is a big barrier and may well require public sector intervention with the option of compulsory purchase action. Brownfield land needs to be made available much more quickly but we must not repeat mistakes of the past in thinking this is about granting consents to house builders.

2. **Maximising dwellings and financial value.** We have seen a strong concentration on developments which maximise the number of units produced from each site. This has led to a predominance of 1 and 2 bedroom flats (over 80% of total pipeline now in a City like Manchester).

These are tailored to a specific market – young ‘professionals’ and in reality to the investment sector. There is an obsession with just delivering buildings through the use of the standard house builder who itself is mainly concerned with annualised profit. We must move away from the public sector’s desire to deliver development at any cost. There is often little thought about the desirable mix for a sustainable community. There are few opportunities to create the infrastructure for a mixed community – schools, health, community facilities. This is compounded by encouragement to maximise densities and weak planning guidance about dwelling mix (only beginning to appear in the recent PPS3).

3. **Limited skills and focus.** Developing sustainable mixed communities is a complex business as it requires a completely holistic approach to both social and physical regeneration. It is hard work to assemble a multi-disciplined team to take this forward. The relatively small scale of some projects – and lack of continuity – makes it difficult to support such a team. This is compounded by the shortage of regeneration skills as confirmed by the ASC. The ‘softer’ skills are possibly the most critical – overall project management across agencies, engaging communities, linking social/economic

programmes with physical regeneration.

Pulling these skills together requires close working between the public and private sector. But the relationship is often arms length, even confrontational. This is part of the challenge for delivery.

So turning to the three<sup>3</sup> key delivery issues identified in the call for evidence, we would comment as follows.

### **Key delivery issues**

#### **1. Institutions.**

One of the most important roles of the new HCA should be to increase the capacity of the development sector through sponsoring the establishment of new delivery partnerships. Land acquisition is key and the public sector – probably the HCA itself – has a key role in working with the private sector to acquire key sites and to use the CPO power which is available. These may need strengthening or revising in the legislation to create the HCA. This is a much stronger route than asking LA's to use their powers as LA's are often very cautious due to in part uncertainty about the financial implications. The existing institutions – EP, HC and RDA's have been reluctant to use compulsory purchase powers although this route has been very successful in certain areas e.g. Ancoats, Manchester.

With a key role backed by land acquisition, the HCA should be asked to act as a skilled intermediary in creating delivery vehicles in partnership with local authorities and the private sector. Good skills in this area already exist in EP but the role for the HCA would need to be extended. Their brief would need to be very clear about the importance of establishing vehicles which put the first priority on sustainable development – not simply on commercial viability or leverage.

#### **2. Delivery Vehicles.**

Special purchase delivery vehicles are a vital component of large scale urban regeneration. They should bring together the partners with shared objectives, to pool assets, skills and resources, together with experience but retaining the desire to both

learn and share across other sector. They will sustain the key skilled team and provide focus. They should encompass the varied dimension of regeneration and programmes which are needed for a sustainable community. In fact there is an argument for a new breed of delivery vehicles with the necessary scale.

We are less convinced that Local Housing Companies or LABV (although ironically ISIS started out as a LABV) necessarily provide the right route. These models assume that the Local Authority has substantial assets to 'bring to the party'. If this is so, the vehicle may be appropriate. But even if not, the LA's leadership role, its powers and critical role in providing local services are critical to success.

There will also be opportunities for private sector partners, such as ourselves, to play a major role where land ownership or specialist skills provides a key resource. We suggest that government policy, and the brief to HCA and LA's, should anticipate a wider range of options. A broad church of delivery vehicles, but all designed with long term sustainability at the heart of their mission.

### **3. Managing 'Communities of Choice'.**

We welcome the attention which the Group are giving to the need for continued investment and strong management of new urban communities. Consideration of this issue would be strengthened by making it a key requirement for the sustainability appraisal. This should include examination of:

- How far the views and aspirations of existing and new communities have been understood and taken into account.
- Whether the development plan includes provision for the necessary services as well as the physical fabric.
- What financial arrangements have been made for the quality management of shared services, public spaces and provision of a safe, secure environment.
- All major contributions to place making.

The private rented sector will continue to be a major player in urban housing developments. We also need to look at new shared equity models and longer term objectives rather than short term returns. We need to encourage good standards of management and long term commitment to areas if they are to be sustainable and sustained over time. The effect of short term buy-to-let/investment markets is being felt now in cities that lead the renaissance of the city as a home as well as a workplace. We are learning slowly to consider the impact of absentee landlords, especially institutions, and encourage the management of stock as housing rather than an investment that must be protected for future financial gain. We in ISIS have a well reported aversion to the bulk sale of units to investors/speculators. There is still much scope for improved use of planning powers in this area.

We recognise that good management standards are expected from the public and social sectors, and the government is looking to LA's to strengthen control and secure buy in from private landlords, especially those in regeneration initiative areas. But the public sector is still a long way from recognising management problems in the new inner city investment areas. We feel there is merit in looking to encourage more substantial private sector landlords, offering tax incentives akin to REITs, who would have a longer term interest in protecting their revenue stream along with their capital investment.

The range of problems and solutions we have outlined is summarised in our desire to see a continued push for the new agency to bring all the relevant professions and skills to the table, to continue the Government's push for a joined up approach at the local and sub regional level.

MARK RYDER

Chief Executive with support from Mike Finkill Regeneration Director

## WRITTEN EVIDENCE SUBMISSION FROM KING STURGE

1. **Institutions:** The Government has committed to the creation of a new Homes and Communities Agency – the product of a merger between English Partnerships and the Housing Corporation. How could the HCA help to deliver a better housing offer, with specific emphasis on cities and towns?

We would welcome the creation of the HCA and would comment specifically as follows:

- English Partnerships has had and continues to have a role in economic development with involvement with Urban Regeneration Companies and The National Coalfields Programme, it would be a loss if its expertise is lost and the funding which goes with it.
- Having an integrated HCA will only be effective in our opinion if:
  - Funding streams are available which tackle aspects such as:
    - The shortfall between build costs of social rented and affordable accommodation and its value. For instance in many locations in the North of England the cost of a unit may be in the order of £100,000 (including land), but the value only £50,000.
    - Abnormal costs of development – extensive residential development is taking place on brownfield land, however local authorities are unable to secure affordable housing as part of S106 due to the extra (“abnormal”) costs of development rendering the scheme as non-viable when the costs of affordable housing are taken into account. Abnormal costs of development can include off site highways costs, remediation and site preparation, etc.
  - Almost by consequence of the foregoing the HCA will need to provide various streams of funding in our view, namely:
    - Some form of “gap funding” as the developer may be able to construct and deliver the affordable housing
    - Provide funds to delivers such as RSLs for delivery and
    - Provide funds to Councils for direct delivery

- We also believe that historically Local Authority Planning Departments have weaknesses in understanding development appraisals and viability issues from the private sector perspective – the HCA can have a leadership, training, advisory and information dissemination role in this respect.

2. **Local delivery vehicles:** In many cities, Urban Regeneration Companies and Urban Development Corporations already operate – and there are proposals to develop City Development Companies to promote a public-private approach to economic strategy. The Housing Green Paper has also proposed the creation of Local Housing Companies, and many cities and towns are investigating the possibility of using asset-backed vehicles (public-sector land, private-sector cash) to improve the housing offer. Are new vehicles, such as LHCs and LABVs, required to deliver a better urban housing offer? What can new local delivery vehicles do above and beyond the role of councils and existing bodies?

- King Sturge would fully support the creation of public and private sector delivery vehicles. In our direct experience of this area there are some significant issues which need to be addressed.
  - It is often found that Local Authorities are not willing to invest their land asset at nil value – this is partly due to the Best Value criteria and other Local Government regulations – if the notional land value can be invested entirely – but at nil cost to the private sector this has beneficial effects – first it reduces the holding costs of the project – no financing of the land acquisition is needed. Secondly that notional value can then be fully invested in the housing stock to be developed.
  - The second key issue is one of state aid. This is an issue related to sharing returns from partnership vehicles, where the private sector is involved. This is a complex area and requires addressing by the Government.
  - We believe that the Government must work with the private sector to improve the prospects of developing residential REITs – the institutional funding that could be leveraged through this avenue could have a dramatic effect on build rates of housing as absorption levels would

increase. At the present time absorption levels are at the individual level of house purchaser. Should the institutions become involved then significant numbers of housing could be acquired in a single transaction – which would be beneficial to developer and institution.

- It is our view that where new companies can be created development can be accelerated as the various parties interests are aligned. We believe that issues such as integration of affordable housing (spatially) can be improved as the scheme is brought forward as a whole and together
- Subject to the scale of the land assets and development potential of these – the expertises and finance that the private sector can leverage could be extensive – at the present time local authorities and the majority of RSLs have the skills and resources to deal with large scale complex developments
- Clearly, to enable the provision of affordable housing in financial terms the company mechanism can be very efficient and effective in terms of delivering the outputs the public sector require – namely affordable housing. We believe that efficiencies will be created through collective financing and procurement.

3. **Managing ‘communities of choice’:** A good urban housing offer is more than just bricks-and-mortar construction. To ensure that new urban housing is sustainable and popular over time, new communities require continued investment and strong management. How can the public and private sector work together over time to manage and maintain a strong urban housing offer? What changes and incentives, for example in the private rented sector, could help to do this?

As consultants working in Housing Market Renewal Pathfinder areas it is clear that weak housing markets do not always result from poor physical stock – often the issues are related to poor management which can include for instance maintenance and repair back-logs as well as anti-social behaviour. The public and private sectors need to establish approaches for working together in order to build mixed sustainable communities which involve residents. Equally, ensuring that residents have the tools available to them to deal with anti-social behaviour or the need to effect change can be critical. Recent developments in terms of Commonhold and enabling local communities to acquire public assets are a step in the right direction.

In addition to the above it is our experience that Local Authorities are often reluctant in providing supporting community infrastructure as part of a regeneration/development scheme. Developments such as schools, community centres, health facilities etc can be key to creating attractive sustainable communities. Often local authorities are closing such facilities down in urban areas – due to demographics and this is further undermining the housing market in that locality. Public private partnerships which have a long-term approach may be able to create effective planning of such facilities and enable public sector spend to be planned more effectively.

