

Our ref: DB/ms

11 August 2003

Kate Barker
1 Horse Guards Road
London
SW1A 2 HQ

Dear Ms Barker

Barker Review of Housing Supply

Thank you for the opportunity to submit evidence to your review of the underlying causes for the lack of supply and responsiveness of housing in the UK.

I attach our detailed submission which I hope helps to shed light on some of the matters you have raised in the questions you published. I also attach web links to two of our recent policy papers that are relevant to this debate, at the bottom of this letter – one on Planning for Housing and the other on the Right to Buy.

We are fully behind identifying and removing blockages in the system and finding other ways of improving the responsiveness of supply of housing. However, we perceive that there could be unintended negative consequences if this end is pursued too vigorously without sufficient regard to long term sustainability of the resulting communities.

The review is geared towards problems affecting housing markets in high demand areas and speed of supply appears to be a critical driver underpinning the review. We believe it would be a mistake to focus solely on increasing the speed of housing supply – this would only deal with one aspect of the problem. As the Deputy Prime Minister has already noted it is far more important that neighbourhoods are sustainable in the long term, than that housing is built quickly. Whilst the two are not necessarily mutually exclusive, we would be very concerned if speed takes precedence over lasting sustainability in the Government's policy response.

A key government objective since 1997 has to been to reduce inequalities, one of the most fundamental of which can be seen in terms of housing. The housing supply problem in high pressure areas cannot be tackled effectively without substantially increasing the supply of affordable housing for those on low incomes. Any solutions that focus exclusively, or even in large part, on owner occupation will also further residualise the social rented sector. This not only contributes to further inequalities but will in itself place even greater pressure on the owner occupied market.

Whilst we recognise the particular supply problems that are currently being experienced in the wider south east we would argue strongly that a UK perspective must be taken if a sustainable solution is to be forth coming. There are seriousness housing supply problems in the south west, parts of the north (e.g. York, Chester, Harrogate), and in rural areas all over the country, yet to date government measures to increase supply have all been focussed in the south east. Consideration must be given to supply issues in other areas.

We would like to see effective government support to stimulate economic growth in areas outside the wider south east and south west. Only by doing this will we provide an economic rationale for areas that are experiencing housing market collapse. ODPM is funding nine

Pathfinder areas to tackle low demand and abandonment in housing markets in the midlands and north but it is hard to see how these efforts will be sustainable if employees continue to be sucked into the south east. In addition, focussing new developments exclusively in the south east region adds to pollution, loss of green space, journey times and other environmentally unfriendly problems.

Despite these concerns, we are supportive of the review and would like to see blockages to development removed to ensure greater stability in the housing market. We intend to organise further debate on the issues raised by your review amongst CIH members and would be pleased to concentrate on a particular sub-set of issues that may be of particular importance to you. Please let me know if you would like to arrange a meeting to enable us to give you further feedback on these matters.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Butler', with a horizontal flourish underneath.

David Butler
Chief Executive

Link to Planning for Housing: the potential for sustainable communities
<http://www.cih.org/policy/planningforhousing.html>

Link to The Right to Buy: a symposium for debate
<http://www.cih.org/policy/rtb1.pdf>

