

THE BARKER REVIEW OF  
HOUSING SUPPLY

*Submission By Gallagher Estates  
And  
Roger Tym & Partners*

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## INTRODUCTION

### Background

1. This submission on behalf of Gallagher Estates has been prepared jointly by Gallagher Estates and Roger Tym & Partners.
2. Gallagher Estates is a specialist land property and development company engaged in a wide range of developments throughout the UK. In its development role the company is both a major landowner in its own right and holds a wide range of contractual arrangements to private land on behalf of landowners and development partners. The company has approximately 40,000 residential housing plots and some 4m sq. ft. of employment land in its current development portfolio. It is also a major owner and landlord of commercial property developments. One important part of the company business is housing land development where the company acts as town developer bringing major areas of land forward throughout the current planning and development processes. Once consent is granted Gallagher will undertake to provide all physical and social infrastructure and discharge the range of planning obligations required to bring forward the scheme. From its accumulated experience across England and Wales, Gallagher Estates is well placed to comment on key aspects of this review.
3. Roger Tym & Partners is one of the leading firms of planners and development economists and has undertaken a number of strategic studies for ODPM (and its predecessors) and Regional Planning bodies:
  - Milton Keynes and South Midlands Study
  - Ashford's Future
  - Thames Gateway Review
  - Employment Forecasting for the London Plan
4. Roger Tym & Partners has also given evidence at recent Parliamentary Select Committees concerning Planning and Competitiveness and Planning for Sustainable Housing and Communities.
5. By way of background context we should say that few of the supply-side issues identified by the Barker Review are "new". They have been well known for the last 15-20 years. Indeed previous Government Departments and other agencies have commissioned a welter of relevant research in the 1980s which is referenced at Appendix 1.
6. Of particular interest from our perspective is the study of *Land Used For Residential Development in the South East and The Housing Land Availability Study*. The Executive Summaries of these reports are attached to this submission and highlight issues which are raised by the Barker Review.
7. In many ways the key lessons of these research studies are as true today as they were 10-15 years ago. Part of the problem is that the planning system has failed to achieve change. What is different now, however, is that whilst the quality of housing development has improved markedly since 1980s and housebuilders have become more sophisticated, the planning system has contrived to reduce the availability of land for housing and the rate at which it is released, at a time when the demand for market housing is potentially very high. This high demand results from the growth on households, rising household incomes and the low cost of mortgage repayments. The need for affordable housing is also at a high level, primarily because of the restricted funding available for Social Housing Grant via the Housing Corporation. In other words we have the paradox of high demand/need and low supply of new housing sites.
8. There are five reasons which encapsulate why and how the planning system is constraining the supply of housing land. These are summarised below:

- (1) The effect of Planning Policy Guidance Note 3 (Housing Land) PPG3 and its phasing provisions has been to restrict the rate of release of larger housing site.
- (2) The target for housing provision on brownfield land (PPG3 para 23) which has slowed down the rate at which sites are released on the edge of urban areas.
- (3) The elevation of political interest in environmental issues at the expense of two out of four of the Government's objectives for sustainable development (high and sustainable levels of economic growth and social progress).
- (4) Local authorities and communities are reluctant to accept new housing development without the accompanying investment in infrastructure services and community facilities.
- (5) For large scale new community developments local authorities are not geared up to deliver development quickly and many are not used to working with developers in order to achieve large scale, programmed delivery.

### The Planning Context

9. In Southern England (London, the South East, Hertfordshire/Essex/Bedfordshire) the fact of a massive housing undersupply can be seen clearly. If we adopt Government's most recent projections of household change (the 1996-based projections)<sup>1</sup> the projected increase in households in Southern England is just over 1 million distributed as follows:
  - London - 392,000
  - South East - 502,000
  - Beds/Herts/Essex - 170,000
  - 1,064,000
10. This represents an annual rate of increase of 70,930 p.a between 2001 -2016. If allowance is made for a 2.5 per cent vacancy rate (but no allowance is included for reduction in sharing, etc) this translates into a demand requirement of 72,700 p.a. – say 73,000 p.a.
11. Planned provision for new housing set out on an annual basis in RPG 9 (covering the South East and Beds/Herts/Essex) and the London Plan is as follows:
  - London - 23,000 p.a
  - RPG 9 - 39,000 p.a
  - 62,000 p.a
12. Recent completions of new built dwellings over the last ten years according to ODPM data have been as follows:
  - London - 14,610 p.a
  - South East - 25,460 p.a
  - Beds/Herts/Essex - 11,360 p.a
  - 51,430 p.a
13. These data underestimate the provision of new dwellings (mainly in London) because they exclude the net change in housing through housing conversions. ODPM are not able to provide data on net gains