It is our view that the private rented sector offers a great deal of opportunity to deal with our housing needs. Whilst the investment potential is obvious the key issue is that few institutional/large scale landlords exist. Creating (as mentioned above) tax transparent vehicles for residential investment (REITs) and also dealing with VAT on maintenance and repair of second-hand property would provide a great fillip and this sector could be developed as a genuine alternative to both affordable housing and private for sale. With scale portfolio holders can maximise efficiencies in terms of management and maintenance and through a competitive market begin to provide a genuine alternative.

The impact of the buy-to-let sector is clear for all to see on the rate of construction of city centre residential apartments. The fact that most of the units are sold off plan mean that largescale schemes progress as funding can be secured. Should residential REITs exist then a similar effect could be felt in more mainstream housing markets (i.e. family housing).

CONTACT: Atam Verdi, King Sturge

## **WRITTEN EVIDENCE SUBMISSION FROM MATURE TIMES**

As an organisation, the whole question of housing in the UK and especially for the elderly who we represent, is a cause that we know is of major concern and that we know is close to the hearts of our readers.

From all the papers and publications that we have seen the specific issue of housing for the elderly appears to be conspicuous by its absence. By encouraging elderly people to downsize will clearly have a beneficial impact on the UK housing stock by freeing up larger properties into the housing chain. This is a serious issue that we feel needs to be included within any debate or enquiry on this subject that may take place.

Through its monthly newspaper, Mature Times and website [www.maturetimes.co.uk](http://www.maturetimes.co.uk) we are campaigning for a more imaginative approach to be taken by Government to this issues.

Our free of charge newspaper is distributed monthly with a print run of approaching 200,000 copies which is read by in excess 500,000 readers. In addition over 1.3 million pages of our website are read each month. I have enclosed a copy of our September edition which carries a lead story on the subject of retirement living.

Essentially we believe that more emphasis has to be placed on providing tailored accommodation for people in retirement. The current planning priority is for affordable housing, however the message we are receiving loud and clear, is that it is now becoming extremely difficult for retirement property schemes to get through the planning process.

Does this matter? Well certainly it does for those older people who are finding it increasingly difficult to live their old homes as their mobility diminishes. Only 3,500 dedicated retirement units are being completed each year available for purchase - a tiny fraction of what is needed – the current 10.5 million people aged 65 and over is set to increase by 50% in the next few decades. Many of them want to live in smaller, more

self-contained units closer to facilities – but are unable to find anything suitable close to their family, friends and social network.

It also matters to the rest of the population: the country has a severe housing shortage. Older people vacating family homes and moving to (higher density) accommodation will enable people to move up the chain more easily and allow more units to be built on the land banks available and currently designated for housing development.

With the housing strategy currently under review, I'm sure that as you are part of the informing process, like us, you would like to see the needs and wishes of the country's older population taken into account when planning policy is determined. Certainly our readers would agree.

Andrew Silk – Managing Director  
Highwood House Publishing Limited

## WRITTEN EVIDENCE SUBMISSION FROM NATIONAL HOUSE BUILDING COUNCIL

NHBC (National House Building Council) is the world's most established standard setting body and home warranty provider with over 20,000 builders on its Register and 1.7 million homes protected with its Buildmark home warranty.

As a non profit distributing company with over 70 years' experience working with the industry and the consumer, NHBC is uniquely placed as an independent authority on the housing industry.

NHBC also supports the industry and consumer by providing essential services including building control, training, health and safety and environmental services and by investing in research, innovation and delivering industry solutions through the NHBC Foundation and the National Centre for Excellence in Housing

1. NHBC welcomes the All Party's Inquiry into the future of Britain's housing supply and the delivery of 3 million new homes by 2020. NHBC has based our submission on these key messages below which relate closely to the concerns raised in the Group's Inquiry statement.

### **NHBC's Key messages:**

- The **quality of housing** must remain the central priority in the drive to increase supply and should not be compromised by the drive to achieve potentially competing objectives, such as the delivery of greater supply and improved environmental performance.
- **Consumer protection** must be placed at the forefront of technological advances, particular relating to the development of environmental technology and products. Consumers must not be exposed to unnecessary risks and used to trial technologies and systems that have not undergone thorough testing and accreditation.
- As progress towards building approximately 1 million zero carbon homes from 2016 to 2020, the **implementation** of improved environmental standards must not be delivered through local planning authorities. They must be delivered through national regulation, which allows for a consistent and efficient approach across all areas.

- The poor implementation of regulation can cause significant problems to the industry and the delivery of targets, for example HIPs and Part L Regulations. NHBC believes that a clear **regulatory framework**, where the Government sets objectives, but the industry works on methods and processes to implement those objective, is the most successful framework and the most likely to deliver successful outcomes for Government and industry.

1. NHBC supports the Government's objectives and targets to increase the supply of homes and to improve their environmental performance. As we work towards achieving these objectives, NHBC's central message to the All Party Group is that the **quality of housing** remains the central priority and is not compromised by the drive to achieve potentially competing objectives, such as the delivery of greater supply and improved environmental performance. Examples from around the world demonstrate the significant detrimental consequences to the consumer and the broader economy if quality of housing and customer satisfaction are not given sufficient focus.

2. NHBC makes a considerable investment in the NHBC Standards, the primary on site reference text for registered house builders, which more than 20,000 NHBC registered builders agree to comply with. These are updated continually and re-published annually to reflect changing trends in housing construction and our experience of problems arising during, and after, construction.

3. As housing technology advances, NHBC is increasingly being pre-emptive with the Standards, developing appropriate requirements and guidance before problems occur. Recent examples include:

- Light gauge steel frame housing - a new chapter was introduced in 2005 to cover this technology, which is rapidly establishing itself as the third most significant form of construction.
- Curtain walling and cladding - Chapter 6.9, also introduced in 2005, is especially relevant for the growing number of high-rise buildings under NHBC cover. The Chapter encourages the specification of systems that have been appropriately tested and introduced guidance on how interfaces between systems should be dealt with to

avoid the problems sometimes encountered where these systems have been used in the commercial sector.

- The April 2007 edition includes a revised specification for flat roof coverings - it restricts the specification for acceptable materials to those which offer enhanced durability and responds to the sustainability agenda by including specifications for 'green roofs' (i.e. planted roofs).

4. NHBC's experience shows that sudden changes to established house building practice, as well as the introduction of a great deal of new technology, is likely to increase the risk of failure, at least initially until the technology becomes established and robust. Earlier generations of housing built in the UK which have not stood the test of time, included the post-war pre-cast reinforced concrete homes, which NHBC, at the request of the Government, set up a repair and insurance scheme for – PRC Homes Ltd.

5. Central to the Government's objective to increase supply is for all new homes after 2016 to be zero carbon. NHBC has specialist understanding of, and involvement in, the technical aspects of house building as well as knowledge of consumer protection issues through our Buildmark warranty and therefore is uniquely placed to comment on this policy. NHBC supports the Government's objective to achieve carbon neutral homes. However our concerns about this policy focus, which are relevant to the All Party Group's study on housing delivery are focused on ensuring the protection of the consumer, sound solutions based on credible science and implementation through nationally applied consistent standards.

6. **Consumer protection** must be placed at the forefront of technological advances. We strongly believe that consumers must not be exposed to unnecessary risks and used to trial zero carbon technologies and systems that have not undergone thorough testing and accreditation. There is currently a dearth of tested and certificated microgeneration technologies and systems. Asking consumers to pay for and maintain products and systems that are not reliable or fail to deliver the claimed benefits is inappropriate and could have damaging repercussions. It is essential that owners of new homes are not used as guinea pigs. We need to make sure that the move towards more sustainable homes gives new homes further competitive advantages and enhances their reputation.

7. It is essential that the pace and nature of change is acceptable to homeowners. Clearly the potential carbon savings will not be realised in practice if homeowners are not able to operate their homes in the intended manner or fail to adequately maintain new equipment. The NHBC Foundation is at present carrying out detailed research into consumer attitudes and understanding of the zero-carbon agenda.

8. There are also important lessons for us to learn from the past and from around the world.

Case Study: In British Columbia a massive failure of new homes due to water penetration, rotting and eventual failure of inadequately designed and constructed timber frame housing systems affected up to 10,000 homes, in a market roughly the size of Scotland. The total cost to the British Columbia economy was between two and five billion Canadian dollars. The British Columbian warranty programme failed, many homebuyers faced considerable hardship and the house-building industry was seriously affected for a number of years. Similar failures experienced in New Zealand and the USA illustrate that change must be well thought through, well managed, and the risks identified and eliminated to avoid causing great distress and cost to homebuyers. We are aware of problems that are beginning to emerge with Swedish new homes.

9. On the issue of **implementation** of policy, one concerning aspect is the Government's approach of using both the planning and the building control systems to effect change. We have observed that, not only are local planning authorities increasingly keen to adopt environmental policies, but that they also appear to be competing with one another over who can set the toughest policy creating an inconsistent and inefficient system.

10. The fact that planning authorities have different targets causes problems for architects and designers (often Small and Medium Enterprises (SMEs)), designing homes in more than one planning authority area. Differing targets are also a challenge for house builders and are likely to reduce their efficiency, reduce economies of scale and increase the potential for defects to occur, as well as having implications for achieving the output of new housing.

11. In addition, NHBC believes that it is apparent that many planning authorities do not have the resources either to set clear policy or to enforce it. Indeed there is a question as to whether planners, in general, have the ability to understand the complex technical issues involved, even if they have the time. On the other hand, building control professionals are well placed to administer the sustainability aspects of new development.

12. Based on the evidence we have seen, we would question the ability of the professionals working in planning authorities, especially smaller authorities, to deal with the technical aspects of sustainability. There is no doubt that building control professionals *are* able to deal with these complex issues. We are strongly of the view that most of these (with the exception of spatial issues) should be dealt with through building regulations.