CIH Submission to the Barker Review of Housing Supply

1. Introduction

- 1.1 The Chartered Institute of Housing welcomes the opportunity to submit evidence to this review of the underlying causes for the lack of supply and responsiveness of housing in the UK.
- 1.2 **The Chartered Institute of Housing (CIH)** is the only professional organisation representing all those working in housing. Its purpose is to maximise the contribution that housing professionals make to the well being of communities. As such, our members have a keen interest in this debate about the lack of responsiveness of the housing market and its relationship to building sustainable communities. The CIH has over 17,500 individual members working for local authorities, housing associations, Government bodies, educational establishments and the private sector.
- 1.3 We have focussed our submission on the third theme set out in the notes attached to Kate Barker's letter – the causes of unresponsiveness in housing supply – and have structured it around the four questions in this theme (sections 2,3,4 and 5). As the Chartered Institute of Housing, we have a particular interest in the questions posed about the rented sector and affordable housing, and have in the recent past done a lot of work around these. We therefore set out some specific comments on both private renting and affordable housing separately in sections 6 and 7.
- 1.4 Whilst we completely understand the drive to increase the supply of new housing to meet demand in the wider SE area we would argue very strongly that increasing both the speed of construction and supply of new housing will not in themselves produce communities that are sustainable. It is more important that any policy reforms are geared to produce communities that are sustainable in the long term than that housing is built quickly. The planning system has an important role to play in delivering long term sustainability and we believe that significant reforms are needed to make planning a more positive and proactive activity.
- 1.5 The provision of affordable housing is key to tackling problems of housing supply. Any solutions that focus exclusively, or even in large part, on owner occupation will not solve the issues for low income households, and would result in further residualise the social rented sector.
- 1.6 We also believe that it is necessary to take a UK perspective. A lack of supply affects the south west region significantly as well as parts in the north of the country and many rural areas, so solutions must not be focussed entirely on the south east. It is also important that the opposite problem of low demand or over-supply in parts of the north and midlands is seen as a linked, rather than a separate issue. Government support to stimulate economic growth in areas outside the wider south east could help both to stimulate demand for housing in low demand areas and to rebalance housing markets in the south east by easing demand.

2. Behaviour of the house building industry

- 2.1 Government is promoting much wider use of off-site manufacture techniques as a means of increasing the speed of house construction. New technologies are needed in the house building industry, and we support the ethos of the Rethinking Construction programme in driving these through, but there are reasons why we believe they may not be taken up quickly by the private sector and should not be adopted too hastily by the public sector.
- 2.2 Housing and regeneration professionals have been dealing with the consequences of the last 'build lots fast' era for a number of years. Apart from the well-known issues associated with system built high rise flats, there have been other serious structural problems affecting housing in the past. Notably, problems with PRC build types were sufficiently serious to warrant the passage of an Act to remediate defective properties (although many remain

unresolved). The costs of these mistakes are significant and include the human well as financial costs, and care should be taken to avoid repetition of them.

- 2.3 The quality and durability of off-site manufacture techniques are not yet proven and this may limit the success of volume building using these methods. Problems with construction techniques typically take decades to emerge – far longer than the lifespan of the demonstration projects that form a key part of the Rethinking Construction programme.
- 2.4 This is reflected in the concerns that lenders have expressed as to whether or not properties built using these techniques can function as adequate security for a loan when they have not been fully tried and tested. We predict that it may take decades for new methods to be fully accepted by lenders and many purchasers.
- 2.5 It may be possible to identify certain built types that have got a good track record and are more trusted by lenders, and initially to concentrate on these types for volume building. Government may also need to consider underwriting warranties if the industry cannot provide them, if off-site manufacture is to be a viable option for large scale private house-building.
- 2.6 The poor take-up of new technologies (methods and materials) makes them expensive and makes it harder to persuade UK manufacturers to produce them. Private developers also claim that house buyers still prefer traditional build types. There may be a role for the DTI to invest in the development of off-site manufacturing methods in the UK to reduce their costs at least until the volume of building reduces costs through market mechanisms. Also, the Regional Development Agencies are well placed to bring together potential customers of new technologies to create sufficient demand to stimulate manufacture and lower prices.
- 2.7 Many housing professionals are concerned that public housing is being used as the test bed for new techniques – although there is some very good practice being developed in the social housing sector which could be more widely shared – whilst there is little inducement for private house builders to adopt them. This raises questions about the long-term effects of continuing visible differences between public and private housing on efforts to promote social inclusion. There is a strong case for policies that move towards a situation in which there is no way of differentiating between private and publicly subsidised housing. We believe that planning policy could have a role in this by placing design requirements on private developers.
- 2.8 There is a significant lack of traditional skills in the construction sector – both in terms of manual and managerial / professional and technical skills – which is especially acute in relation to new (and green) construction methods. The introduction of measures (such as releasing land) to increase supply without improving skills levels in this area will produce poor quality housing that will be costly in terms of repairs and maintenance.
- 2.9 There are particular problems relating to building to higher densities. Private house builders make higher margins building detached four-bed executive homes than they do through volume sales of smaller homes. Also, legal complications with leases on flats, and the damage to the image of high rise from poor quality blocks in the past, can put off potential buyers of higher density developments.
- 2.10 However, high density residential buildings can work well if designed and built to a high standard and marketed to an appropriate client group. The Rogers Review on Urban Renaissance (1999) recommended greater use of terraced houses for achieving high density living, but there are others possibilities too.
- 2.11 Stronger planning powers to require private developments of smaller / cheaper properties at higher densities where appropriate should be considered. Also, funds could be made available for more demonstration projects relating to quality living at higher densities.

