

## **BARKER REVIEW OF HOUSING SUPPLY RESPONSE BY GREATER LONDON AUTHORITY**

The Greater London Authority is pleased to respond to the request by Kate Barker to make a submission to the review of Housing Supply which she has been asked to undertake by the Chancellor and the Deputy Prime Minister. We have already met with members of the Review team and had a very constructive discussion. We would welcome the opportunity to assist with the work of the Review at a later stage, either through further submissions or further meetings.

Improving the supply of housing in London is a key target of the Mayor's draft London Plan. The draft London Plan estimated a requirement for an additional 31,900 dwellings in London a year for the next 10 years. The London housing capacity study carried out in 1999 identified a capacity for 23,000 homes a year; this includes 19,000 new dwellings from new building and gains from conversion of residential and non-residential premises per annum, together with 4,000 per annum from provision of non self-contained accommodation and the return to use of vacant property. On the basis of this study, there is insufficient capacity identified to meet London's needs.

The Mayor therefore strongly welcomes the focus of the Review on identifying constraints on the supply of housing which prevent the housing market functioning efficiently, and looks forward to its recommendations as to how policy can better reflect the wider social costs and benefits of housing.

### **Issue 1: We would like to understand whether the supply of land is overly constrained, and if so, how, and by what?**

- **Is there a shortage of suitable land for development? Are there any factors which reduce land owners' willingness to sell?**
- **Are there problems associated with land assembly particularly brownfield land?**
- **Does the practice of optioning land restrict the overall supply of land?**
- **Is optioning necessary? If so why?**
- **Is the land allocated for housing in local development plans sufficient to meet housing need?**
- **Is the RPG housing shortfall explained by a shortfall in the number of appropriate planning applications?**

1.1 A new housing capacity study for London is to be commissioned by the Mayor, for completion by 2006, to seek to identify further capacity. The preparatory methodological study for this project has recently been completed. While there are indications that there is some additional capacity beyond the 23,000 annual figure adopted in regional planning guidance, including potential increased capacity in the London part of the Thames Gateway growth area, it is nevertheless necessary to consider the extent to which capacity in the growth areas outside London could contribute to meeting at least part of the identified shortfall. This matter will be pursued both through inter-regional planning arrangements and through the collaboration of the 3 regional housing boards responsible for jointly managing the housing capital programmes for the greater Southeast.

1.2 The Mayor, through both the London Plan and his decisions in relation to strategic planning applications referred to him, is seeking to make most effective use of existing

development capacity, through supporting development at higher densities where this is appropriate, and through the use for residential development of surplus employment sites. This is consistent with current Government thinking.

- 1.3 The report of the Panel on the draft London plan following the examination in Public recommends an aspirational target of 30,000 homes per annum is set. The Panel nevertheless recognised that until additional capacity is identified, the Mayor should continue to use the 23,000 housing capacity study based figure as the basis for monitoring provision at borough level. The Panel also endorsed the Mayor's target that 50% of provision should be affordable housing (including social rented housing and intermediate provision) and that 50% should be market provision.
- 1.4 It is worth noting that housing completions in London are running at very close to the 19,000 dwelling benchmark – in fact the latest GLA monitoring figures, based on local authority returns, produce an estimated average completion rate of 18,996 over the 5 year period 1997-2001. Once reuse of vacant properties and provision of non self-contained accommodation is taken into account, the Regional planning guidance/draft London plan target of 23,000 is exceeded, with the average annual provision over the 4 years 1997-2000 being estimated at 25,400. It should be noted that GLA figures demonstrate that the ODPM figures on housing completions in London significantly underestimate outturn.
- 1.5 GLA monitoring figures show that the planning approvals figure has averaged 26,369 over the 5 years 1997-2001, so on average completions are 72% of approvals. This suggests that a lack of appropriate planning applications is unlikely to be the sole explanation for housing shortfall. There is some evidence that applicants will seek planning applications for different uses for a site so not all planning approvals for residential development will generate residential completions. Landowners and developers may also defer implementation of a permission while the comparable value of alternative development is considered, and changes in relative market demand awaited.
- 1.6 The GLA and its partner agencies have undertaken considerable work on the constraints on land being brought forward for residential development. A central piece of work was the report commissioned jointly with the House Builders Federation and undertaken by London Residential Research and the University of Westminster, published in February 2002 as Future Housing Provision: Speeding up Delivery. The recommendations of this study included:

Recommendations to the Mayor:

- Use the Spatial development strategy (the London Plan) to provide a clear and unequivocal context for housing including workable standards;
- Advocate residential inclusions in all suitable commercial developments;
- Encourage a standard planning application form;
- Include in the Spatial Development strategy a clear policy framework for Planning Obligations
- Issue a series of good practice guides on implementing PPG3 Housing in the London context.

Recommendations for housebuilders included:

- Housebuilders should be actively involved in the preparation processes of the SDS and UDPs rather than delaying challenges to the latter stages of preparation;
  - Contribute positively to the preparation of housing capacity studies;
  - Pursue innovative and imaginative mixed use developments wherever possible;
  - Encourage joint working and work exchanges with other housing agencies.
- 1.7 These issues are being pursued further with the House Builders Federation and other member organisations of the housing forum for London, with the original recommendations in the Speeding Up Delivery report being jointly reviewed, to seek to identify appropriate action to overcome outstanding obstacles. We are happy to keep the Barker Review team updated on this work.
- 1.8 There is evidence of a shift from non-residential to residential development in London. Residential planning applications as a total of all planning applications in London has increased from 54% in the first quarter of 1999 to 76% in the first quarter of 2003, while the proportion for office and light industrial development has fallen from 14% to 11%. There is also a significant residential supply generated by the conversion of non-residential premises. Estimated residential completions generated by the conversion of offices in 2001 is estimated at 1,467, with residential completions generated by other non-residential conversions is estimated at 1,526. These two sources together, providing 2,993 dwellings, exceed the target of 1,940 in the 1999 London Housing Capacity study, and provide some 16% of the 2001 dwellings completion figure of 18,156. The latest figures for commercial and industrial vacancies in London give a vacancy rate of 9%, above the national average of 7%, while the residential vacancy figure in London is just over 3%, having fallen from over 5% in 1994.
- 1.9 With regard to land assembly and brownfield land, a significant proportion of London's housing capacity is in areas where there is limited transport and social infrastructure. This is confirmed by an exercise undertaken by the GLA to map identified housing sites with a capacity to provide over 200 dwellings relative to public transport access. The 1999 London Housing Capacity study estimated that some 31% of housing capacity is in East London, the boroughs comprising the London element of the Thames Gateway growth area. Many of these boroughs currently have relatively low property values, and significant funding for transport and social infrastructure, as well as in some cases, site reclamation, is necessary for residential development to be a profitable proposition for residential developers.
- 1.10 However parts of inner east London boroughs such as Tower Hamlets and Newham can be profitable in terms of having higher residual values and in both these boroughs there have been increasing rates of residential completions over the last few years. In other boroughs such as Havering, Greenwich and Redbridge, rates of completions are as yet low relative to rates of planning approval.
- 1.11 However, the dependence on Thames Gateway should not be overstated. The London Housing Capacity study also identified 31% of total capacity in the central boroughs, where values are relatively high and residential development is profitable, especially relative to office development in the current office market in all but prime locations.

The GLA has commissioned research by London Residential Research, CB Hillier Parker and the University of Westminster on the operation of mixed- use policy and the inter-relationship of the residential and non-residential markets. The output of this project should be available in September 2003.