13. The principal role that NHBC plays is to help builders understand what is possible, whilst trying to encourage construction and technology that can be used practically, minimising potential problems. NHBC is leading the industry into undertaking the research necessary to identify these solutions and this is the dominant activity of the NHBC Foundation and the National Centre for Excellence in Housing.

14. The recent final Regulatory Impact Assessment (RIA) for Building a Greener Future has confirmed that the costs of moving towards zero carbon are high. However, the RIA presents a compelling economic case for allowing unlimited offsetting, as the costs to the UK economy are so much lower and the carbon savings considerably greater. Whilst we recognise the need for homes to be made future proof by, for example, ensuring that they have good fabric insulation, it is clear that applying renewables at the level of individual homes or individual developments is less effective than allowing for provision to be made off site. Indeed, this will be a necessity in the case of urban infill developments.

15. The **implementation of building regulations** have important implications for the industry. In recent times the industry has suffered from poor implementation of regulation, for example Part L of Building Regulations in 2006 and the current

introduction of Home Information Packs. NHBC believes that a regulatory framework, where the Government sets objectives, but the industry works on methods and processes to implement those objective, is the most successful framework and the most likely to deliver successful outcomes for Government and industry.

16. It is within this context and the debate about the quantity, role and implementation of regulation that NHBC can help play a vital role for the future. NHBC, in partnership with the Building Research Establishment (BRE), has set up the National Centre for Excellence in Housing, a new industry-led partnership. The National Centre is working to identify practical solutions and address the challenges and opportunities facing the housing sector. It is establishing a group of experts and key opinion leaders to facilitate policy development and strategic thinking to help frame the research and policy agenda for housing in the UK.

17. NHBC believes the National Centre could provide the Government with an ideal platform to consult the industry on a range of regulatory and associated issues.

#### **Additional Points relating to the Group's Inquiry on Delivery**

18. The availability of the right skills will be essential to the delivery of the Government objectives. NHBC provides strong support to the industry's skills development agenda with its provision of training and qualifications programmes. Our primary focus is on home building, with many of our programmes focussed on site based management staff, but we also offer programmes to the wider construction industry.

19. We are the largest provider of construction management NVQs in the UK. We also offer our own site manager accreditation programme which combines assessment of management and technical competence with a check on quality of work on site and an assessment of commitment to continuing professional development. Accreditation is renewable every three years and is dependent on managers continuing to deliver acceptable site quality and continuing to update their skills and knowledge.

20. From our experience of providing training services within the industry, NHBC believes that there has been substantial improvement in the last ten years in investment

and training. We have seen greater recognition in the industry that skills development rather than 'hire and fire' does have a contribution to make to business success. The Major Contractors Group's (MCG) and, more latterly, the Major Home Builders Group's (MHBG), commitments to the Qualified Workforce initiative are further indications of this improvement.

21. The current structure in home building (and in areas of general construction), with largely sub-contracted labour, puts a lot of responsibility for quality control on the site manager or site management team. For this reason much of NHBC's training provision is aimed at assistant site managers, site managers, project managers and contracts/construction managers. Competence requirements for site management staff can be divided into two broad areas – technical and managerial.

22. Historically technical competence was less demanding with construction methods for low-rise housing changing only slowly over time. More recently, and for the foreseeable future, there is a real need for managers to keep abreast of technical developments around the move towards greater use of Modern Methods of Construction (MMC), technical issues surrounding the sustainability agenda, and the move to more high rise apartment and mixed use developments employing more complex and/or 'commercial' methods of construction. It is very difficult to quality control methods of construction that are not fully understood. Structured training programmes are required to ensure managers are competent in the methods of construction they are overseeing. Work done by the HBF, concerning the increased use of MMC, in a response to the Barker Review also highlighted this need.

23. Equally important to site management staff are managerial competencies. The site or project manager role is complex and is becoming increasingly so with more apartments, more mixed use developments and higher densities. Is it worth mentioning dominance of output of flats?

## Research and Development

24. As the development of the technology necessary to achieve the Government's sustainability objectives is at the early stages, a focus on research and development is of fundamental importance. NHBC invests in research, innovation and delivering industry solutions through the NHBC Foundation, a research based body and National Centre for Excellence in Housing and is keen to continue to work with the Government to successfully implement its objectives.

25. The NHBC Foundation was set up in 2006 to address the "information gap" in the industry on a variety of topics. Chaired by former housing minister, Rt. Hon. Nick Raynsford MP, the Foundation has dedicated itself to a programme of pragmatic, delivery based research of relevance to the industry. Its inaugural project delivered a web based resource tool on MMC and subsequently it has delivered a research document offering a detailed guide to MMC and most recently a programme of research dedicated to the sustainability and zero-carbon agenda. The latest finding focuses on Ground Source Heat Pumps. Throughout 2007 it will also be delivering research on renewable energy systems, site waste and other topics of relevance to the sustainability and zero carbon agenda.

26. The National Centre for Excellence in Housing, is also chaired by Rt. Hon. Nick Raynsford MP. The Centre, also independent, arose from considerable interest and support for a body with a wider function and a significantly wider remit. The Centre is focusing on enabling and inspiring excellence and improved standards in new and existing housing.

27. The Centre brings together stakeholders and interested parties to develop policy solutions to issues faced by the industry. The Centre is also currently focused on the sustainability agenda and in May 2007 hosted a series of focus group events specifically tasked to the zero carbon home target.

NHBC Policy Submission – November 2007

For more information please contact Lewis Sidnick, NHBC - [lsidnick@nhbc.co.uk](mailto:lsidnick@nhbc.co.uk)

**WRITTEN EVIDENCE SUBMISSION FROM NORTH WEST HOUSING FORUM**  
**[Originally submitted in response to the Housing Green Paper 2007.]**

**North West Housing Forum: Representing Members Across The North West Region**

**1.0 Background and Introduction**

1.1 The North West Regional Housing Forum is an inclusive and independent body which represents strategic housing organisations and a range of other stakeholders who have a shared interest in influencing policy and maximising resources to meet the housing and housing-related needs of the Region. It was established in 1999, and since that time has gone on to be recognised as the independent voice of housing in the region. Membership of the Forum is outlined in appendix 1.

1.2 In all the time since the Forum's inception, housing has never been further up the political agenda and we welcome the importance this is being given. This response to the Government's Green Paper takes an overarching regional view on how the proposals will help us to deliver across such a diverse region as the North West. We are also encouraging individual member organisations to respond to you directly, highlighting key issues from a more local view point.

1.3 The following sections outline the North West Housing Forum's response to the Green Paper, comments have been grouped thematically around the key aspects of the proposals.

**2.0 Role of Existing Stock**

2.0 'Homes for the future: more affordable, more sustainable' has a clear focus in terms of reducing the problems of affordability through a substantial increase in the supply of new homes. Whilst we would not argue that there is a need to increase supply, we are concerned that these proposals are put forward in isolation and need to be considered alongside the existing stock.

2.1 New supply alone will not come anyway near the requirements needed to make a significant impact on the inability for first time buyers to purchase a property. Certainly in the north west region decency in the private sector is crucial to increase choice and supply and enable us to create truly mixed and sustainable communities. Government needs to also recognise that a drive to improve stock condition in the private sector will have a positive impact on their policies for energy efficiency and more eco friendly homes.

2.2 We welcome the recognition in the paper that there are 'over half a million empty privately owned residential properties in England and half of those have been out of use for longer than 6 months'. In some instances these vacancies are natural occurrences of the housing market chain, however evidence is growing of investment buying, which has been a particular problem in regeneration areas where the potential for investment growth has been substantial. We do not feel that the paper goes far enough in finding solutions, creating the tools for Local Authorities to adequately deal with this. We recognise the commitment in the paper to explore this further, but would stress that this needs to be given a greater priority as the impact of the 'buy to leave' market is significant in this region. Thought needs to be given as to whether the tax system could be used as a potential tool in this area, perhaps providing incentives for use of these properties to provide new affordable housing.

### **3.0 Housing Growth Points**

3.1 The paper clearly acknowledges the need for growth in the northern regions, specifically inviting for the first time bids from the north for growth point status, which brings with it eligibility for additional support and resources for infrastructure. This is welcomed; indeed the Forum has for some time lobbied for recognition of the changing housing markets in the region, and the need for growth to meet our economic aspirations to reduce the gap in productivity between the north and the south.

3.2 We will be encouraging members, where appropriate and where supported by the regional agencies, to prepare proposals/bids for growth point status, and are clear that this must be in areas where there is a sound evidence base of economic growth potential but the lack of appropriate housing to support this growth. This said we have

identified flaws with the proposals which we would like to see acknowledged and addressed.

3.3 We need to recognise that in many areas the revised Regional Spatial Strategies (RSS) have already provided challenging figures for growth, and if growth points are intended to be over and above these targets then we need to think about the reality of delivery. Furthermore if we are to be serious about sustainability then it is nonsensical to consider delivering on these RSS targets without support for infrastructure in these areas.

#### **4.0 Tenure Choices**

4.1 The Government remain committed to increasing homeownership, and we recognise the inequalities of equity between those who are home owners and those who are not. Whilst this paper does recognise the need for an increase in social rented stock, we do feel that this is a secondary priority to that of homeownership, however whilst it may be an aspiration to become an owner occupier the reality for many is different. In these instances we need to ensure that there is good quality appropriate housing for rent in mixed tenure areas. This crucial if social rented housing in the future is to be sustainable and a tenure of choice.

4.2 We welcome the proposals to increase the supply of social and affordable housing through new players such as good performing ALMOS and the private sector, and are particularly encouraged that this will help to meet the objective of ensuring that need social housing is not just a short term fix, with the properties then lost through the right to buy.

4.3 The North West Housing Forum are not against new affordable homes to buy, indeed we welcome and support initiatives which will help people in the region to take their first steps on the property ladder where this is appropriate to do so. However as part of this push towards owner occupation we would ask Government to take steps to ensure that we are not just creating a generation of marginal home owners who do not have the income or access to resources to maintain there homes. There is a danger that

through encouraging owner occupation for those who will struggle to afford it in the long term, we are risking the longer term sustainability of these areas.