3. Capacity constraints affecting land, access to finance and availability of skills

- 3.1 There are issues around constraints in land supply. However, releasing large amounts of land will not make a big difference, and we consider that arguments to this effect may be overstated.
- 3.2 The amount of new housing that is added to the total housing stock each year is much less than 1%. The demand for housing is so great compared to supply in some parts of the UK that even increasing the level of house building substantially will not change this imbalance significantly.
- 3.3 There have been various studies that investigate the impact that increasing the supply of market housing would have on house prices. These were considered by the ODPM Select Committee Inquiry into Affordable Housing (House of Commons, 2003) which found convincing evidence that *"... a huge amount of private housing development, far in excess of what the Government is proposing, would be required to reduce prices even in the medium term ..."*.
- 3.4 The only realistic way to make housing affordable to lower and middle income households in high demand areas is to provide some form of direct subsidy. The quantity of affordable housing developed and its affordability relative to market prices is, therefore, crucial.
- 3.5 Builders build at a rate to suit their businesses. Increasing production is not the only means, and often not the most efficient means, of increasing profits. To an extent, it is in developers' interests to restrict supply because they can make more profit by waiting until house prices are high.
- 3.6 Developers will frequently take out options to purchase land at a future date through agreements with land owners. Once purchased, developers are not obliged to build immediately, and they will sometimes withhold land until the housing market conditions for development suit them (eg. until house prices are high). This practice of land banking through option agreements is a problem, partly because developers' timetables do not usually fit a community's need for housing, but also because it actually reinforces fluctuations in the housing market.
- 3.7 We understand that this system of taking out options on land can help to bring land forward more quickly when it is required because the negotiation has already taken place. However, we suggest that the incentives for private companies to bank land needs to be reduced so that the balance between whether a site is held back or developed is much finer. We believe that introducing some form of taxation on land that is earmarked for development, but not being developed, could help to bring land forward by making it less financially favourable to hold onto land.
- 3.8 Some local authorities also have significant land resources but are unable to make best use of them because they lack the money (and sometimes the political will) to undertake the physical restructuring, including demolition, necessary to release the land in a sufficiently cleared state for private developers to use. In very high demand areas, more use could also be made of Urban Development Corporations – a single organisation that can facilitate and co-ordinate land release and development.
- 3.9 Public sector bodies could be given more powers (including the financial capacity) that would enable them to capture land values in order to bring down the cost of development and cross-subsidise the development of affordable housing. Better practice in the public sector in, for example, purchasing options, land banking and phased land release would enable public authorities to plan land availability more strategically.
- 3.10 There may be a greater role for English Partnerships to purchase private land as well as bank public land. The potential for greater use of Community Land Trusts, in which the community owns the land collectively, should be explored.
- 3.11 Site assembly, particularly of some brownfield land, is often very difficult in practice. There are, however, examples of good practice both in the UK and abroad and more could be done to make them more widely available. At one time, local authorities had dedicated funding to

clear sites ahead of development, but they appear to have lost this. English Partnership might also be used more effectively to fund the clearing of sites.

4. Why has private housing supply not expanded to replace the provision of social housing?

- 4.1 The review asks a fundamental question about why the private sector has not expanded to replace the provision of social housing, given the growth in people's aspirations to own a home. There are a number of strands to the answer to this question.