***Issue 2: In your view what constraints face the industry and which are the most significant? For example:***

- ***Do house builders face difficulties accessing finance?***
  - ***Do shortages of essential skilled workers exist, can alternative production techniques overcome this problem?***
  - ***Do attitudes to risk deter investment in land for housing?***
  - ***Do internal rates of return deter additional investment either in land or alternative production methods?***
  - ***Is there potential for increasing the use of alternative manufacturing methods? Is this potential affected by consumer preference or the attitude of mortgage lenders and insurers?***
  - ***It has been suggested that the economies of scale are not sufficient in the UK to make these off-site production techniques a viable option? Is this the case?***
  - ***Are the working capital requirements and cash flow implications of modular building a barrier to their use?***
  - ***Are there particular problems in developing brownfield land due to contamination or dereliction? To what extent are such problems obstacles to development decisions? How much more expensive can this make brownfield land?***
- 2.1 One reason for unresponsiveness in housing is that the house-building industry is highly speculative. There is considerable time lag from the purchase of land to completion. House builders therefore make decisions on the level of housing starts based on the anticipated state of the market some considerable time ahead. With future prices unpredictable, this makes the returns on investment unpredictable. Building houses is an inherently risky activity.
- 2.2 Moreover, the private housebuilding industry in the UK has a preponderance of small firms: 96% of construction firms employ 13 or fewer people. This makes the industry sensitive to changes in costs and prices and strongly influenced by changes in interest rates. In addition to diseconomies of scale, the industry is highly localised. Thus firms face high operating costs and are dependent on a large and complex supply chain. While most of the residential development in London is led by fewer than 10 residential developers, most construction work is actually undertaken by sub-contractors. These factors affect the technical development of the industry.
- 2.3 Representations have been made by industry bodies that there is a significant skills shortage. Moreover there is as yet little evidence that the use of off-site methods of construction achieves significant savings. As referred to above, the lack of significant public funding for site preparation reduces the attractiveness of developing contaminated sites, while the long lead in time of major regeneration schemes increases the financing costs for developers. The affordable housing financial appraisal toolkit developed by Three Dragons and Nottingham Trent University for the GLA and the Housing Corporation demonstrates the marginal viability, or in some cases non-viability, of the development of high cost, low value sites for market provision,

irrespective of any affordable housing requirements or planning obligations relating to other social and physical infrastructure.

- 2.4 Development in London is complex given the dependence on brownfield sites and the significant lead in time and the uncertainty of infrastructure funding. Development involves significant risks for developers, which do not generally apply on Greenfield sites. Residential development in London is to a large extent limited to a small number of specialist firms who are familiar with the constraints. These developers are however limited in the extent of risk they can carry at any one time. It should also be recognised that in seeking to protect value of outturn, there is little incentive to radically increase outturn as this would have a negative impact on value and rates of profit. There is therefore a need to increase financial incentives to developers and to reduce risk. This might generate a large volume of activity as national residential developers see an incentive for participating, either directly, or indirectly, in the London residential market.
- 2.5 Overall then, there are several key drivers which support a natural conservatism in the housebuilding industry, rather than innovation and change in response to changing market or policy factors. Concern about the risk involved in speculative house building leads to a tendency towards conservatism in the industry and thus reduces the responsiveness of supply to market price signals. It is in the interest of residential builders not to overstretch themselves and to maintain as steady a supply (or even under-supply) of housing as possible. Developers are naturally cautious about expanding supply when macro-economic conditions are uncertain. This is exacerbated by other factors including relatively low rates of technical change in the industry, under-investment in construction training and sectoral skill shortages."

***Issue 3: We would like to know whether policy and its application influence housing developments. For example,***

- ***Are there problems with the interpretation of planning guidance by local authorities, if so what are they and why?***
- ***Are there any particular aspects of planning policy which do not properly reflect the wider social and economic costs and benefits of housing?***
- ***Does the planning system provide incentives to develop brownfield land?***
- ***Is planning guidance applied appropriately?***
- ***Is the current reform programme sufficient to address inefficiencies in the planning system?***
- ***Are section 106 agreements an effective means for addressing and mitigating the impact of developments?***
- ***Do Section 106 agreements create any perverse incentives?***
- ***Do building regulations restrict development?***
- ***Do regulations governing "change of use" affect the use of existing buildings for housing?***
- ***Are there market failures you can identify affecting the development of environmentally sustainable housing, regeneration of urban areas and protection of the countryside?***