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<sup>1</sup> Projections of Households in England to 2021: October 1999, DETR.

through conversions at present. Even so they point to a general conclusion which can be simply stated as follows:

- (1) Strategic planning policy is planning to deliver 11,000 dwellings per annum less than the potential demand requirement in Southern England.
- (2) Currently the planning system is delivering about 10,000 less dwellings per annum than the planned target and about 21,000 dwellings per annum less than the demand requirement.
- (3) The strategic planning system is failing to plan for a sufficiently high requirement and the development control system is massively undershooting the real requirement as well as the planned requirement.
- (4) The very great majority of the demand requirements stem from growth in households generated by the indigenous population of Southern England. Unless it is proposed to decant population out of Southern England, questions of regional imbalances are irrelevant as the growth is largely based on local population and household change.

14. With this background context our submission now addresses the specific questions posed.

### **Issue 1 : Constrained Supply of Land**

#### *Is there a shortable of suitable land for development?*

15. The short answer to this question is that in aggregate terms there is no shortage of aggregate potential development land, even in the high demand regions of Southern England. The real shortage relates to land with planning consent and capable of immediate implementation. This is evidenced by the fact that strategic studies such as the Cambridge Sub-region Growth Study and the Milton Keynes and South Midlands Study are able to identify strategic directions and locations for growth which are generally unconstrained by environmental or planning policy designations and which are capable of being served by public transport services.
16. At a more local level, however, a pattern of increased constraint emerges in some areas based on more localised environmental factors and political concerns. In addition, in some of the areas with few environmental or planning constraints (the Thames Gateway or Corby for example) demand for housing is lower than elsewhere and there are difficulties with both road and public transport access which currently prevent the scale of development which these areas are capable of achieving in terms of physical capacity.
17. There are other examples, such as Milton Keynes, where there are few environmental or planning policy constraints and limited transport difficulties, where institutional factors (English Partnership's land ownership, the slow progress of a revised Local Plan and the failure to fund any social housing in recent years) combine to reduce housing completions last year to less than half the level achieved 15 years ago and some 50 per cent less than the target growth potential for Milton Keynes set out in the recently agreed Milton Keynes Growth Area Study. Yet most of the land required for Milton Keynes's future growth is owned or controlled by English Partnerships and a handful of developer consortia, all of whom are keen to proceed with development. With a relatively simple pattern of landownership and all landowners keen to accelerate growth, it is evident that the main constraints to higher growth at Milton Keynes focus on the inefficiency of the planning process and the development plan system. It has, for example, taken over four years to progress the current review of the Local Plan which is now at Inquiry. It seems unlikely that a new plan will be put in place until 2005.

*Are there any factors which reduce land owners' willingness to sell?*

18. There is considerable evidence that landowners and their advisors perceive high taxation levels as a significant factor in bringing forward land by sale to housebuilders and developers option or conditional contract agreements will often contain provisions that allow the sale of land to be postponed or held over until a more favourable taxation regime is introduced. This exemplifies a concern about the net receipts landowners will realise.
19. This concern is now being heightened by an increasing "indirect property taxation" of landowners returns by a more extensive use of planning obligations and agreements and the increasingly wider scope of these agreements (Section 106 Agreements).
20. It is often overlooked that landowners are subject to direct taxation on the increased development value of their land and on top of this in valuing their land they will have to take into account the cost of infrastructure and the levels of contribution to "planning gain" through obligations (Section 106 agreements). Undoubtedly levels of planning contribution particularly on larger development sites are rising as local authorities seek to transfer the cost of provisions of services to landowners and developers.
21. Landowners and their advisors are becoming increasingly concerned to understand the level of cost input and to be able to estimate the net value of their holdings. This illustrates why clear unambiguous planning policies and guidance is essential so that, in making decisions at an early stage in a development programme, all parties are aware of the likely cost contributions from development value.
22. If levels of direct and indirect taxation on land values continue to rise in the way they have done over the past 5-10 years, it is likely that there will be an increasing reluctance to bring forward land with landowners believing they should await a more favourable taxation regime or await further changes in the relationship of land value and deductible costs.