The experience in low demand areas

- 4.2 Some clues can be gained by looking at what has happened in areas of low demand where supply of housing outstrips demand. In these areas private housing is, to some extent, taking over from social housing, although there are other reasons why we believe there are limits to the degree to which this can happen (which we discuss in 4.7 to 4.12).
- 4.3 The demographic profile of council tenants shows that there are many more young and elderly people, and far fewer people in middle age, now living in council housing. There is also strong evidence that younger social housing tenants often aspire to leave the sector at some point in the future to become homeowners or private tenants.
- 4.4 Where housing is in low demand and house prices – even of new housing – are relatively affordable, there is significant movement from council and housing association dwellings (as well as from smaller older private dwellings in unpopular areas) to new private housing. This is likely to continue until such time as trends in supply and demand are reversed sufficiently (through market restructuring - including the inevitable demolition of significant amounts of council housing in some places).
- 4.5 At the other extreme, where house prices are high, the social sector remains over-subscribed because even though the aspiration to own exists, it is not accompanied by the ability to afford to purchase. Many people living in these areas continue to live with their parents for much longer than in other areas, or are forced to share for longer, because they cannot access suitable market or affordable housing.
- 4.6 The question that needs to be answered is what ratio of dwellings to households is required – in any one place – to bring house prices down sufficiently to enable every household who wants to, to afford to purchase or rent on the open market? If the answer is that households and dwellings need to be approximately in balance, then the private sector could conceivably cater for more low income households in the future. If, however, significantly more dwellings than households are required to bring prices down sufficiently (as is the case in low demand areas), then it is necessary to consider whether it is acceptable to allow some of these homes to stand empty in order to have some excess in the market in order to reduce prices.

Housing benefits rules

- 4.7 Housing benefit rules are another reason why the private sector has not taken over from social housing. The fact that housing benefit is only available for tenants, and is not available to help towards the costs of a mortgage, is very significant particularly for people on low or insecure incomes, especially given that around two thirds of social sector tenants are now dependent on housing benefit.
- 4.8 Caps on benefit allowances effectively bars many households from affording good quality privately rented housing, and what they can afford tends to be poorer quality privately rented accommodation. Some private landlords are reluctant to take tenants on housing benefit.
- 4.9 Under current rules, people who are dependent on housing benefit cannot compete in the market. Extending eligibility for housing benefit to low income home owners would provide a means for people on low incomes to access home ownership, and to gain the financial benefits of increasing property prices.

Mortgage eligibility

- 4.10 There will always be people who cannot access loans for house purchase because they are too high a risk for lenders. These individuals rely on rented housing, whether in the public or private sector and measures to increase owner occupation will not help them with access to suitable accommodation unless there are radical changes to lending practice, supported by government.

Security of tenure

- 4.11 Security of tenure is another factor. The general use of assured shorthold tenancies could be a disincentive for some low-income households to take up residence in the private rented sector. The social rented sector – both council and housing association housing offers much greater security than either owner occupation or private renting and for some people, particularly those on low incomes or insecure earnings, this is a reason for preferring to live in the social sector. This could be partly addressed through changes expected following the Law Commission review of housing tenure, particularly if private landlords can be persuaded to use longer term tenancies more readily.

Management services

- 4.12 A range of management services are available in rented housing, but not for owner occupiers. For some people, the management services that they receive from a landlord, such as repairs and maintenance, are a reason to live in rented housing. This is particularly the case for elderly and some disabled people, but peace of mind that repairs will be carried out can be important for other people too.

5. Policy constraints – issues relating to planning and the tax systems

- 5.1 The Government is committed to building sustainable communities, but we are concerned that the primary understanding of ‘sustainability’ seems to be in relation to increasing the speed of housing supply, particularly in the wider South East region (despite the findings pointed out earlier that even increasing supply hugely will not reduce house prices substantially).
- 5.2 We do recognise that there are unnecessary delays in the process of planning – and these need to be identified and dealt with to increase speed and steam-line the system. However, it may be tempting to conclude that, as the planning system is widely seen as a key block to getting volume housing built, it should be de-regulated in some way or another. ***We would strongly warn against attempts to diminish the role of the planning system in an attempt to deliver speed and quantity alone.***
- 5.3 CIH has been arguing for planning reforms for some time now (see our *Planning for Housing* policy paper produced jointly with the RTPI). We believe that what is required is for the planning system to be ***more*** proactive in the process of building sustainable communities. The activity of planning should be seen as part of the solution, rather than the problem. This would require a number of significant, but not unattainable changes to the planning system and to the culture of the planning profession – something that is being investigated in the Egan Review.
- 5.4 It must be recognised that sustainability embraces a number of elements – including social, economic and environmental elements – and that outcomes, in terms of the long-term sustainability of neighbourhoods created, are more important than the speed of development. The building of whole functional communities – with a range of community facilities including shops, transport, schools, community centres etc – must not be sacrificed for speed. Neither should the drive for house building to support socially mixed, rather than segregated, communities.