- ***How does the tax regime influence the use of land? For example the tax treatment of new build homes differs from that for conversions of existing housing stock - does this preclude certain types of development? Does taxation prevent the most efficient and effective use of land?***
- 3.1 There is fierce debate about the impact of planning regulations on the housing market in general, and on the operation of the supply side in particular. It is equally inadequate either to ignore the impact of the planning system or to ascribe all the failures of UK housing supply to that system.
  - 3.2 If the planning system is responsible for restricting the supply of housing, this should in principle have a measurable effect on house prices. In practice, the academic evidence is inconclusive.
  - 3.3 Cheshire and Sheppard (1989) found that the effect of lifting local restrictions on housing development would have a net reduction in house prices estimated to be as little as 3-5%. The Rowntree Foundation, using studies by Bramley (1993a and 1993b) argued that large land releases are an ineffective and environmentally damaging way of reducing house prices – doubling the amount of land allocated for housing would reduce house prices by less than 10%. Bramley and Watkins (1996) found that a 32% increase in Structure Plan provision would reduce prices by 4% in the medium term (although a similar increase in Local Plan allocations would reduce prices by 8%).
  - 3.4 On the other hand, another finding by Bramley and Watkins (1996) is that major concentrated land releases could have significant local/regional price effects – simulation in southeast showed seven large new settlements boosted the number of homes built by 5.6% and reduced average house prices by 3.5%. Evans (1996) and others have criticised Bramley’s methodology as underestimating the potential price and output effects of land release. Whitehead and Monk (1996, 1999) argue that the land use planning system does reduce the supply of land available for housing, driving up the cost. The planning system also impacts on densities and on the timing of development.
  - 3.5 The Mayor shares the Government’s objective of creating a more stable and consistent planning policy environment. One of the primary purposes of the London Plan is to provide a clearer framework for London borough policy and practice. While it is oversimplistic to consider planning and planners to be the only or even the main constraint on housing supply in London, there is still considerable room for improvements at local level in both policy and its delivery. The fact that planning departments generally remain under-resourced, and in many cases, not sufficiently experienced or trained to deal with complex cases, is leading both to delays in planning decisions and perhaps a failure to achieve the best outcome. The provision by Government of extra resources through planning delivery grant is therefore welcome. Although these resources are not ringfenced, most London boroughs are using the additional resources to improve planning delivery. The Mayor is using his £75,000 grant to improve monitoring of performance in relation to the 23,000 provision target.
  - 3.6 The Mayor’s planning staff seek to provide guidance to London boroughs on the operation of their planning powers. The London Plan, once adopted, will be supported by supplementary planning guidance. The GLA also seeks to provide borough planners

with some of the tools necessary to do their job more effectively, both in terms of research and information and assisting dissemination of best practice. The affordable housing toolkit referred to above is a key resource for local authorities and developers to test and discuss a range of alternative options for development of a specific site. The Mayor through his powers to intervene in planning applications for strategic developments is seeking to apply a consistent framework of benchmarks to be applied to individual cases.