## **5.0 Housing Market Renewal (HMR) Programme**

5.1 Whilst there is a commitment to continued investment “in housing market renewal alongside growth”, the paper fails to set out the level of investment and the approach to HMR in the future, except to say that the programme will need to “provide focus on areas where there are deep seated structural problems whereas the larger cities are now experiencing significant market uplift.”

5.2 We will not in this response attempt to outline the detailed arguments for continued support for the HMR Programme, indeed we are aware of responses being put to you directly from those operating in HMR areas which will outline the detail. However it is important that we reiterate the regional support for the programme from a region that includes 4 of the 9 HMR Pathfinders. The North West Housing Forum has supported this programme since the very beginning and was instrumental in the lobby for resources in the late 1990s/early 2000's.

5.3 We do recognise that the markets have changed across the Pathfinder areas, and the 4 Pathfinder areas in the north west now vary enormously in the precise nature of the issues and challenges that they now face. In many areas house prices are increasing, however the affordability gap is actually widening as incomes are not rising at the same rate. Indeed the rise in house prices has been exacerbated in some areas through private sector investment which in turn has reduced the supply of certain property types for home owners.

5.4 It is clear that the challenges remain and despite an increase in property values and a reduction in obsolete stock there is still much work to be done to ensure that these areas reach their economic potential, contributing effectively to the region's need for the right mix of property types and tenure. Opportunities open up through the proposals in the Green Paper, particularly through sub regional partnerships (Multi Area Agreements) and the Pathfinders already have a good track record of this cross authority working. There is also the opportunity to link market renewal more closely with the growth

agenda, however it is crucial that the Government does not lose sight of the importance of continued support across these areas. The markets have changed and we have made significant strides in turning around these areas, however to pull out now would be to do so when the job is only partly done. As a region we remain confident in turning these areas in sustainable and economically vibrant places and we would ask the Government to ensure that they continue to support us in this.

## **6.0 Delivery**

6.1 The paper sets out some real challenges to strategic housing authorities, housing associations, planners and house Builders, and we recognise that we must do everything within our powers to ensure that we can deliver on this agenda. However there must be a word of caution around delivery. The targets set out are ambitious and Government must ensure that we have the policy tools, as well as the skills and capacity, and indeed financial reforms, to enable us to make the step change required to meet this new agenda.

6.2 It is also important that delivery of new affordable housing is not seen as the only task on our agenda, indeed it is only part of the picture. If we do not have the infrastructure (as previously referred to in 3.3) to support the delivery then we are only creating problems for the future. Current levels of funding to support that infrastructure are inadequate, and Government must address this if we are to deliver affordable housing in communities which will be sustainable in the long term.

## **7.0 The Mortgage Market**

7.1 The paper quite rightly addresses ways of improving the mortgage market which is a key component in the ability of many homeowners being able to purchase their property. However there is a glaring omission in that the issue of what can only be classed as 'irresponsible lending' is not addressed. If the lending institutions continue to lend amounts in excess of what people can afford to repay based on their existing income, then we will only continue to push people into owner occupation who quite simply cannot afford it. The obvious result of this is that if they cannot afford the

repayments then this begins a spiral of debt, or a more hidden consequence is that they cannot afford to maintain their properties to a decent standard.

## **8.0 Omissions**

8.1 There are certainly omissions within the paper that need to be fully addressed. Issues that are not addressed include the impact of immigration on the housing markets; and supporting people. Neither does it fully explore the implications of an aging population. We would also welcome a clearer direction on housing indicators and the fit within Local Area Agreements.

8.2 In parts the paper is light on detail, and it anticipated that this detail will emerge following the initial consultation period. We welcome more opportunities for working with you to develop this detail further.

## **9.0 Conclusion**

9.1 Housing Growth is crucial to the north west region if we are to move forward with our aspirations for economic growth and bridge the gap in productivity with other parts of the country. The publication of the Green Paper, and the commitments made, are a positive step towards ensuring this growth and as a region we will grasp the opportunities offered us. However these proposals only form part of a much bigger picture in terms of our housing markets, and opportunities and plans for growth must be worked up as part of a 'whole market' approach, which includes the tools and resources to deal with the existing stock. It is only through this holistic approach that we will be able to start to address the real problems of affordability in the region.

9.2 The North West Housing Forum welcomes any opportunities to work with Government ministers and senior civil servants to work up the detail of the proposals following the consultation exercise, ensuring that we have not just the resources but also effective policy tools at our disposal to deliver on the Government's affordable housing agenda.

9.3 Any queries regarding this response should be directed to the Forum's Senior Manager Sue Powell at [sue.powell@carlisleha.org.uk](mailto:sue.powell@carlisleha.org.uk) or telephone 01228 882831.

Councillor George Davies  
Chair of the North West Housing Forum

## WRITTEN EVIDENCE SUBMISSION FROM NORTH WEST REGIONAL ASSEMBLY

1. Institutions: The Government has committed to the creation of a new Homes and Communities Agency – the product of a merger between English Partnerships and the Housing Corporation. **How could the HCA help to deliver a better housing offer, with specific emphasis on cities and towns?**

1.1 There are clear benefits of a single body which can simplify and strengthen the current roles of the Housing Corporation and English Partnerships to provide a stronger and more flexible approach to delivery regionally and locally.

1.2 The HCA must work closely with partners to:

- ensure delivery of affordable housing,
- improve the condition of and make best use of existing stock,
- ensure that the needs of those who cannot access home ownership or social housing are met; and
- deliver a balanced mix of housing type and tenure.

Working closely with partners

1.3 The north west has an excellent track record of setting clear strategic objectives, strong partnership working, developing a robust evidence base and successfully delivering our housing priorities. Our 2005 Regional Housing Strategy has played a valuable role in steering effective investment in housing across the north west and improving levels of decent housing in both social and private sectors. Of particular importance to the region has been work to bring about continued urban renaissance through tackling market failure and meeting the decent homes standard in the public sector.

1.4 The HCA must ensure that they develop strong working relationships with partners at all levels – national, regional, sub-regional and local, including the National Housing and Planning Advice Unit (NHPAU). The HCA must not adopt a ‘one size fits all’ approach, but instead take a flexible approach which allows each region to set its own targets and priorities in response to specific issues and challenges. Developing strong

working relationships will be critical in ensuring that the HCA understand and can respond to those specific priorities and challenges within the context of the national picture.

1.5 In delivering our housing offer we need to make sure that regional, sub-regional and local housing strategies support, and are being supported by, the drive to improve the region's economic and social well being – to meet the needs, demands and aspirations of current and future communities. The HCA needs to have a regional presence in order to support these strategies and, in light of the Sub-National Review, deliver the Integrated Regional Strategy.

1.6 The role that the HCA would have in relation to recommendations around the regional housing pot and the responsibilities around investment decisions is currently unclear. The priorities proposed for housing spend under the current round of CSR and current commitments need to be honoured by the HCA to ensure that the region can continue to deliver its priorities.

1.7 The NHPAU, in their response to the Housing Green Paper<sup>11</sup>, have explored the impacts of increased house building on affordability ratios and, in particular, how differing distributions of that increased house building will have varying impacts in different parts of the country. A report to be published later this year by the NHPAU<sup>12</sup> will highlight a missed opportunity in not having the model used to produce these figures available to regional partners to inform the development of the current round of Regional Spatial Strategies. The HCA may be able to contribute to the process of further refining the model, and helping regional partners to take forward the knowledge and information generated by the model.

1.8 In our response to the Housing Green Paper we have highlighted the importance of a more sophisticated approach to the proposed eco towns model towards something better aligned to the existing geography and settlement pattern of the region, the existing

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<sup>11</sup> Developing a target range for the supply of new homes across England: An NHPAU paper in response to the Government Green Paper *Homes for the future: more affordable, more sustainable*, NHPAU, October 2007

<sup>12</sup> Housing Affordability in Regional Spatial Strategies: North West Regional Report, NHPAU draft report

housing stock and something which reinforces the region's strategic development framework and regeneration priorities. The HCA will need to work closely with partners in delivering this important element of the Housing Green Paper. There is also a need to ensure that the priorities of all partners are aligned to ensure that the necessary infrastructure can be provided to support an improved housing offer. The HCA will also have an important role to play in this.

#### Delivery of affordable housing in urban and rural areas

1.9 Addressing the affordability of housing in the north west is now one of our biggest challenges - across all tenures and all areas including those associated with low demand. The affordability gap has increased significantly over the period 2002 to 2006 from 2.7 to 1 to 5.7 to 1 (lower quartile income to lower quartile house prices)<sup>13</sup> (see Appendix 1). Between 1996 and 2006 the average house price in the north west trebled from £58,000 to £158,000<sup>14</sup>. There are some parts of the north west, in particular the rural areas, where the supply of affordable housing is woefully inadequate and where the sustainability of communities is threatened as key workers and those with strong local ties simply cannot find anywhere to live. In these areas there is a pressing need to ensure that affordable housing is provided.

1.10 The impact of second and holiday homes often exacerbates this issue, but the basic increase in house prices in comparison to income levels has meant that in many rural areas local people can no longer afford to live where they would choose to live. The regional assembly recognise the importance of the rural economy to the overall growth of the region, and the important part it plays in meeting the challenge to narrow the output gap which currently exists between the north and the south. Improving access to affordable rural housing which will support that economic growth is critical and is one of the six headline priorities in the Regional Rural Delivery Framework which was agreed by partners in 2006<sup>15</sup>.

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<sup>13</sup> HM Land Registry data – North West Housing Statement, NWRA, 2007, Figure 2

<sup>14</sup> HM Land Registry data – North West Housing Statement, NWRA, 2007, Figure 1

<sup>15</sup> Regional Rural Delivery Framework, April 2006  
(<http://www.gonw.gov.uk/497468/docs/276882/400859>)

1.11 Whilst we recognise that the focus of this inquiry is on the urban housing offer it is important not to consider this in isolation. There are important relationships between housing in urban and rural areas which, if not recognised and understood, could have unintended consequences. The HCA must play a key role in the delivery of affordable housing in urban and rural areas.

