

8 August 2003

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

Our Ref: EX13/1 EX2/9/4

Dear Kate

Consultation response

This is CABE's response to the questions posed in your letter of 9 June. It builds on the discussion we had on 14 July.

CABE exists to inspire people to demand more in the design of buildings and spaces. Our primary objective is to secure higher quality housing development and we have been charged by Government to work in the housing growth and housing market renewal areas to achieve that objective. We consequently have a close interest in the means that are chosen to increase housing supply to ensure that the quality of provision is also improved.

In summary, we consider that the housing supply problem comes down to two main factors:

- insufficient supply of land at the right time in the right places, due to a combination of weak land assembly, weak commitment to spatial planning and lack of suitable incentives;
- insufficient public subsidy for affordable housing, either through direct subsidy or tax incentives, which has led to a huge drop in provision by affordable housing providers in areas of housing need over many years, which the market has been unable or unwilling to compensate for.

If these two problems are addressed, there will be a rapid increase in levels of supply.

Land constraints

In our view, the supply of land in some parts of the country, e.g. south east, is over-constrained, and the main reasons are as follows:

- It is too difficult to assemble, reclaim and re-develop brownfield sites, requiring:
 - more assertive use of land assembly powers, particularly by special purpose vehicles such as UDCs, and by RDAs;
 - further fiscal incentives to tip the balance in favour of brownfield re-development;
 - increased availability of gap funding schemes to subsidise schemes that are in the public interest but which otherwise would not be viable.
- In housing growth areas, some local authorities are failing to release land sufficiently quickly for development, hiding behind the 'plan, manage and monitor regime'. We consider that in areas of housing shortage, there is a case for returning to 'predict and provide' methodologies, determined at national and regional level.

Our overall view on land supply is that there cannot be a 'one size fits all' model for the whole country. In the north, there are good reasons for release of greenfield land to be heavily constrained to facilitate brownfield regeneration. In the south, a more assertive, planned approach to the identification and release of greenfield land is required, based on a mix of new towns and town extensions.

Industry constraints

- The house-building industry is relatively old-fashioned with heavy reliance on debt finance. There is a need to increase the flow of institutional investment into the sector, perhaps through the use of fiscal incentives, and by attracting other types of developer, including international competition.
- There is a serious skills deficit at both a professional and crafts level. (However, we do not consider that, in relative terms, this is a major constraint on land supply compared to other factors, particularly during a depressed period in the commercial market which is the main competitor for skilled labour. It is, rather, a significant constraint on quality of supply and project management).
- There is potential for increasing alternative manufacturing methods but again, in relative terms, we do not consider this to be the main constraint on supply. The adoption of such methods is no longer really an issue of consumer preference or lender attitude; it is about the relative efficiency of methods. It is very difficult for a precision factory-based model to compete with a low skilled labour, high defect on-site model on the basis of comparative cost. In NPV terms the differential is still around 10% at best.

- The costs of brownfield development will become less significant once the new EU approved housing gap funding scheme becomes more widely available. However, there is also the need for a more proactive role from the public sector and public/private JVs to assemble and prepare sites, particularly through Special Purpose Vehicles.

Policy Interpretation

- While the planning system is a problem in all sorts of other ways, we do not consider that it is a major constraint on housing supply compared to certain other factors; the real problem here is the tendency of some local authorities to hide behind the planning system to avoid or delay unpopular housing expansion decisions.
- Nevertheless, we would like to see some experimentation with Housing Planning Zones in high value locations, where all the planning is undertaken up front in terms of the preparation of a site plan and a design code. Thereafter, provided the house-builder complied with the terms of the plan and code, no further detailed permission would be required. We cannot be sure it will result in housing of greater quantity and quality, but it is worth testing on a pilot basis.
- The main problem with the application of planning guidance is PPG13 on transport, underpinned by DB32 that imposes out-of-date over-engineered solutions on house-builders which are almost incompatible with higher density schemes and often cause delays in adoption. The Department of Transport has now recognised this and are seemingly committed to the abolition and replacement of DB32. However, a further plug from your review would be helpful.
- CABE considers that section 106 should have a limited role to mitigate the impact of developments, in providing for related infrastructure, community facilities and public space requirements. That was the original legislative intent. However, section 106 currently stretches far wider, particularly in the realm of the provision of affordable housing. The complexity of the section 106 system is a significant drag and if there was one area ripe for reform within planning, it is this one. CABE previously argued for the replacement of s106 with pooled impact fees but this was opposed vehemently by the property industry which regards fees as a form of taxation. The undisputed reality is that the Government relies increasingly on section 106 to reduce the burden on the public purse of directly subsidising the provision of affordable housing. One question which we hope the Barker review will take on is whether section 106 represents the most sensible means of providing for a significant proportion of affordable housing in housing growth areas.
- We have found no evidence that building regulations unduly restrict development.

- We consider that, in an ideal world, there should be equitable VAT treatment of provision of new homes and conversion of existing properties. However, the most realistic option in the current climate is to press the EU for reduction of VAT on conversions and refurbishments to 5%. To impose VAT on new house-building would probably be regarded as counter-productive (although in reality it would largely be extracted from the land price.)

Social housing and the rented sector

- The house-building industry is a relatively 'efficient' provider of new homes, by operating off a very low cost base. This results in very low quality of provision but ensures high barriers to entry, except at the top end of the market. Therefore, if the market sector is not providing sufficient 'affordable' homes, it is likely that such activity is not regarded as a profitable activity, at least in opportunity cost terms.
- For CABE, the answer is to encourage other providers to expand their share of the market, particularly Registered Social Landlords, but also commercial property providers, who may be able to compete on a level playing field, either through the absence of a profit requirement or through more advanced construction management techniques.
- As far as the RSL sector is concerned, this increase can be achieved by (a) prioritising public investment in affordable housing, including making better use of the investment by introducing effective clawback arrangements on home ownership subsidies, and (b) liberating the RSL sector to provide greater proportions of low cost market housing with the receipts being used to subsidise social rented housing and other types of provision.
- There are significant cultural barriers to expanding the private rented market. For example, in London at the current time, there seems to be a surplus of market rented apartments at the same time as there is an overall shortage in housing supply. We would suggest that the focus of special initiatives should be on encouraging lower cost home ownership, including shared ownership options that allow people to staircase up and down.

I hope this is helpful. I am copying this response to Lucy de Groot at HM Treasury, Lord Best at JRF, David Higgins at English Partnerships, Norman Perry at The Housing Corporation, Richard McCarthy at Peabody, and Brian Hackland and David Lunts at ODPM.

Yours sincerely

Jon Rouse
Chief Executive