

DS/ds/DC/TB

1 August 2003

Ms Barker  
Barker Review Team  
1 Horse Guards Road  
London  
SW1A 2HQ

Dear Ms Barker

**Re: BARKER REVIEW OF HOUSING SUPPLY**

I refer to your letter of 9 June 2003 with regard to the above. Attached is a copy of the Group Review which sets out the Group's unique structure. As one of the country's largest landlords and developers of housing in all tenures from outright sale, and shared ownership to private and socially rented, we consider that we are well placed to comment on supply issues and would wish to take an active part in this debate.

We are pleased to provide our comments on the four issues set out in your letter as follows:

**1) Land Constraints**

There is clearly a shortage of land available for housing development. This is clearly a result of many factors:-

- a) The current planning system of predict and supply is not working. Very often planning authorities do not allocate sufficient sites and rely on 'windfalls'.
- b) Even when sufficient land is allocated this assumes that land owners will always wish to sell. This is not always the case. Very often, particularly with greenfield allocations, the land owner is happy to continue to farm the land and not bring it to the market. This unwillingness to sell can be a complex issue, revolving around tax issues and a desire to continue on existing farming business. In addition, the landowner may well have unachievable views on land values.
- c) Brownfield allocations are often in multiple ownership. Site acquisition here can be very costly, time consuming and require complex negotiations with all the land owners who may well have different agendas and requirements.
- d) The practice of optioning land will restrict land supply as the very large developers control significant allocations and will manage its release to ensure that land values stay high.

- e) Optioning to a major house builder is seen as the only way of protecting his long term viability as it gives him the certainty of land availability, the life blood of any developer.
- f) Clearly the amount of land allocated in local development plans is not enough as it assumes that all allocations will come through in the plan period for the reasons outlined above. This does not always occur. therefore to meet the predicted demand, allocations must be higher.
- g) We do not think that the RPG shortfall is accounted for by lack of applications, rather by lack of opportunities on which to make applications and an increasing reliance upon windfall sites.

## 2) **Industry Constraints**

Apart from the lack of sites/land (which we believe is the biggest constraint on increasing housing supply). The industry faces its own constraints.

- a) The number of banks and institutions wishing to invest in the speculative and investment housing market is limited This lack of financial capacity makes it particularly difficult for new providers to enter the market.
- b) Historically, the construction industry has been poor at training. Combined with the relative unattractiveness of construction as a career, this has resulted in major trade shortages. Whilst the gradual move to off site manufacturing may assist the skilled labour shortage, this is a long term solution which will require significant investment upfront and will therefore take a long time to impact.
- c) Due to major unknowns, both with the volatility of the housing market (boom and bust) and an increasing reliance upon development on brownfield sites, the risk profile of residential development has got significantly worse. This has had a major impact upon risk adverse investors who limit the capital available to developers, thus keeping production down.
- d) There is probably the potential for increasing alternative methods of production, but is this what the consumer wants? The World in Action television programme in the 1980's had a significant impact on consumer views on timber frame construction and both reflected and fuelled a desire for traditional construction. The mortgage lenders themselves are also acting as a brake on alternative construction methods, in some circumstances refusing to fund housing built by new methods.
- e) Whilst the UK housing production may not be at the levels of say Japan, there should be the volumes to produce economics of scale. The problem here is the presence of too many different systems chasing too small an order book.
- f) For modular building to be successful the manufacturer needs a steady throughput in the factory. These production facilities and the need for significant Research and Development costs before any income is generated, result in high levels of capital investment with an uncertain order book. This is a risk that some manufacturers are not prepared to take.

In order for modular buildings to be successful there needs to be an element of certainty of demand.

- g) Brownfield sites have significant development problems all of which are unique to each development. If these issues are all identified before site purchase, the

developer can take them into account and this will be deducted from the land value. The problem arises when the site has a negative land value. Without grant aid, this will mean the site can not proceed.