1.12 The North West Regional Housing Strategy published in 2005<sup>16</sup> has four clear priorities – delivering urban renaissance, providing affordable homes to maintain balanced communities, delivering decent homes in thriving neighbourhoods and meeting the needs of communities and providing support for those who need it.

1.13 The focus of the strategy on some of the region's more challenging areas increases the average delivery cost per unit in comparison with other regions. There is therefore an additional challenge for partners to work together to make the most efficient use of the available funding. Despite this challenge it is critical to focus efforts on delivering our priorities if the north west is to continue to improve its overall housing offer in a sustainable way.

1.14 However this does raise issues and challenges for funding bodies, like the Housing Corporation, who have a key role in delivering affordable housing through their funding programmes. Support to deliver against these priorities will need to be continued through the HCA.

1.15 There are issues surrounding the delivery of affordable housing relating to section 106 agreements (and any planning tariff that is introduced following the announcement of the Comprehensive Spending Review 2007). These relate to:

- the impact of high land values on the amount that can be secured through section 106;
- the competing demands on section 106 agreements to deliver a wide range of infrastructure and other improvements; and

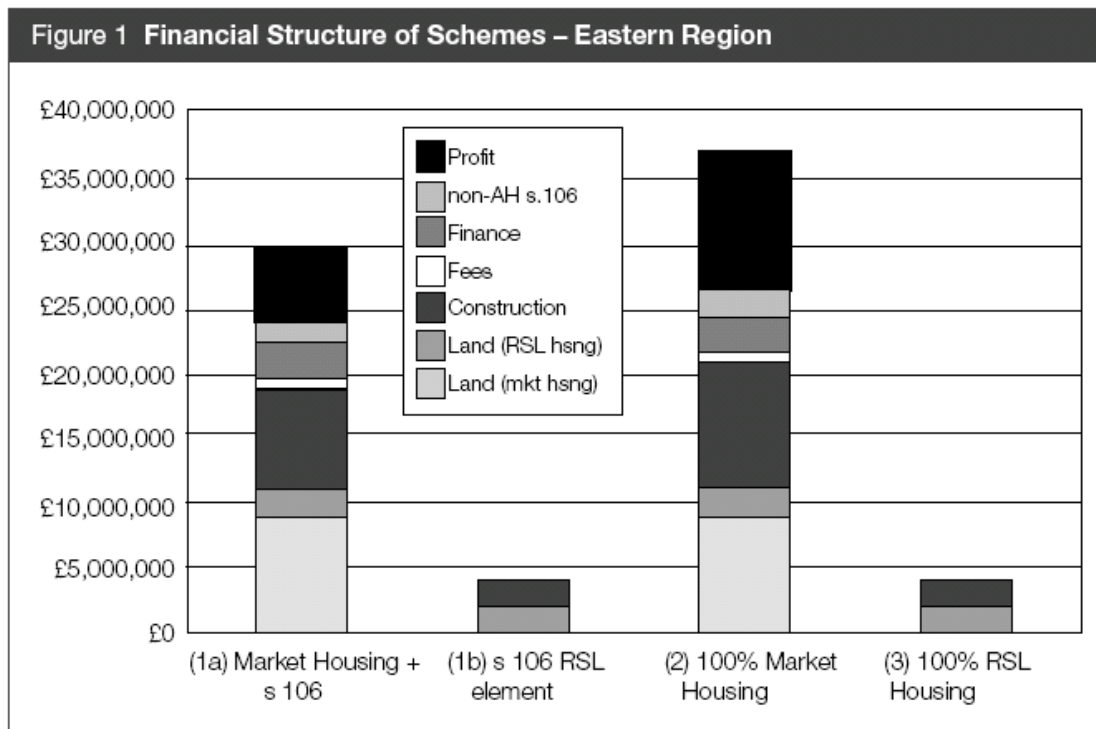
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<sup>16</sup> North West Regional Housing Strategy 2005, North West Regional Housing Board, 2005  
[http://www.nwra.gov.uk/downloads/documents/dec\\_06/nwra\\_1165333408\\_Regional\\_Housing\\_Strategy\\_2005.pdf](http://www.nwra.gov.uk/downloads/documents/dec_06/nwra_1165333408_Regional_Housing_Strategy_2005.pdf)

- the ability to negotiate section 106 agreements in relation to investor interest in the area.

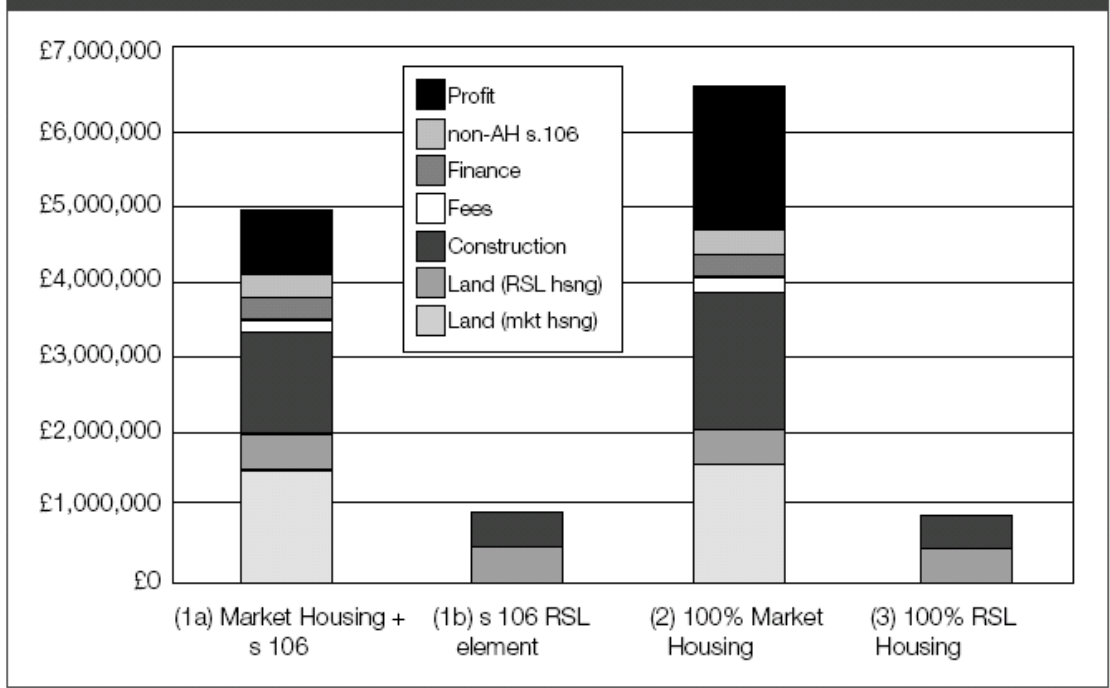
1.16 Research published by ODPM in July 2005<sup>17</sup> explored the impact of on site and off site provision of affordable housing in areas of higher and lower land values on the overall financial structure of schemes. The graphs below set out data for the south east, London and the Midlands only. However the issues which are identified for the Midlands could equally apply to the north west.

1.17 Columns (1a) and (1b) show the financial structure of schemes with on site affordable housing provision. Columns (2) and (3) relate to the financial structure of schemes with off site affordable housing provision.

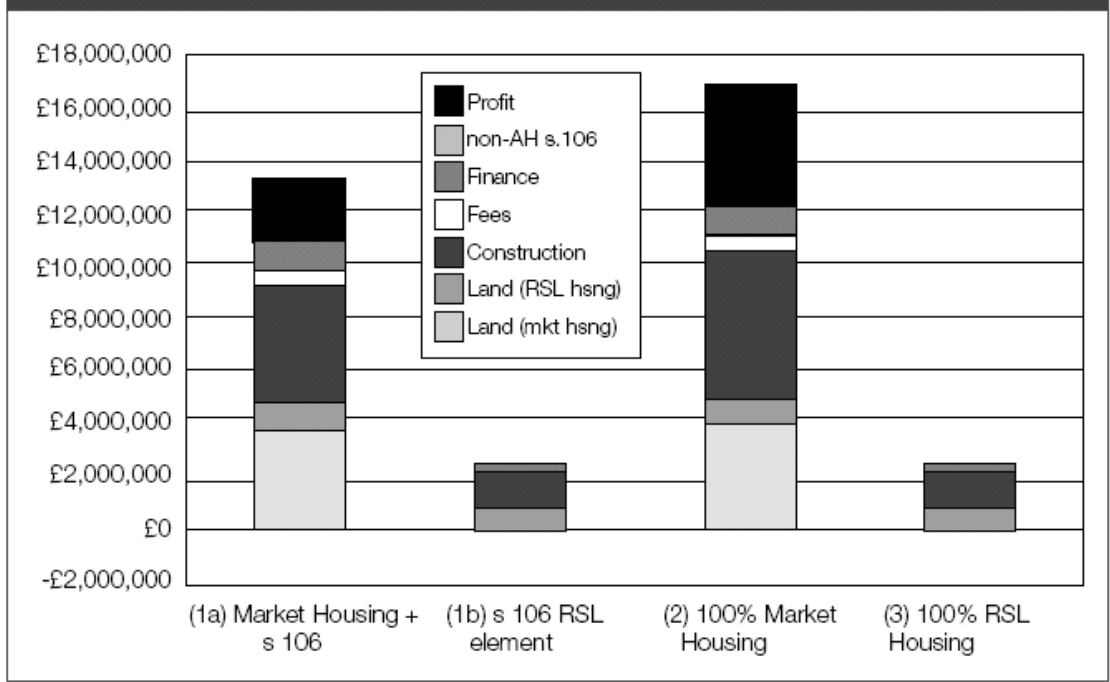


<sup>17</sup> The Value for Money of Delivering Affordable Housing through Section 106, ODPM, July 2005 <http://www.communities.gov.uk/documents/planningandbuilding/pdf/148172>

**Figure 2 Financial Structure of Schemes – Inner London**



**Figure 3 Financial Structure of Schemes – Midlands**



1.18 The research noted that higher value areas will be able to support higher affordable housing contributions, and noted that in the case of the Midlands scheme the development values were not sufficient to support a non-affordable housing s.106 contribution alongside an affordable housing contribution.