- 5.5 Nevertheless, we have identified a number of ‘sticking points’ in the planning process which are causing unnecessary delays, and we believe that there may be more that could be identified and dealt with. Speeding up the development control process is important but it is only a part of the solution. Better strategic planning, with greater ownership should result in more relevant and active plans that are more easily and speedily translated into outcomes through the development control process. Some of our thoughts for reforming the planning system, making it both faster and more able to deliver sustainable communities, are set out below (some of these are discussed further in *Planning for Housing*)

Reducing the scope for multiple applications for the same site

- 5.6 We are aware that it is quite common for developers to submit multiple applications for housing developments simultaneously on the same site, in order to ensure that at least one of them is accepted. Local planning authorities have an obligation to progress all applications they receive so this adds to the workload and adds delays to the planning process. This matches evidence that shows that planning applications have doubled in recent years whilst the level of construction has actually decreased. We understand why this happens from a developers’ perspective, but believe that the process needs to be changed to reduce the number of applications.
- 5.7 We suggest that there would be a number of advantages to planning departments taking the lead in designing sites. This would help both to speed up the planning process and to create quality housing and environments. Currently there is very little design / architecture involved in house building and estate design (either by house builders or public authorities) resulting in the much criticised ‘toy town’ developments.
- 5.8 Whilst planners themselves may not have the expertise to design good quality housing and environments, architectural expertise could be bought in or fostered through, for example, design and architecture competitions. Some local authorities already prepare ‘masterplans’ for an area and others make good use of design briefs and statements. These practices should be actively encouraged and developed further. Granting of planning permission would rest on the developer agreeing to develop to the brief agreed by the local authority, or at least the site brief could be used as the starting point for negotiation.
- 5.9 As well as helping to reduce delays, developing the capacity of the planning profession to be more proactive about site and house design could also help in promoting mixing of house types, sizes and affordability (which will help to achieve the Government’s objectives of sustainability). The drive to maximise profit means that many developers are pulling in the other direction the result being that affordable housing is often physically separated from more up-market, expensive housing – although, of course there are some developers who do accept the need to mix housing.

Joint plans for housing

- 5.10 Our current regional and local planning systems (and even the new proposed systems) do not produce visionary strategies for growth. Proactive and preventative housing strategies are rare.
- 5.11 Both CIH and the RTPi have suggested that local authority planners and housing strategists could work together to produce an overall strategy for housing in an area which would be a common, integral part of the Local Development Framework and of the Local Housing Strategy (currently planners have responsibilities for one element of planning for housing and housing professionals have separate responsibilities). In doing so, they would aim to deliver the vision set out in local community strategies as it relates to housing. This would bring about greater vision in and coherence of housing and planning strategies and the strategy would hold more weight at public examination.
- 5.12 Strategic housing as well as planning skills need to be developed to improve the delivery of housing. A portion of the Planning Development Grant of £350m allocated by the government to improve the planning profession should be made available to developing joint planning and housing strategy skills within local authorities.

Greater public and member involvement in drawing up strategies

- 5.13 Currently, members and the public tend to be much more involved in decisions regarding individual planning applications than in drawing up plans – there is more interest in how plans affect individuals than in how they affect the wider community. CIH (and RTP1) would like to see far greater involvement of both members and the public in drawing up local strategic plans and plans for specific areas through a variety of routes – including the Local Strategic Partnerships. This may require changes to local political processes as well as to methods for engaging the public.
- 5.14 However, we have also heard of instances in which developers are delaying the adoption of Local Plans – that may contain elements that are not favourable to developers – by inundating councils with objections to their Local Plan reviews. They can also be very reluctant to build on brownfield sites and will sometimes spend a considerable amount of time challenging planning department figures on housing demand. Councils are obliged to deal with all of these objections and challenges, slowing down the process. The new Local Development Frameworks should take account of development needs in their areas as identified through robust housing assessments (suggested in current revisions to PPG3).

