

Comments to [consultation@barkerreview.org.uk](mailto:consultation@barkerreview.org.uk)

## **BARKER REVIEW OF HOUSING SUPPLY SUBMISSIONS OF THE M BAKER GROUP**

We refer to your letter dated 9 June inviting submissions of your review of housing supply. We set out below our submissions which we have related to the four issues set out in the paper attached to your letter.

The M Baker Group is a small independent family owned organisation involved in investment and development of land and property. The group has significant interests in residential development of land in the south west. It is advised on its investments by a group of senior and experienced Chartered Surveyors and Town Planners. It believes it is well placed to comment on the issues raised in this consultation paper. The group is willing to provide more information to the Review should it be required either in writing or in person.

The group welcome the Review and the opportunity to make submissions. It welcomes the fact that both the Chancellor and the Deputy Prime Minister are directly involved. They believe that the high profile given to this subject is recognition of its importance. The group believes that the importance attached to this matter is justified and that urgent action is required to increase the supply of housing land.

The group are conscious of the requirement in your letter to keep the submissions as brief as possible and this we have endeavoured to do. We would, however, have liked to have made more detailed submission on the themes identified in the consultation paper in view of the importance of the subject being investigated. We have nevertheless, simply addressed the issues set out in the paper. We hope that these are of some value to you.

### **SUBJECT: LAND CONSTRAINTS**

#### **Issue 1**

- ***Is there a shortage of suitable land for development?***

We believe that there is a shortage of land for which planning permission will be forthcoming. This does mean that there is a shortage of suitable land. Many sites identified in adopted local plans as being suitable will, since the publication of the current version of PPG3, no longer receive planning permission despite the fact that these sites were bought on the basis of the confirmed allocation. Reasons why such land will not receive planning permission vary but the most important relate to:

- emphasis on brownfield land
- infrastructure requirements
- planning contributions

Suitable land does exist, therefore, it simply needs local planning authorities to recognise it.

- ***Are there any factors which reduce landowners' willingness to sell?***

Yes - we believe that there are. We believe that the increasing uncertainty over suitability and the time needed by the planning system to achieve such certainty, the availability of planning permission, coupled with the increasing demands for planning contributions and the lowering of thresholds at which they apply, increase risk to the landowners and the returns that can be expected. We increasingly find that landowners are reluctant to sell or even option their land, preferring instead to wait for more certain times.

- ***Are there problems associated with land assembly particularly brownfield land?***

We believe that there are and that they are significant. Brownfield land is often in fragmented ownership with each owner believing that he or she owns the key to bringing a site forward. This makes negotiations difficult and protracted. This problem has to be added to the other well known problems of contamination, infrastructure, access, planning contributions and adjoining uses. Brownfield land already has a value relating to its existing or previous use and the uplift to residential values is often small. The returns on investment which justify involvement in such sites are not sufficient to encourage small to medium size firms to become involved. Our money is better invested in alternative forms of investment.

As an example, we can provide you with details of a brownfield site within the defined limits of a settlement defined by the local planning authority as being sustainable and identified for growth, which was the subject of negotiations with the local planning authority for over 2 years, and which culminated in a refusal of planning permission. An appeal is under way which will result in a further year's delay.

- ***Does the practice of optioning land restrict the overall supply of land?***

We can see no reason why it should. Nearly all modern options contain a performance clause requiring best endeavours to obtain planning permission within specified periods of time. The obtaining of planning permission triggers purchase. We cannot see how such practice would restrict land supply.

- ***Is optioning necessary?***

We believe that it is, and that it is an essential part of the process given the risks and uncertainties in the current planning process.

- ***Is the land allocated for housing in local development plans sufficient to meet housing need?***

We believe very strongly that there is not sufficient land allocated in local plans for which planning permission would be forthcoming. (Please see previous comments on this matter.) PPG3 only requires local planning authorities to identify sufficient land to meet Structure Plan requirements and to look no further despite the existence of other suitable land. Too much reliance is placed upon windfall sites - often up to 50% of the requirement - and this is the opposite of the objectives of a local plan. Insufficient allowance is made for site assembly difficulties, site deliverability and non-implementation. Urban Housing Land Capacity Studies are a mixed bag, with some being little more than a superficial examination of the area. Residential land provision in local plans must be increased if the problems of land supply are to be dealt with and we support the recent initiative to increase the requirement in local plans from a 5 year supply to a 10 year supply.