1.19 Where land values are lower a choice may have to be made between providing affordable housing and making a contribution to other infrastructure requirements if the scheme is to remain viable. Whilst land values vary significantly across the country, infrastructure costs tend not to vary to the same degree. Recent figures published by the Valuation Office show a difference in land value of £950,000 per hectare for sites in excess of 2 hectares between the south east and the north west<sup>18</sup>.

1.20 Additionally where investor confidence is limited it can also be difficult for authorities to negotiate high contributions for fear of losing the investment completely. This will again impact on the ability to deliver affordable housing.

1.21 A recently published research report<sup>19</sup> from English Partnerships, Housing Corporation and ATLAS identifies the difficulties of creating certainty on sites requiring public sector subsidy to deliver affordable housing given the divergence in timing of planning determinations and housing investment decisions. The HCA will need to continue the positive steps towards taking a longer term view of housing investment which will help to start addressing some of these issues and provide a firmer footing for investment in affordable housing delivery.

#### Condition of existing stock

1.22 There has been much discussion following the publication of both the Barker Review and the Housing Green Paper about building our way out of the affordability 'crisis'. The challenge in the north west is not just to increase the quantity of housing, but to improve the quality of the provision and the overall balance of the housing supply. Within that there is also a continuing challenge to make best use of existing stock and to

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<sup>18</sup> Property Market Report 2007, Valuation Office

[http://www.voa.gov.uk/publications/property\\_market\\_report/pmr-jul-07/index.htm](http://www.voa.gov.uk/publications/property_market_report/pmr-jul-07/index.htm)

<sup>19</sup> Cascades: Improving certainty in the delivery of affordable housing for large-scale development? Housing Corporation, English Partnerships and ATLAS, October 2007

improve overall levels of decency. The north west still has the greatest numbers of low value and non-decent private sector properties in the country.<sup>20</sup>

1.23 There is a complexity and diversity of housing markets in the region and it is imperative that the HCA adds to the range of delivery measures and tools which are being developed to provide a more responsive regional framework for both new provision of affordable housing and regeneration of existing areas, improving the quality and making best use of the stock that we already have. We are not absolutely clear how the existing private sector stock will be addressed by the HCA, and this will need careful consideration.

Meeting the needs of all

1.24 Recent figures have shown some key emerging trends in relation to the tenure balance across the north west – a slow down in the rate of growth of home ownership, long term decline in social renting and, post 2002 in particular, an increase in private renting<sup>21</sup>. Housing waiting lists across the region have doubled since 2000<sup>22</sup> and there has been a reduction in the availability of social housing through both decreased turnover and continuing right to buy sales. These trends have important implications for those on low incomes and first time buyers, who wouldn't be given priority access to social rented properties and who cannot afford to compete on the open market, creating particular issues for vulnerable groups within the unregulated private rented sector.

1.25 The north west has, for a number of years, placed an emphasis on delivering all aspects of housing policy, not just the quantity of housing. This is an emphasis that we will continue. The Assembly submitted a Draft Regional Spatial Strategy to Government in January 2006. The policy on Regional Housing Provision (Policy L4)<sup>23</sup> highlights this, making clear that alongside actual numbers of houses it is vital to “*address the housing requirements (including local needs and affordable housing needs) of different groups,*

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<sup>20</sup> North West Housing Statement 2007

<sup>21</sup> CLG data – North West Housing Statement, NWRA, 2007, Figure 11

<sup>22</sup> DCLG, HSSA returns, North West Housing Statement 2007, Figure 7

<sup>23</sup> Submitted Draft Regional Spatial Strategy for the North West, NWRA, January 2006, Policy L4, page 32

[http://www.nwra.gov.uk/downloads/documents/imported/rp\\_kMqZ\\_Submitted\\_Draft\\_Regional\\_Spatial.pdf](http://www.nwra.gov.uk/downloads/documents/imported/rp_kMqZ_Submitted_Draft_Regional_Spatial.pdf)

*(for example students, older people, black & minority ethnic communities, families with children) to ensure the construction of a mix of appropriate house types, sizes, tenures and prices”.*

1.26 A body of work commissioned by the Northern Way has also explored the need for housing market analysis to look beyond raw numbers and to consider the type of homes, where they are built and what services they are nearby, and the link with economic competitiveness<sup>24</sup>.

1.27 One of the potential implications of the new Housing and Planning Delivery Grant (HPDG) could be to increase the emphasis on the number of units developed. The nature of the grant could have significant implications in authorities where housing delivery is particularly difficult or restricted. This is something which a number of authorities across the region have concerns about. There is also the potential to distract attention away from delivering a balanced housing offer. CLG have recently published a consultation document on the mechanism for the allocation of the HPDG. This proposes that the housing element of the HPDG will be based on delivering new provision at a minimum of 0.75% of stock with one element of grant for each net additional dwelling beyond that 0.75% point (based on average 3 year delivery figures). Within the consultation document there is also some exploration of how design quality issues and making use of empty properties could be included in the criteria. However these will be included at a later date. More work might be needed to understand the impact and interrelationship between the HCAs work programme and the HPDG, linked to the issue raised in section 1.13 / 1.14 above about higher delivery costs per unit.

2. Local delivery vehicles: In many cities, Urban Regeneration Companies and Urban Development Corporations already operate – and there are proposals to develop City Development Companies to promote a public-private approach to economic strategy. The Housing Green Paper has also proposed the creation of Local Housing Companies, and many cities and towns are investigating the possibility of using asset-backed vehicles (public sector land, private sector cash) to improve the housing offer. **Are new**

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<sup>24</sup> Quality of Place: The North's Residential Offer , Llewelyn Davies Yeang, 2006  
<http://www.thenorthernway.co.uk/page.asp?id=208>

**vehicles, such as LHCs and LABVs, required to deliver a better urban housing offer? What can new local delivery vehicles do above and beyond the role of councils and existing bodies?**

2.1 In the north west an issue of lack of capacity and skills has been identified at a local and sub-regional level both in terms of strategy and delivery. It is important that we seek ways to address these issues. The proposed delivery vehicles may have an important role to play in this. The production of sub-regional strategies and policies and the development of Local Area Agreements are being encouraged in the north west. The value of joint working needs to be recognised and adequate training and development implemented. Whatever new arrangements are put in place they must be given resources, support and time to make a difference.

**3. Managing 'communities of choice': A good urban housing offer is more than just bricks-and-mortar construction. To ensure that new urban housing is sustainable and popular over time, new communities require continued investment and strong management. How can the public and private sector work together over time to manage and maintain a strong urban housing offer? What changes and incentives, for example in the private rented sector, could help to do this?**

3.1 In the delivery of sustainable communities it is essential that there is a co-ordinated mechanism for both the provision of new affordable housing and regeneration. This must be shaped to meet local and regional priorities and therefore it is critical that the HCA can respond to these priorities rather than just a national remit with a regional presence.

3.2 It is also essential that regeneration projects have regard to private sector strategies and Pathfinder programmes and plans to ensure that they completely respond to and support the delivery of these initiatives to provide neighbourhoods where people want to live and work. HMR activity must remain accountable, working closely with the Regional Housing Board in the short term continuing under the new arrangements following the Sub-national Review.

3.3 There is an increasing amount of research being undertaken to identify the impacts of the buy-to-let market on the wider housing market. Speculative investment in property has led to many units being purchased and left empty as house prices have increased, appealing to speculators who are keen to maximise their investment. However this speculative investment also has an important value in driving regeneration, creating confidence in an area which can subsequently attract further investment. In moderation, the buy-to-let market is an important part of the overall housing market, providing another way for people to access the housing market. However in some areas, particularly city centres, there are areas where the buy-to-let market is no longer in proportion to the rest of the market. There may be ways that the public and private sector can work together to actively manage this aspect of the market, to ensure that the buy-to-let market can contribute to the creation of a balanced housing market.

3.4 The private rented sector plays a particular role in meeting the needs of those who are disadvantaged by a lack of turnover in the social rented sector by meeting the affordability needs of those at the lower end of the market. However there are issues with both a lack of regulation, management and affordability within the sector. These issues need to be addressed to ensure that the private rented sector can play a full role in meeting those needs. In the north west, Salford City Council have recently introduced a selective licensing scheme in a small area of Salford, which requires private landlords in Seedley and Langworthy to apply for a landlord licence. Fines of up to £20,000 can be applied if landlords operate without a licence.

3.5 Equity loans have an important role to play in providing access to housing, particularly in the Pathfinder areas. They allow homeowners to relocate from low value areas to more expensive properties. A draft plan has been submitted to CLG by the Pathfinders to explore the use of equity loans further. Equity loans can also be used to fund the renovation of properties. Discussions are being held in the North West around the value of equity loans and their importance in encouraging private sector involvement in housing delivery. We would encourage consideration to be given of their value as part of this inquiry.

3.6 It is important to consider not just the private sector's contribution to housing delivery per se, but the private sector's contribution to delivering the right mix and quality of

housing at the right price and in the right location. Encouraging the private sector to develop business models which are about long term involvement is an important part of this.

3.7 The Government's National Policy Statement on Affordable Housing<sup>25</sup> (published alongside PPS3) provides a very clear direction to encourage Local Authorities to consider a wide range of partners for the delivery of affordable housing. A number of private sector companies have started to develop these models, for example Northern Affordable Homes Ltd, who have developed a model using s 106 agreements which allows them to build and manage properties and ensure that they remain affordable in perpetuity. On this note we welcome the increased number of private sector partners on the Housing Corporation's list of partners to deliver the National Affordable Housing Programme 2008 – 2011. It is important that the HCA continues this support.