Less scope for challenging individual planning applications

- 5.15 If political engagement and decision-making is weighted more towards drawing up strategies, it can be argued that the process of agreeing individual planning applications should assume a lower political priority. ODPM has already suggested that it would like to see a larger proportion of planning applications delegated to officers (Deputy Prime Minister's statement of 18 July 2002). The primary test for individual planning decisions should be whether or not they meet the strategic intentions previously agreed by members. Using this test would reduce the number of challenges made and justifying decisions would be more straightforward.

Presumption towards mixed tenure housing

- 5.16 Providing a mix of house types, sizes, affordability *and tenures* in new developments is a good antidote to social exclusion and a key to creating sustainable communities. In fact, the goal should be mixing of households on different *incomes* to avoid high concentrations of very poor people, and mixing household types and tenures in a location is one way of helping to achieve this. We have already set out a case for maintaining access to rented housing (whether private or public sector) on the grounds that some individuals are not able to gain access to finance they require and because of the difference in support mechanisms and services that are available in the two tenures.
- 5.17 The Government is in favour of mixing house types, sizes and affordability and this policy is being continued through consultation that is currently being undertaken on updates to PPG3. However, the proposals fail to adequately address the need to provide a mix of tenures in new development. We understand that avoidance of this requirement is at the request of developers who prefer to build housing for owner occupation because it maintains higher house prices on the whole site. Whilst we fully understand that any private enterprise needs to make sufficient profit, we believe that achieving social equality and sustainability is more important and that planning guidance should be stronger in requiring mixed communities.
- 5.18 Our argument is that the planning system should be stronger in promoting mixed tenure outcomes, which would involve building higher levels of certain tenures to rebalance the mix in areas where there is the tenure mix is currently out of balance.
- 5.19 The way to achieve mixed housing developments would be to:
- (i) set out in planning policy a presumption that housing types, sizes **and tenures** will be mixed on sites (if mixed sites become the norm in the future, then eventually there will be no financial advantage to be gained by separating up market from affordable housing); and

- (ii) make local authorities – as the best placed strategic enabling bodies – responsible for ensuring mixing happens.
- 5.20 However, they need appropriate policy tools to enable them to require certain types of housing to be developed. This partly relates back to the argument for giving local authorities more responsibility for designing sites, but they also need to be able to determine the tenure mix on a particular site. The current Planning guidance (PPG3 and Circular 6/98) does not give local authorities sufficient powers in this respect – local planning authorities must rely on their housing needs assessments if they wish to specify the type and tenure of housing they require, but this does give flexibility at site level to specify house types that would add to sustainability and provide a wider range of choice. The changes to PPG3 currently being proposed do not address this problem.
- 5.21 The problem could be largely overcome by allowing local authorities to specify in broad terms the type/tenure of housing required on a site to promote sustainable communities. The three categories of housing suggested below would provide sufficient differentiation:
1. **social housing** – housing for rent managed, either directly or through contract, by an organisation that is subject to regulation and/or inspection by a government body,
 2. **intermediate-priced housing** – that would embrace housing for private renting at below market rents, shared ownership and low cost market for sale
 3. **standard market housing** – to include all other forms of private housing for sale or rent
- 5.22 Local authorities need to be able to define the mix of these three sectors based on a robust understanding of their regional / sub-regional / local housing markets. Whilst accepting that not all LAs have adequately performed this role to date considerable progress is now being made in getting planning and housing teams to work effectively together to take a more strategic and cross-tenure approach to housing supply and demand and we would like to see this work encouraged and strengthened. This would be assisted if more housing and planning authorities were to draw up joint plans for housing provision.

Section 106 agreements

- 5.23 Planning obligations through section 106 agreements are a helpful mechanism for the delivery of affordable housing. The way they operate could, though, be improved. Also, they are of limited use for developing affordable housing in rural areas because the development of market housing is a pre-requisite, and this is largely stymied by the restrictions on building on Greenfield land.
- 5.24 Thresholds on site size on which affordable housing can be sought are impeding delivery of affordable housing on smaller sites, especially because (previously used) sites coming forward for development are becoming smaller since the sequential approach to land release in PPG3 was introduced. Many of these sites can be very profitable. In fact some developers seek out small sites particularly because they are not required to deliver affordable housing on them. Proposals to reduce these thresholds from 25 units or 1 hectare to 15 units or 0.5 hectares (in revisions to PPG3 currently out for consultation) do not go far enough and indeed previous proposals by ODPM would have effectively removed them completely. We believe that local authorities should be permitted to set their own thresholds subject to a maximum number of units.
- 5.25 We believe that the amount of contribution to be made on sites of all sizes should more closely reflect the differences between land price before and after acquisition and development, and between the development costs and property price.