- ***Is the RPG housing shortfall explained by a shortfall in the number of appropriate planning applications?***

We believe that it is necessary to examine why there is a shortfall in the number of planning applications. We believe this to be because of the increasing uncertainty over obtaining planning permission, the infrastructure requirements and the demand for planning contributions, which all increase risk and lower returns. It is simply not worth the expense or hassle of submitting an application. A further factor is the delay inherent in cascading Regional Policy down to local plan provision and on into development control considerations. These delays are enormous. Removing planning functions from the local planning authorities to a regional level may be necessary if performance and culture are not radically changed.

**SUBJECT: INDUSTRY CONSTRAINTS**

**Issue 2**

- ***Do house builders face difficulties in accessing finance?***

We do not believe so. Arranging finance for residential development is not difficult. Obtaining planning permission is.

- ***Do shortages of essential skilled workers exist?***

Yes they do. This is especially true of manual skills in areas such as plumbing, carpentry, plastering and masonry. We believe that current training programmes fail to produce skills in the depth required, such as were obtained from the old apprenticeship schemes.

- ***Can alternative production techniques overcome this problem?***

No. They can assist but will not overcome the problem. We doubt the value or suitability of alternative techniques on brownfield land which often requires design and layouts which are tailored to the site and which are unique to that site.

- ***Do attitudes to risk deter investment in land for housing?***

We believe that they must. Residential development now involves significant risk, high initial expense (fees, research, consultants), limited returns and significant delays in the planning system. Money is often better invested in alternative forms of development. We believe that the increased risk due to the uncertainties of the planning system is usually in the range of 15-20% but can amount to as much as 50%.

- ***Do internal rates of return deter additional investment either in land or alternative productive methods?***

We do not believe this to be the case. Internal rates of return have varied little over the last decade and barely reflect the increased risks brought about by PPG3. This situation equally applies to alternative production methods. The need to achieve normal rates of return does mean, however, that sites with perceived planning problems, such as excessive planning gain requirements, are not looked at to begin with and are therefore not brought forward.

- ***Is there potential for increasing the use of alternative manufacturing methods?***

We believe that there is: but with only a limited potential. Please see comments made earlier in respect of brownfield land.

- ***Is this potential affected by consumer preference or the attitude of mortgage lenders and insurers?***

It is our view that only the insurers are likely to be concerned about alternative manufacturing methods.

- ***It has been suggested that the economics of scale are not sufficient in the UK to make these off-site production techniques a viable option. Is this the case?***

We simply do not know, but doubt it.

- ***Are the working capital requirements and cash flow implications of modular building a barrier to their use?***

We believe this to be unlikely.

- ***Are there particular problems in developing brownfield land due to contamination or dereliction?***

Yes, without doubt. Please see our comments earlier. These are not the only problems. Others include access, infrastructure, delays in the planning system and planning contributions, all of which increase uncertainty and risk and reduce returns. There are, of course, tax incentives relating to the development of brownfield land but these are paid two years behind the actual development, during which time the development may have become unprofitable.

- ***To what extent are such problems obstacles to development decisions?***

We believe that they present significant obstacles to development decisions both within the development industry and local planning authorities. Please see earlier comments related to this question.

- ***How much more expensive can this make brownfield land?***

We believe that the additional expense is significant and not reflected in the land price. In our experience that additional expense will range for 10%-50%.

#### **SUBJECT: POLICY ENVIRONMENT**

##### **Issue 3**

- ***Are there problems with the interpretation of planning guidance by local authorities, if so, what are they and why?***

We believe that these problems are significant. National Guidance is always difficult to reconcile with local aspirations. Attitudes to affordable housing requirements, education contributions, open space provision and transport requirements vary considerably - especially in relation to thresholds - often in conflict with government guidance. Many shire districts simply do not believe that PPG3 applies to them and that it is aimed only at urban authorities. The problems are so widespread that it is not possible to detail them in a brief response as required in the consultation letter.

- ***Are there any particular aspects of planning policy which do not properly reflect the wider social and economic costs and benefits of housing?***

We believe that a national land use planning system, which is now being operated, is not best suited to reflect these costs and benefits. It has resulted in the planning system being manipulated and abused in order that some of these costs can be recovered.