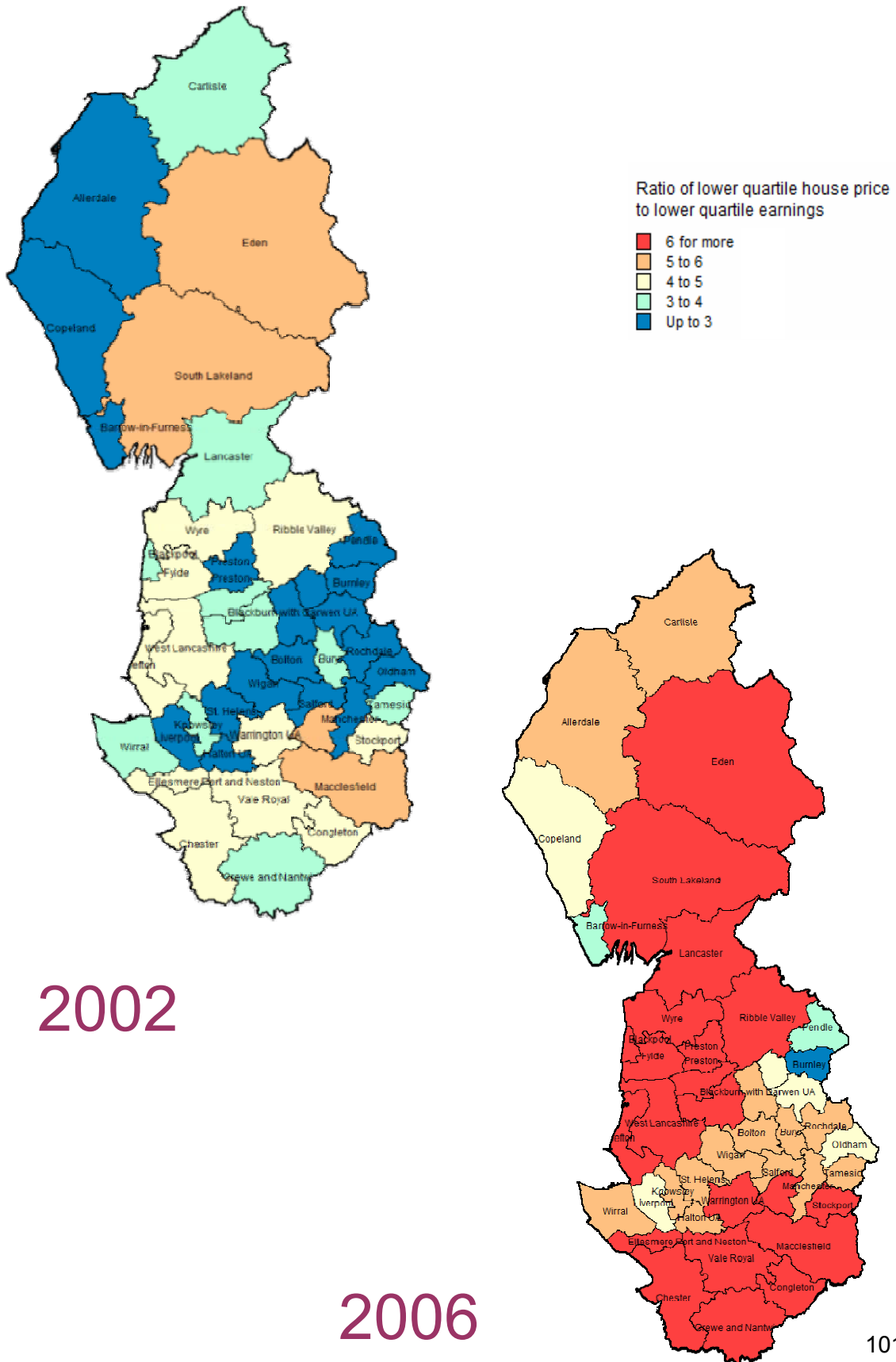
3.8 The North West Regional Assembly has recently published a housing statement which gives a profile of housing in the North West in 2007, including much of the data set out in this text. A copy of the summary is attached and can be accessed at [http://www.nwra.gov.uk/downloads/documents/oct\\_07/nwra\\_1191247228\\_Housing\\_Summary\\_Sept\\_07.pdf](http://www.nwra.gov.uk/downloads/documents/oct_07/nwra_1191247228_Housing_Summary_Sept_07.pdf)

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<sup>25</sup> Delivering Affordable Housing, CLG, November 2006

**Appendix 1 – Changes in affordability at a district level in the North West 2002 – 2006.  
(HM Land Registry)**



## **WRITTEN EVIDENCE SUBMISSION FROM PRUPIM**

### **Introduction**

The following is a response by Prudential Property Investment Managers Limited (“PRUPIM”) to the All-Party Urban Development Group’s public inquiry into the future of Britain’s housing supply.

PRUPIM is a part of the M&G, the investment arm of prudential Plc in the UK. With over £19 billion invested in close to 1,000 properties in the UK, PRUPIM is the leading property investment management companies. It funds, builds and manages some of the UK’s most well known office schemes, shopping centres, business parks and residential developments.

Its portfolio includes nationally recognised properties such as Arndale Centre in Manchester, Berkeley Square in London and GreenPark in Reading. In 2006, St Edward Homes was formed as a joint venture between Prudential The Berkeley Group to deliver major residential and mixed-use development schemes across the UK.

In the UK, PRUPIM currently has around 26,500 homes in the development pipeline. PRUPIM is also a member of the British Property Foundation.

### **1. Representations on behalf of PRUPIM**

- 1.1 PRUPIM welcomes the opportunity to comment on the All-Party Urban Development Group’s public inquiry into the future of Britain’s housing supply. Housing is critical to Britain’s future and we support the priority which is being given to the delivery of new housing. We agree with the view that the Government’s targets for housing delivery must be matched by a system for delivery that can meet the ambitious numbers. PRUPIM is committed to and is actively pursuing the promotion of a number of major housing/mixed use development proposals which would make a significant contribution of around 26,500 homes to the provision of sustainable communities.
- 1.2 These representations follow earlier representations which PRUPIM has submitted to the Government, including formal submissions on the Planning White Paper and Housing Green Paper.

## 2. **Institutions**

- 2.1 PRUPIM believes that the creation of the Homes and Communities Agency, and specifically the bringing together of the functions of English Partnerships, the Housing Corporation, and a range of work carried out by the Department, including delivery in the areas of 'decent homes' housing market renewal, housing PFI, housing growth and urban regeneration to better join up the delivery of housing and regeneration, is a welcome step. We further believe it is recognition of the importance of ensuring that the right structure is in place in order that the private sector can deliver the Government's commitment to increase the number of new homes, specifically the targets set for 2016 and 2020 respectively.
- 2.2 Regarding how best the new agency can help deliver the housing offer, PRUPIM believes that there may be a need for a stronger regional and national level framework, by institutions of whatever name, better to support housing delivery at a local level. This appears necessary in the absence of co-ordination of local authorities, which is of particular importance in relation to the delivery of strategic sites (see below), but of course needs to take place alongside processes that ensure continued local accountability and community involvement.
- 2.3 Achieving the target of 240,000 homes a year (that the National Housing Planning Advice Unit has recently advised does not go far enough) will not be possible without a considerable focus on strategic sites, given the constraints on land availability and the need to bring forward environmentally-sustainable developments. The contribution to housing delivery in the South East was recognised by the recent Independent Panel report on the draft South East Plan, in which the Inspectors supported the role in Strategic Development Areas (SDAs) and recommended that two further SDAs were established in in south Oxford and south Reading.
- 2.4 It will therefore be important for the Government to provide direction to regional and local level bodies regarding housing delivery – to ensure there is a balance between the inevitable localised focus that such bodies may have and a recognition of national requirements.
- 2.5 As such, PRUPIM welcomes proposals of the Sub National Economic Development and Regeneration Review to combine Regional Spatial Strategies and Regional Economic Strategies. However, we caution that if Regional

- Development Agencies are to take ownership of this process we would like Government to set out how it will provide additional resources to match the new skill sets required, as well as to cope with the additional volume of work.
- 2.6 We believe the most important considerations in determining the most appropriate location for SDAs are sustainability criteria, demand and location. Brownfield regeneration clearly has a role, particularly with regard to housing development in cities and towns, but we would caution that it is not seen as the ‘panacea’ and that a balanced view is taken in the face of a number of challenges.
3. **Local Delivery Vehicles**
- 3.1 Building on our stated aim of greater direction, and, as a result, greater certainty, at regional and national levels in order to aid delivery at a local level, PRUPIM also supports a clearer role for delivery vehicles. We believe that any vehicle bringing together public and private partners with a view to providing greater clarity and efficiency in allocating resources to bring forward development
- 3.2 For example in applying for public funds and allocating section 106 or tariff-based funds, we believe there could be a role for a ‘ringmaster’ or ‘implementation’ agency to ensure Government funding is allocated effectively. There is a debate to be had as to whether this should take place at a national, regional or local level – particularly in the case of infrastructure investments, which often have regional level significances. What is vital is that such a body have sufficient powers and expertise to better direct and coordinate funding in order to support development in a streamlined and effective manner – NOT act as another layer in an already complex system, which would be entirely contrary to the Planning White Paper’s aims.
- 3.3 Based on our exposure in the South East region, PRUPIM agrees with SEEDA’s recent analysis which indicated a mixed experience of various local delivery vehicles but stressed that they have the potential to emerge as a central mechanism for achieving a greater alignment of local and regional priorities and funding. We particularly welcome the potential that local delivery vehicles have to support a streamlined approach. With this in mind, we believe that lessons can be learned from the success of the sort that has been seen by Partnership

for Urban South Hampshire (PUSH) and can be applied by local strategic delivery mechanisms elsewhere in the country.