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

23. There are two issues posed by this question.
24. First, does optioning reduce the potential supply of land physically appropriate for development? The answer to this must be "no" as it is the planning system which determines which parcels of land out of the far greater scale of the optioned potential actually can come forward for development.
25. Second, does optioning restrict the availability of land for developers? Here the position is that optioning ties up for a limited period of time the availability of land to all but one developer or consortium interest.
26. However, this is not restricting the supply of land per se, as inevitably within most option agreements there will be positive obligations placed on the developer or consortium to promote land and achieve planning consent at the earliest opportunity. In this sense, the optioning of land is encouraging the active promotion of areas of land through the planning process. It is quite possible that land that is eventually allocated for development will not be from the pool of land subject to option agreements between landowners and developers. We see no direct relationship between the process of optioning and land supply, if anything the process is likely to maximise the possibility of land coming forward for development.

*Is optioning necessary? If so, why?*

27. Optioning of land takes place in order to transfer the cost and risks in promoting land for development to those with development expertise. It sits alongside the use of joint venture agreements (where risk may

- be shared) and conditional contracts as the most frequently used devices to control the relationship between landowners and developers.
28. The cost of promoting land for development has in the last 10 years risen dramatically. The increased complexity of the planning process and in particular the introduction of requirements to complete Environmental Assessments and comply with UK and so European legislation has made the process of preparing planning proposals subject to a complex set of work programme involving a wide range of specialist consulting inputs.
29. In addition the Development Plan system is structured in such a way as to require landowners and developers to participate throughout a series of formal and informal stages. All these require considerable resources and technical and professional support.
30. In this context, of an increasingly complex and costly process in promoting land for development, the process of land optioning is important and necessary. It transfers the cost and risk of promotion to developers who have experience and expertise in the promotion and who work with skilled consultants and other development professionals. This in turn ensures greater efficiency and professionalism in the process of advocating the use of land for development. If an area of land is then subject to an allocation for development the option arrangements will, in effect, provide that the developer and landowner in partnership will assume the responsibility for undertaking most of the technical and promotional work associated with the pre-implementation stages of the development. Thus, in this way the option arrangements transfer the majority of cost risk from the local authority (which has allocated the site and is thus supporter of the allocation) to the landowner/developer and thus from the public private sectors.
31. We are aware that recently a number of politicians and organisations have identified the process of land optioning as a negative influence on land supply. We disagree with these arguments and indeed fail to see how the process of transferring risk from landowner to developer (which is the *raison d'être* for an option) should in any way materially affect the overall supply of land. If anything, the option process will increase the prospect of a particular area of land being promoted for development but this is quite distinct from the supply issue.

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

32. Regional Planning Guidance (RPG) provides the strategic context and targets for the production of Structure Plans/UDPs and Local Plans (the development plans). Development plans take their lead from RPG.
33. As set out in the Introductory section at paragraphs 7-10 RPG9 and the London Plan is undershooting by some 11,000 p.a the need for new housing generated by the growth in new households. The same is true for other regions. For example, if we increase the household growth figures shown in DETR's household projections by 2.5 per cent to account for an appropriate vacancy rate the position for East Anglia (RPG6) and the South West (RPG10) can be summarised as follows:

	Requirement To 2016	Planned To 2016
East Anglia	151,700	148,500
South West	313,650	305,250

34. Over the next 15 years there is a potential underprovision amounting to 3,200 dwellings in East Anglia and 8,400 in the South West. These shortfalls are not as extreme as in Southern England but they are shortfalls all the same.

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

35. As must be plain from the previous answer, part of the shortfall is explained by the failure of the planning system to plan for sufficient homes. In addition, it is also true from the information summarised at paragraph 12 that the number of housing completions is well below planned targets.
36. This is not from a lack of developer interest, although this may be true in low demand areas such as Corby or Ashford. In the majority of instances in the high demand areas, development is being frustrated particularly on the larger development sites. As noted by Roger Tym & Partners both in the 1991 Land Availability Study and at a recent RPG9 Steering Group chaired by Lord Rooker, large sites potentially comprise a disproportionate share of future housing provision in Southern England. Moreover large sites maximise problems and controversy, make the greatest demands on infrastructure, and become the focus of Section 106 agreements. Furthermore, large sites are affected by issues of their deliverability and marketability and the need to “spread the load” – identifying more market opportunities and more developers – which would lead to more delivery. While large sites should be accelerated in the planning process given their especially lengthy lead times, PPG3 encourages local authorities to put large Greenfield sites to the “back of the phasing queue” if small urban sites come forward in the meantime.