- ***Does the planning system provide incentives to develop brownfield land?***

We believe that it does not. What it does is to provide dis-incentives to the development of greenfield land and this is not the same as providing incentives for brownfield development.

- ***Is planning guidance applied appropriately?***

We strongly believe that it is not, for the reasons we have set out earlier. Our experience is that planning case officers rarely understand it, have little time to read it or to follow appeal decisions or case law.

- ***Is the current reform programme sufficient to address inefficiencies in the planning system?***

Whilst we support the majority of the reforms we see little evidence that they will make any significant difference to attitudes on the ground sufficient to increase the supply of housing land. A distinct change of culture is required which cannot be dealt with by legislation.

- ***Are Section 106 Agreements an effective means for addressing and mitigating the impact of developments?***

We believe that they should be, however, they are often misused by local planning authorities to obtain benefits contrary to government guidance. Developers seeking to reduce delay and uncertainty enter into them reluctantly and in full knowledge of their misuse but see them as the only way to reduce delay and uncertainty. This situation causes significant resentment in the development industry. Used properly they can be very effective both for local planning authorities and developers, and provide certainty and reduce risk.

- ***Do Section 106 Agreements create any perverse incentives?***

Yes. We believe that they are often used to buy and sell planning permissions.

- ***Do building regulations restrict development?***

We believe not, although there is a tendency for them to go "over the top" on occasions.

- ***Do regulations governing "change of use" affect the use of existing buildings for housing?***

We do not believe so.

- ***Are the market failures you can identify affecting the development of environmentally sustainable housing, regeneration of urban areas and protection of the countryside?***

This is a significant question, raising a number of issues. Firstly, we believe that the market will, outside the major conurbations, increasingly resist increases in density and reduction of car parking and garden areas. We believe that pursuit of these policies will build up social problems for the future. We also believe that the increases in density will reduce the

supply of executive housing in the urban areas, leading to an unsustainable increase in commuting, impacting upon regeneration objectives. Finally, we believe that the sustainability of our rural communities has been ignored and forgotten.

- ***How does the tax regime influence the use of land? For example the tax treatment of new build homes differs from that of conversion of existing housing stock - does this preclude certain types of development? Does taxation prevent the most efficient and effective use of land?***

We believe that the system does have an impact, particularly in the different treatment afforded to new build and conversion. We believe that the tax system should not differentiate in this way. We also believe that the tax incentives on brownfield land lose a lot of their value due to payment following the event and not being concurrent with it. The tax system would have a beneficial use if it were used to secure planning contributions for affordable housing and infrastructure rather than using the planning system for this purpose, which it was not designed for.

#### **SUBJECT: SOCIAL HOUSING AND THE RENTAL SECTOR**

##### **Issue 4**

- ***Why has the industry not expanded provision of affordable housing or housing for rent?***

We believe that the private sector is not the best vehicle for providing this form of housing due to the risk involved and the reduced returns. We also believe that the planning system was not designed to deliver this type of housing and that it will do little more than make a small contribution to meet the need. Too much depends upon the private sector housing programme. Dates for development commencement are uncertain and such development may not take place in the areas of most need. We cannot help but point to the fact that there were few problems of this nature when local authorities were able to build their own houses to rent. A further problem arises from the extent of planning contributions required for other matters such as highways, transport, open space, education etc etc. The list is often endless and impacts upon a developer's ability to provide affordable housing.

- ***Are there additional barriers that have prevented this expansion?***

Yes. We believe that Housing Associations receive inadequate funding from central government to provide their contribution to development costs.

- ***Are these areas of provision simply not profitable?***

In most cases we believe that they are not and that the move by some local authorities to provide no public subsidy will make the situation worse. There is, of course, a "knock on"

impact upon the value of market housing where affordable housing is provided which reduces value, increases risk and lowers returns.

- ***Is the private rental sector an unattractive investment option, if so why?***

We believe it to be unattractive. This situation is best illustrated by a simple example relating to a single property in our area in two different years:-

	Purchase Price	Income pa	Yield
1998	£ 55,000	£4,800	8.7%
2003	£150,000	£6,900	4.6%

The increase in house purchase price far exceeds in percentage terms the increase in rental income. The yield has therefore halved.