

Kate Barker
Barker Review of Housing Supply
1, Horse Guards Road
London SW1A 2HQ

31 July 2003

Dear Ms Barker

Re: Review of Housing Supply

I refer to your letter of 9 June, and thank you for the opportunity to contribute to the Review of Housing Supply.

Amicus Group is a family of housing associations working in Kent, London and Sussex, providing housing for over 15,000 households. We have a strong profile in new and innovative forms of development, being one of the three founder members of the Amphion Consortium, pioneering new forms of housing production using modern methods of construction. We are preferred partners across all Kent Thames-side boroughs within the Thames Gateway and are thus strongly positioned to respond to the challenges of new development in the key growth areas south of the Thames.

For ease of reference I will respond (where we do have comments) using the order of the specific questions raised in your letter. Our responses are set out in the following paragraphs.

Issue 1:

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?

In the areas where Amicus works there are huge pressures for new development to accommodate population expansion to support the growth of a new sub-Regional economy. Land supply is under pressure through lack of infrastructure and a general pressure on retaining non-brownfield land. This is, of course, an endemic problem in the South East.

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

Yes, as there is considerable expectation of land price appreciation so owners either hold on to land or require unrealistic prices. The costs of carrying land may be at historically low levels but the economic fundamentals which give rise to this situation also lead to less land coming forward.

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

We are not aware that it does, although less successful or financially strong companies may argue that it restricts supply to them.

- Is optioning necessary? If so why?

We believe optioning can be valuable in securing longer term supply and in providing a service to land owners otherwise unable to afford to bring land through the Planning system

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

In key areas such as the Thames Gateway it appears to be a reasonable pipeline, although the issue of speed of planning consents at a site level is a major problem.

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

Not sure.

Issue 2:

In our view what constraints face the industry and which are the most significant?

For example:

- Do house builders face difficulties accessing finance?

Generally no, in the current financial climate.

- Do shortages of essential skilled workers exist, can alternative production techniques overcome this problem?

There are serious shortages of skilled workers, attributable to the demise of craft based training programmes generally. We believe that alternative modern methods of construction (MMC) can be of assistance, but from our experience of managing eight sites using MMC this will not solve the whole problem as there is still a demand for skilled site labour. There needs to be a greater investment in training in construction skills both to support the industry and also to support local communities.

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

Not sure.

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

Probably not – the return on development has always been volatile but this appears to have been accepted as an industry characteristic and factored into cyclical patterns of land acquisition and production

- 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?

Yes, this can make a huge difference to production rates. Our experience is of high quality new homes, although it is important to recognize that efforts to make MMC a mass-market solution in an environment of skill shortages do carry risks. These can be addressed by training and more effective quality management. Mortgage lenders, valuers and insurers are innately cautious although in our experience they can be persuaded of the benefits of MMC – the issue is one of translating this into a mass-market means of production.

- 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?

No – there is plenty of untapped demand and production resource – the issue, we feel, is one of investor confidence to support the significant investment needed in modern plant.

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

See above.

- 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?

Yes, often the case, although developers discount site bids accordingly. Nevertheless there is still a significant bank of land which is so adversely affected by either contamination or flood-plain issues that it cannot economically be addressed until plot values rise significantly higher !

Issue 3:

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?

There can always be problems. Developers frequently encounter a lack of skill among Planning officers in knowledge and interpretation of rules and decisions – particularly in a highly adversarial environment such as development control for major developments.

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

Yes – community development and infrastructure costs are often not adequately reflected in new development for major sites, although this is changing. Developers habitually fight shy of taking on such costs but they would otherwise fall of the local community.

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

Probably not sufficiently.

- Is planning guidance applied appropriately?

See above – lack of skilled Planning officers can cause erratic and/or erroneous decision making.

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

The consensus is no – for reasons often cited in the public domain.

- Are section 106 agreements an effective means for addressing and mitigating the impact of developments?

Not wholly, although they are an important supply of new land for affordable housing and other social benefits.

- Do Section 106 agreements create any perverse incentives?

In our view, no.

- Do building regulations restrict development?

Generally no.

- Do regulations governing “change of use” effect the use of existing buildings for housing?

Yes.

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

No, although much more could be done to reflect the desirability of such development, and to defray the additional costs and offset the externalities of more conventional development.

- 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?

The taxation regime favours new build which is not always the most appropriate either in terms of planning or in terms of resource use. This should be addressed.

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?

Returns not high enough !!!

- Are these areas of provision simply not profitable?

Yes – most developers make only a marginal contracting return, and rely on developers profits elsewhere to achieve target rates of return overall.

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

The long term preferred tenure of many households is owner-occupation and an investment in private rental housing requires a degree of confidence investors often do not hold.

Once again, thank you for the opportunity to comment on the review. We would be pleased to elaborate on any of the above answers if this would be of assistance.

We look forward to publication of the Review in due course.

Yours sincerely

Chris Blundell
Group Development and Regeneration Director