#### 4. **Managing ‘communities of choice’**

- 4.1 PRUPIM welcomes the committee’s statement that “a good urban housing offer is more than just bricks-and-mortar construction” and believes that, as part of this, the provision of infrastructure is key to the housing growth agenda.
- 4.2 To achieve this, effective mechanisms need to be put in place to secure the timely delivery of the infrastructure needed to support development upfront. This is currently a considerable challenge for developers, particularly when bringing forward strategic sites, because of the length of time and front loaded investment it takes to put in place the necessary transport schemes. We consider that comprehensive regional strategies will facilitate integration between housing growth and infrastructure delivery.
- 4.3 Regeneration of deprived areas is also a key part of creating ‘communities of choice’, and large strategic sites provide the opportunity to have a positive impact on a locality. For example developer contributions matched with other funding sources can lead to significant investment and provision of infrastructure and amenities. This can lead to job creation in the short term but, in the longer term, also holds the potential to act as a catalyst for further development in the surrounding area in the future.
- 4.4 A further crucial part of delivering ‘communities of choice’ is sustainability, and the Government’s Housing Green Paper emphasised the importance of reducing carbon emissions of new homes as part of this. One of the merits of strategic development sites in which PRUPIM is involved is the ability to take a holistic approach to energy generation and the reduction of the carbon footprint within a development through comprehensive infrastructure strategies. As part of this, we support challenging carbon performance targets on new buildings. We therefore welcome recent indications from Government of plans to reform the ‘Merton Rules’ to provide greater flexibility and allow developers to provide renewable energy off-site.
- 4.5 Proposals for eco-towns are also relevant to the matter of ‘communities of choice’. PRUPIM recognises the merits of the proposals to create planned new settlements which will be designated as eco towns and which will be exemplar

'green developments'. We consider it important to note that there will be opportunities for other major strategic development sites to contribute to this initiative. Whilst such sites may not qualify for eco-town status, they will be capable of delivering sustainable communities with their own range of 'green' initiatives enabling changes in lifestyle. As such these developments are capable of making a valuable contribution to the challenging housing targets which the Government has set. PRUPIM is committed to playing its part in the delivery of housing and sees its strategic proposals as complementing the eco towns initiative.

## **WRITTEN EVIDENCE SUBMISSION FROM SARAH PAYNE PHD, GLASGOW UNIVERSITY**

This contribution draws upon doctoral research<sup>26</sup> into the UK speculative house building industry and the challenge of brownfield development, undertaken between 2004 and 2007. In depth semi structured interviews were conducted with ten of the biggest UK house builders (by unit completions) and other actors in the residential development process, with a locational focus on the cities of Manchester and Glasgow. A questionnaire was also sent to the top 103 house builders (by unit completions) in the UK, which provided a 48% response rate.

### **1. Introduction**

Of central importance to any objectives raised by the UK Government for increasing the supply of new homes is the capacity of private sector developers, specifically speculative housebuilders, to deliver these homes. Therefore, integral to any discussion on the delivery of increased rates of new housebuilding should be an thorough analysis of the nature and structure of the UK house building industry.

Whilst it is the Governments wish to see the delivery of 240,000 new homes per annum in England (see Callcutt Review of Housebuilding Delivery), 60% of these new homes must also be built on brownfield sites (PPS 3). This submission discusses the adaptation measures of UK housebuilders in response to the UK Government's 'brownfield first' agenda and provides some important implications for the long term successful delivery of new homes in the UK.

The UK speculative housebuilding industry has grown and prospered primarily through the conversion of greenfield land into mass, standardised estates. Therefore, the Government's commitment to increasing the output of new homes together with

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<sup>26</sup> (Payne, S) 'The Institutional Capacity of the UK Speculative House building Industry – responding to the brownfield development requirement' *forthcoming* PhD, Department of Urban Studies, University of Glasgow; Supervised by Professor David Adams and Professor Ken Gibb, Department of Urban Studies, University of Glasgow and funded by the Economic and Social Research Council.

restricting that development to primarily brownfield sites, presents a significant challenge to the current skills base of many of the UK's speculative house builders.

As the role of brownfield development is crucial in increasing the delivery new homes, important questions are raised over the capacity of the house building industry to deliver the majority of these new homes on brownfield sites. To an industry that has grown as prospered primarily through the conversion of greenfield sites and relied on the delivery of a standard product for standard locations, the challenge of a brownfield development process requiring individually tailored products for specific locations amongst a midst of urban complexity and ground related issues is likely to be significant.

Although it is evident that the 60% brownfield development target has been delivered since 2000, there still remains concern over the sustenance of house builders hunger and appetite for brownfield development in the midst of the required increase in rates of house building.

## **2. What challenges does brownfield development presents to the current modus operandi of the UK house building industry**

Brownfield development presents the UK house building industry with an array of ground related and institutional constraints on the development of brownfield land for housing.

A short summary of the main ones is listed below:

- Protracted and unknown land ownership of brownfield sites
- Abnormal site preparation and ground related risks
- Market constraints, particularly in historical housing 'non-locations'
- Smaller plot size requiring more intensive development
- An existing and complex urban fabric within which to situate development
- The need for more innovative design of house types to suit this urban complexity

### 3. How are house builders responding to this brownfield challenge?

My research suggests that house builders have made a number of important changes to the way they operate in response to the policy switch favouring brownfield development. These changes have allowed house builders to manage, and in some cases transfer, the risks commonly associated with redeveloping previously used sites, therefore allowing them to maintain a relative level of new housing output.

It is evident from my research that the house building industry has shifted its behaviour to **accommodating** brownfield development into its current modus operandi rather than changing it to **suit** the demands of the brownfield agenda. Below is a list of the most significant ways in which house builders have demonstrated this, through the management and transference of those risks typically associated with brownfield development:

- **Greater Discernment in Site Selection** – house builders are shrewd in their choice of brownfield sites, ensuring that a market exists for what they intend to develop and that the site's history is thoroughly researched to give an account of historical land use and to identify any potential problems that might arise in the ground, before they conduct site investigations.
- **Intrusive Site Investigations** – house builders will conduct intrusive site investigations to ensure that all potential hazards and risks that are in the ground are discovered and remediation is arranged prior to the control of that site. However, some unknown contaminants might remain out with the borehole locations and this risk is generally managed by the availability of remediation expertise to clear up that contamination as and when is required.
- **Proactive & Strategic Site Identification Strategy** – through their saturation surveys, builders will identify all potential housing sites within market areas they wish to penetrate and will then seek to buy or control those sites before they have gone to an open market. This way, competition through bidding on an open market is reduced and builders can strategically arrange their sites. Where they

can, builders will not wait for sites to be brought to them or wait for land to appear on the open market.

- **Standardised House/Flat Types for Brownfield** - builders still try to standardise their product for brownfield sites by employing standard footprints. The difference to design comes only when builders alter the façade of the structure to blend in with the immediate surroundings required by brownfield sites. This allows house builders to control construction costs where possible and provides them with some level of certainty in cost terms. However, builders will commission bespoke developments where they deem it necessary, but these tend to be reserved for large regeneration initiatives and city centre schemes where institutional support and assistance is available.
- **The Identification and Management of 'Abnormals'** – the housebuilder will value the site as if it were a clean site, taking account of market conditions, and will then scrupulously identify any 'abnormals' that exist in the ground, cost them in remediation terms, and then deduct them from the value of the site to come to a net value for which to approach the land owner with. This way, the risk of 'abnormals' being present in the ground is transferred to the landowner.
- **Profits Primarily Made Through Construction Process** - it is evident through my research that house builders make money in speculative residential development on brownfield sites through construction efficiency. This is because builders can't compete on unit sales cost because the existing stock and the market set them. They can't do anything about the cost of the land as it's the residual value that they have worked out taking account of all costs of 'abnormals', and it was found that the landowner will take the maximum they can – thus if housebuilders increase their costs, they'll come to a lower residual value which means the landowner would be more likely to sell it to someone else who has gambled on less abnormals being present or some other type of cost e.g. section 106/75 package. Thus the only thing that house builders can control, as was intimated earlier, is the construction cost of that development.

- **The Outsourcing of Skills and Expertise** – expert skills required by brownfield development are typically outsourced to specialist consultants e.g. remediation, architectural, planning and engineering etc rather than housebuilders investing in those skills in-house. However, it was evident that house builders did employ in-house planners, architects and engineers etc to oversee and manage those experts but **not** to enact those skills themselves. This puts forward the thesis that housebuilders in a brownfield mode of development are emerging as ‘managers’ of the brownfield residential development process.

#### **4. Issues that remain unclear and require continued policy direction**

Although the above research findings demonstrate a positive attitude to brownfield residential development by UK house builders, through the acquisition of skills and strategies suitable for this form of development and the management and transference of risk, a number of important issues remain unclear. These important issues are explained below:

- Ultimately, whilst housebuilders have proved to be malleable to the Government’s brownfield policy, they are still undoubtedly on the whole driven by the desire to acquire the cleanest piece of land in the best location and to make the most amount of profit as possible through construction.
- ‘Hardcore’ sites in non-locations (i.e. those areas without an existing viable housing market) need institutional assistance. My research demonstrated that those trickier sites in less attractive locations are not favoured by volume builders unless they embark on a bespoke development as part of a master plan for the area where institutional support is available, for example through English Partnerships or regeneration companies.
- Whilst my research found a positive attitude towards brownfield land for housing by house builders, it remains clear that the sustenance of house builders’ hunger and appetite for brownfield land for housing development is uncertain. This is because house builders’ desire to maintain profitability by cost minimisation often

overrides the extraneous environmental and social benefits that accrue from brownfield redevelopment. Thus, if greenfield release were to become more widespread, in light of the Government's desire to increase the amount of new homes built each year to 200,000, house builders might be tempted to those sites in place of brownfield sites. This might mean that institutional assistance for those 'hardcore sites' becomes more important and available to house builders if they are to be tempted to these sites and away from greenfield sites. It might also mean that house builders need continued direction from government with regard to brownfield development.

## **5. Concluding Comments**

House builders will require continued direction from government if the brownfield development target is to be maintained and the sustainable development agenda is to be realised. This is particularly crucial if the Government wishes to increase the amount of new homes built each year where a proportion of these might have to be located on greenfield sites.

This contribution provides a summary of my research findings and more detailed research findings as well as statistical evidence from my questionnaire is available.

**WRITTEN EVIDENCE TO THE  
ALL PARTY PARLIAMENTARY URBAN DEVELOPMENT GROUP  
INQUIRY 3 - DELIVERING A GOOD URBAN HOUSING OFFER  
- ENDS -**