**Issue 2 : Constraints Affecting The Industry***Do housebuilders face difficulties accessing finance?*

37. In the mid 1980s the availability of finance was not an important issue for most developers in the South East (see para 7.2 of the Executive Summary of Land Used For Residential Development in the South East. To date, the position has altered little although the overall levels of finance required to fund development are much greater than at the time of the research study. Most development projects continue to be funded by developers from their own resources or credit arrangements.

*Do shortages of essential skilled workers exist; can alternative production techniques overcome this problem?*

38. Greater certainty about central and local government support for a long term construction programme would be a major positive step in creating a climate in which builders could recruit up and train skilled workers for a more certain construction programme.
39. It is unlikely that alternative construction and production methods such as off site manufacturing (OSM) can have much impact in the short term. For example, the level of housebuilding cannot be increased by the use of OSM techniques until greater capacity is created in the UK and European prefabricated industries. Moreover, at present there is not significant savings in production costs from OSM techniques. In the long term alternative production techniques and OSM methods do appear to have potential to overcome areas of skill shortage. However, it will be necessary to create a workforce trained in the use of new production techniques so that the quality of production can be maintained. (timber frame example).

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

40. Like any investment or commercial venture the level of risk will affect the investment in land. As noted above, the system of optioning land is the most tangible evidence of this in the land market. An option agreement to promote land and to purchase it in the event that consent is granted offers a method of balancing risk against level of investment delaying purchase of land until an implementable planning consent is granted.

41. The planning process has become less predictable and in particular offers considerable uncertainty in relation to timescales. This has increased the levels of perceived risk and the cost of promoting land for housebuildings.
42. The main effect is likely to be that developers will be reluctant to purchase land at market or near market values until all planning processes have been undertaken. If they do seek to purchase land ahead of the grant of consent it will be at a heavily discounted level to reflect risk.
43. It is interesting to note that over the past five years or so many housebuilders have withdrawn or limited their involvement in the processes of promoting "strategic" or long term speculative land - preferring instead to limit their activity in the land market to the purchase and acquisition of land with planning consent. Their place in the market place has been taken by a number of specialist land and development companies, including our own, who adopt a highly speculative and focussed approach to the promotion of long term housing land.

*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?*

44. There is potential to shift production techniques and introduce off site manufacturing (OSM). However, as noted above, this will take time as the physical capacity to increase output from OSM is currently constrained by a limited number of manufacturers in the UK and Europe. A significant increase in capacity will only occur if there is greater certainty over anticipated levels of requirement.

*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?*

45. We do not have sufficient direct experience of this aspect of the market to comment.

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

46. We do not have sufficient direct experience of this aspect of the market to comment.

*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?*

47. The first point to note is that development costs in urban areas are higher than on Greenfield sites and have always been so. In the mid 1980s construction costs per square metre (excluding off-site works) in the South East were 7 per cent higher for urban developments compared with greenfield sites. Fees and overheads (including interest) on urban sites were double those on greenfield sites. This position holds true today also.
48. The higher costs in urban areas reflect the greater construction complexity on more constrained sites, the higher costs of fees on a wider range of specialist areas, the greater cost of site preparation and the increased costs attributable to higher density development. Whilst these conditions generally apply to all urban sites there is an additional cost premium for remediating or reclaiming brownfield land. This varies from site to site depending on local conditions.
49. In conditions of perfect competition the cost premium for developing brownfield land should be reflected in a comparable reduction in the sale price of land. In practice, however, landowners are reluctant to accept downward negotiation of land prices as has been noted previously in research by the

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<sup>2</sup> Land Use for Residential Development in the South East. Technical Paper III, Table 5.3, Roger Tym & Partners.

Department of Land Management at Reading University. Companies with property assets on their books at a given price are extremely resistant to sales at a lower price. Moreover, in the public sector the Treasury's requirements for sales for Government land at best value reinforce the tendency for recycled housing land to be overpriced.