Restrictions relating to rural areas

- 5.26 The sequential approach in PPG3 is unhelpful for achieving development of affordable and modest market housing (ie. to provide housing that is affordable for lower income households) in rural areas, and this is compromising the sustainability of rural communities.

- 5.27 The proposal in the consultation on PPG3 contains the suggestion that it should be possible to allocate sites specifically for affordable housing. This is helpful but it does not get round the problem that brownfield land is in short supply in many rural areas. It may, therefore, be necessary to build this more affordable housing on greenfield land, but at the current time, the sequential approach prevents this from happening. Relaxing the sequential approach in rural areas specifically for the development of affordable housing would not only help to provide land, but it would also help to costs of development down. This land would not be available for market housing, so the land value would be lower then would be the case if market housing were to be developed, but higher for the land owner.

6. Is the private rented sector an unattractive financial option?

- 6.1 One of the specific questions asked is whether the private rented sector is an unattractive option. CIH has previously undertaken work, with the input of investors and private landlords groups, to explore some of the problems in the private rented sector (Chains or challenges, 2001). This work leads us to the conclusion that institutional investors are reluctant to invest in the private rented sector and there are a number of reasons for this.

High risks associated with the lack of regulation in the private rented sector

- 6.2 The image of the PRS as a poor quality sector continues to be the dominant public image, and the relative lack of effective regulation in the sector (compared to other industries in which large scale investment can be made) deters many investors.
- 6.3 Poor physical quality is, to some extent, borne out in evidence. The latest English House Condition Survey (EHCS) results show that physical conditions are worst in the private sector than any other sector – around half of all privately rented homes in England are non-decent, compared with 30% of owner occupied homes and 43% and 28% in the council and housing association sector respectively. However, physical standards have improved between 1996 and 2001.
- 6.4 It is also the perception of poor management standards that gives the sector its poor image. For example, one in five tenants consider that they have had a portion of their deposit unreasonably withheld when their tenancy terminated (Survey of English Housing).
- 6.5 The sector is diverse and there is undoubtedly some very high quality accommodation and management standards. Private landlords are bound by many rules spanning many different Acts, but a proper regulatory framework – to encourage good practice and enforce against bad practice – continues to be elusive and makes investors wary of being associated with the sector. It is, in effect, too high a risk for them to take.
- 6.6 In the past CIH has put forward a number of suggestions for improving the regulation of the sector and has worked together with landlords' groups such as the British Property Federation to find ways forward. In doing so we have tried to be even handed – recognising the need for landlords to be able to run a viable business – and have also supported positive approaches that include assisting landlords to carry out their role well through providing information, training etc.
- 6.7 The current proposals in the draft Housing Bill – for allowing licensing HMOs and for wider licensing in selected areas – will bring about improvements on the ground. However, this in itself is unlikely to be sufficient to gain the trust of investors.
- 6.8 Local authorities have the greatest responsibility for enforcing and raising standards in the private rented sector. Many are doing good work with private landlords through private landlords forums designed to improve information flows and provide services that are relevant to landlords, and many also run accreditation schemes. However, membership of these schemes is voluntary and the question remains how those landlords who are not willing to be involved can be reached and encouraged to improve their practice.

6.9 There is a place for voluntary schemes that promote and incentivise good practice, but we believe that this proactive, strategic work needs to be encouraged and underpinned by other relevant forms of regulation. Dialogue with investors about the kinds of regulation that would help to change their opinions of the sector is needed, but some ideas for improving regulation and the work of local authorities include:

- Requiring landlords or managers to register themselves and the addresses of properties they are renting out – in other words, simply to make themselves known. This suggestion was made following work carried out by Birmingham University (CURS) that found that local authorities do not have comprehensive information about the PRS in their areas. There are no mechanisms in place that enable them even to know the whereabouts of privately rented properties in their areas. Many local authorities attempt to keep their own records, but they far from comprehensive. As well as assisting local authorities in their enforcement role, this would also help them (and central government) to support private landlords by providing them directly with information, advice and opportunities for training, for example.
- Requiring all managers to be ‘fit and proper’ – this is proposed as a requirement for HMO licensing, but we suggest it should apply to the whole of the PRS
- A greater role for the Independent Housing Ombudsman (IHO) – it would not be unreasonable to require landlords to sign up to the IHO, providing the service is helped to expand to take on the extra workload
- The requirement for local authorities to run accreditation schemes in their areas and to run a national awareness programme to make both landlords and tenants aware of the schemes – tenants can then be encouraged to choose accredited properties
- Allowing local authorities to run licensing schemes in areas where there are particular problems geared to resolving the problems (ie. not just low demand areas)
- Promotion of tenant sponsorship schemes to assist tenants in receipt of housing benefit (a group that landlords are often unwilling to accommodate) and act as an advocate with landlords

Insufficient returns and unfair taxation treatment

6.10 Some commentators have argued that the sector does not produce sufficiently high returns at the lower end (ie. cheaper end) and that tenants are not prepared or are not able to pay the cost of quality accommodation.

6.11 The differential taxation treatment of the private rented sector compared with both owner occupation and small businesses (both of which are exempt from capital gains tax) increases operating costs. Landlords either have to pass these costs on to tenants in the form of higher rents or they have to cut corners on, for example, long term maintenance. This unfavourable tax treatment reduces returns and discourages investment in the sector.

Lack of a suitable investment vehicle

6.12 At the current time, if an individual or organisation wishes to invest in the PRS, then they have to do so directly – i.e. become landlords and get involved in buying properties (even if they use the management services of a letting agent).

6.13 There is no possibility of indirectly investing in the sector – i.e. handing over money and expecting a return – because there are no suitable investment vehicles available. Possible models, such as the Business Expansion Scheme, have been explored in the past, but no lasting solutions to this problem have been found.

7. Increasing the supply of affordable housing

- 7.1 The review points out that the decline in house building since the late 1980s has mainly been in the social housing sector.
- 7.2 We do not believe that the housing supply problem in high pressure areas can be tackled effectively without substantially increasing the supply of affordable housing – including both social housing for rent and low cost home ownership housing. We made the point earlier that in areas where demand outstrips supply, the market will never realistically be able to cater for all low income households. In fact in parts of the south east there is currently a distinct shortage of housing that is sufficiently affordable.
- 7.3 The level of resources for housing has increased in recent years, but the total public investment remains lower than housing investment in the mid 1990s. We believe that a step change is required in the level of investment going into affordable housing and will be making this point in our forthcoming submission to the next Spending Review.
- 7.4 The Right to Buy and Right to Acquire add to supply problems in high demand areas by transferring housing from the affordable housing sector into the private housing market. The fact that tenants remain in their dwellings for some time after they purchase only results in a lag phase between the house being available for a low income household and it not being available. In any case, the length of time people remain in their dwellings post-sale is reducing, and the incidence of sub-letting after sale is high (the changes to the draft Housing Bill do not deal with sub-letting problems adequately).
- 7.5 The fact that local authorities are not able to ring fence all the capital receipts from such sales to replace this housing is also problematic in high demand areas. Currently, they are required to set 75% of the receipts against debt repayments and the remaining 25% is not ring-fenced for housing. This is a factor in limiting the supply of affordable housing.
- 7.6 Our recent briefing paper on the right to buy produced jointly with IPPR is attached for information. In it we argue for a greater proportion of the receipts from sale to be recycled for housing purposes and for this to be either ring-fenced or somehow targeted for spending on housing purposes. In high demand areas this would be for affordable housing.
- 7.7 CIH is represented on the Housing Corporation's Home Ownership Task Force and we are making detailed comments on possible reforms to all low cost home ownership schemes to this group.

References

CIH (2001) Chains or Challenges: the prospects for better regulation of the private rented sector

CIH (2003) Planning for Housing: the potential for sustainable communities

CIH (2003) Right to Buy: a symposium for debate

Towards an Urban Renaissance (1999) - Rogers Review

ODPM Select Committee Inquiry into Affordable Housing (House of Commons, 2003)

ODPM Deputy Prime Minister's statement of 18 July 2002