- 3.7 A more stable and consistent policy framework would assist both planners and developers. The Mayor therefore welcomes the draft circulars recently issued by ODPM in relation to both affordable housing and thresholds, and the use of surplus employment sites. The Mayor will however be making further representations that the guidance should go further in supporting lowering of the affordable housing threshold in London below 15 units.
- 3.8 It is however also important that the framework for planning obligations is also clarified. The GLA published in June 2002 a report by Professor Rob Lane of the University of Westminster on this issue to seek to assist the Government in reviewing reform options. It should be recognised that where a development has significant value, there is a strong argument for the development contributing to transport and social infrastructure, including affordable housing provision, that where such value is limited, there is no alternative to direct public sector investment. There is no benefit in planning obligations being so onerous as to deter residential development and it is inappropriate and counterproductive to seek to use s106 as a substitute for under investment by the public sector.
- 3.9 In order to achieve balanced new communities and a more inclusive city, in line both with the Deputy Prime Minister's approach in *Sustainable Communities: Building for the Future* and with the Mayor's draft London Plan, significant investment in infrastructure – both physical and social – will be needed. The announcement, in the Deputy Prime Minister's Progress Report (July 03) of spending for specific projects, investment in transport infrastructure and advance planning to meet health and education needs in the Thames Gateway is very welcome. But Government will need to develop further a planned and integrated approach to investment in major transport infrastructure, schools and hospitals if we are to maximise the capacity for housing supply in the Gateway and other growth areas, in terms both of market and of sub-market housing. Given high costs and lower values in the Gateway, tax incentives for residential development, including provision of sub-market housing, need to be given serious consideration and some of the proposals set out in the ODPM research report on fiscal policy options progressed.

***Issue 4: Why has the industry not expanded provision of affordable housing or housing for rent?***

- ***Are there additional barriers that have prevented this expansion?***
  - ***Are these areas of provision simply not profitable?***
  - ***Is the private rental sector an unattractive investment option, if so why?***
- 4.1 Over the last 25 years, increased activity by housing associations (registered social landlords) has offset to some extent the ending of local authority housebuilding

programmes, but has certainly not compensated for it. At the same time, incomes and aspirations have grown, so it is legitimate to ask why private investment for rent has not expanded.

- 4.2 The answer to this is complex. First, while incomes have risen, the distribution of incomes has widened – this is particularly true in London. Hence, on the demand side, the majority of households in housing need in London will not be able to afford unsubsidised market housing, whether it is produced for owner-occupation or for rent. Moreover, those who are able to afford market housing will in general prefer owner-occupation, although private renting will meet the needs of certain defined groups (market entrants, frequent movers, etc.).
- 4.3 Significantly, some two thirds of affordable housing units in London provided through section 106 agreements also require social housing grant. (The 2003 London Housing Strategy seeks to increase the output from s106 agreements not involving social housing grant from 500 to 750 homes per annum, but that remains a relatively small contribution to the overall Affordable housing requirement estimated at 25,700 per annum).
- 4.4 Equally, there are problems on the supply side. For almost 100 years, policy has favoured tenures other than private renting – owner-occupation and social housing. Private renting has been disfavoured, not only in fiscal terms, but more generally in terms of policy preferences and institutional support. In this context it is not surprising that policies to increase investment in private renting (e.g. deregulation under the 1988 Housing Act, the introduction of the Business Expansion Scheme) have had only limited effects, and have proven to be more attractive to small-scale investors and landlords rather than the major financial institutions.
- 4.5 Increasing the availability of housing for private rental would require better mechanisms than at present for the separation of ownership, risk and management. It would also require greater fiscal support to private renting – with implications for the affordability and attractiveness of the two competitor tenures, owner-occupation and social renting. To attract major institutional investment, there would need to be a long-term framework in which investors were confident. But more than anything else, the supply of institutional funding will be driven by the expected returns from this sector compared with alternatives.
- 4.6 The level of housing investment in additional social provision in London has been increased over the last couple of years from £500m to over £700m, and this will now provide, either directly or indirectly, some 10,000 affordable homes a year. However, for the overall requirement to be met, a significant increase in public sector direct investment is required, together with the investment in transport, social and physical infrastructure referred to above in order to meet both traditional housing need and to provide for key workers and other working households on incomes under £35,000 a year.
- 4.7 Increased private sector investment in housing provision, both in terms of market sector provision and intermediate provision, could be generated by a more supportive tax framework. VAT for both new development and refurbishment of existing buildings should be reduced, with a lower rate for development of brownfield sites than for Greenfield sites. More radical options for fiscal incentives can also be considered, for

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example the options set out in the ODPM research paper published in August 2002.

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