### **3) Policy Environment**

- a). The planning system is the single biggest cause of delay in the production of new housing and the single largest contributor to the lack of supply and of responsiveness of the UK housing industry. Even when a site is allocated in a local development plan, it can take over two years to obtain a detailed planning approval with production of the S106 often giving a 12 month delay. The period from the original planning application to completion of the first house can be as long as 2½ years. This severely curtails the ability of a developer to react to market demand by increasing production.
- b). S106 requirements are often very vague and without a basis in policy. They are often viewed by local authorities as a shopping list allowing them to squeeze as much as they can from the developer. The requirements are often unknown when the application is made. This period of negotiation causes major delays. A simpler approach would be to publish the requirements when the site is allocated in the planning process, long before the application is made.

The current reform programme in my view does not tackle the underlying problem of delay which is the fundamental cause of lack of elasticity of supply.

### **4) Social Housing and the rented sector**

- a). Over the past decade or so, private housebuilding has not expanded to fill the gap caused by the substantial reduction in public sector housebuilding. This is particularly true in the South East where there is most pressure for new homes and especially for affordable housing. Incomes of the people who would otherwise have been housed in the public sector have not risen to sufficient levels to allow them to access owner occupation on any significant scale.

The private sector will not produce either the amount or required type/size of social housing required in the UK as it is simply not profitable for them to do so and the function of the land market also prevents this. Affordable housing for rent or sale will always require financial support as the cost of its construction, even excluding land value, can not be supported by the capitalisation of the rent. This support can come in two ways:-

- i) grant aid
- ii) cross subsidy from housing for sale (normally via S106)

If a developer does wish to build low cost homes due to the function of the land market, i.e. the highest offer will buy the site, the bid will probably fail. A simple solution would be to alter the allocation of sites, so they are not just residential allocations but allocations for different types of housing i.e. social rent, key worker etc. A further development of this concept would be to have “reverse” S106 agreements, where the prime use is, for example, key-worker or affordable housing with an added requirement for a proportion of homes for sale or market rent to ensure an integrated, mixed community.

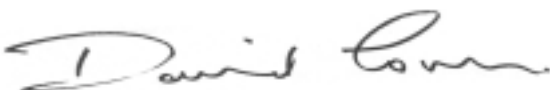
Substantial advantages can accrue from a Registered Social Landlord taking the lead on the development of sites. It ensures that full consideration is given to the balance, mix and location of the homes of different tenures and that the long term

sustainability and management of the community is given full weight. There are further advantages where a group such as Places for People, can provide all of the tenures itself. As well as the long-term view of the community that an RSL needs to take, there is the ability for the profits from the homes for sale to cross-subsidise the affordable and key worker rented homes. This has the effect of either increasing the proportion of affordable and key worker homes or of reducing or, in some cases, removing the need for public subsidy and therefore boosting output.

- b). People's aspirations are visibly towards owner occupation rather than renting but with incomes too low to allow access, there is a need to devise mechanisms and establish institutions geared specifically at increasing the supply of low cost/affordable home ownership. Existing mechanisms such as Homebuy, shared ownership and section 106 agreements have gone some way to addressing this but if the aspirational owner occupied market is to be addressed, the scale of funding in these areas needs to be expanded substantially and there needs to be a recognition that different institutional and financial structures are needed to deliver it.
- c). There has been growth in the attractiveness of the private rented sector but the relatively low yields particularly in the South has meant that this sector has not been attractive to the major investment funds. A further constraining factor has been the lack of established investment and management vehicles that would enable investors, particularly large or institutional investors, to engage in the market without having to get involved in the detail of identifying what could be a large number of small property opportunities and of managing the homes.
- d). Whilst institutional investors see many RSLs as good risks, the current legal structures make it difficult for them to move into the market sectors themselves. Places for People has been able to do this, through its other group Companies but even here lenders would be happier to lend to the main RSL with its substantial asset base, rather than to smaller market orientated subsidiaries.
- e). We are certainly not in principle against private developers being able to access public grant to build affordable housing. RSLs regularly work in partnership with private developers and the developers are increasingly used to working with RSLs on Section 106 opportunities. However, this policy does carry risks in terms of the long-term view of the homes themselves and the communities that are being created and could have the effect of reducing standards. A strong not for profit housing sector already exists. With renewed powers and funding this should be capable of developing institutions able to deliver the housing desperately needed in the south east. Places for People, for example, is already addressing these issues through its market sector subsidiaries operating within a not for profit Group.

I trust you find these comments helpful and would be happy to assist further in taking solutions to this problem forward.

Yours sincerely



**David COWANS**  
**Group Chief Executive**