### Issue 3 : Policy Influences on Housing Development

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

50. Generally speaking it is not the interpretation of planning guidance which is constraining development. The problems are more fundamental:
- (1) The sequential approach and phasing guidelines in PPG3 effectively push large Greenfield sites to the back of the phasing queue when what is required is a complementary programme of urban sites, small extension sites and major Greenfield sites **in tandem** rather than sequentially. In this way market demand and the pace of output can be maximised.
  - (2) There is no requirement (or benefit) for local authorities to pro-actively promote rapid delivery of housing development. The role of local authorities is re-active and to this extent there is not the same urgency in the way development issues are considered and progressed compared with the development activities of Development Corporations.
  - (3) In some local authorities there is not strong local political support for the achievement of existing Regional Planning Guidelines housing targets, let alone trying to achieve the higher targets anticipated in the Sustainable Communities Plan.
  - (4) Too much attention is given to attempting to exactly match planned housing targets with local land supply potential even though previous research shows that local authorities never match planned targets with achieved completions even in high demand areas. This is for a variety of very good reasons and no criticism is intended. It is for this reason that it is appropriate to make allowance for some "leeway" (A 10% allowance was suggested in the study of Housing Land Availability).

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

51. Dealing firstly with the question of benefits, the main hidden (at least in the sense of being unquantified) benefit of housing provision – in the form of both market and affordable housing – is that enhanced labour market flexibility and mobility are key to reducing differential levels of unemployment. The spatial distribution of housing and the provision of a range of tenure options is a key element in enabling this flexibility of regional labour market movement.
52. On the cost side there are indeed social costs associated with housing development which has only relatively recently been expressly aired in the last 2-3 years. The costs we refer to are the costs of providing strategic transport infrastructure, affordable housing, health and community services.
53. Almost all these costs are driven by population and household change. Additional people require health facilities, schools, playing fields, fire stations, etc as well as access to a strategic transport network (both roads and public transport) which will enable them to travel to work, leisure activities, schools and so on. Much of these facilities have been traditionally funded by mainstream central government budgets out of general taxation. However, the level of funding has slowed down and both local communities and councils are becoming increasingly reluctant to accept additional housing "in the national interest" if

central government fails to provide matching funding for additional mainstream health and education provision generated by growing populations.

54. In the future this problem is likely to get worse. In theory, if population increases then the taxation base ought to as well, provided the economy generates sufficient new jobs. However, Britain's population is growing slowly and it is ageing and there can be no certainty that the tax base will not decline. What in fact is happening is that the demand/need for housing is being driven by household fission and the rapidly diminishing average size of households is fuelling a requirement for many more houses even though the population is rising only slowly.
55. However, there are sizeable local services deficiencies and potentially a shift in local service requirements reflecting an ageing population. We have estimated the cost of providing the scale of community service and infrastructure costs in an area such as Milton Keynes and the South Midlands as some £8.3 billion<sup>3</sup>. If the central government revenue base is declining then these planning and development costs will need to be financed through other sources – i.e PFI prioritisation, Council tax, water rates, Section 106 Agreements and possibly Bond issues.

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

56. There are no fiscal or commercial advantages in developing brownfield land. The planning system prioritises brownfield land development but does not deliver quicker planning permissions than on Greenfield sites. Nor does the planning system overtly seek to reduce the requirements for high standards or Section 106 Agreements on brownfield land to compensate for the higher costs of developing previously used sites.
57. While government guidance implies that brownfield land should be dealt with quickly and sympathetically by the planning system (PPG 3 paras 38& 39), local authorities fail to apply this principle. Moreover, there are no incentives or deterrants within the land use system to reinforce these broad objectives.

*Is planning guidance applied appropriately?*

58. Generally speaking yes, although in Southern England there is too high an emphasis on environmental protection issues and a relatively lower emphasis on economic or social issues. Consequently, in the round, the Government's four key objectives for sustainable development (A Better Quality of Life – National Sustainable Development Strategy) which build in inherent trade-offs requiring a balanced appraisal, sometimes tend to be skewed against economic development and social criteria.
59. A prime example of this is the currently depressed position of Luton and the poor prognosis for its future. In fact, it is a striking anomaly that an area with such locational advantages alongside the M1, the Midland Mainline and a growing international airport, and situated on the edge of the most buoyant economic region in Britain and within a relatively affluent hinterland should continue for so long as an island of economic under-achievement. Whilst the traditional manufacturing economic structure may be partly to blame it is not the whole story. The radial pattern of busy main roads focused on the centres of Luton and Dunstable and the tightly constrained urban area envelope, reinforced by planning policy, combine to place a straightjacket around the conurbation which inhibits productive new investment both within the central areas and on the periphery adjacent to key transport routes.

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<sup>3</sup> Milton Keynes and South Midlands Study, Final Report of Study September 2002, Roger Tym & Partners, Halcrow, Three Dragons

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

60. On its own the current reform programme will achieve little in addressing the key blockages to housing delivery in Southern England, i.e:
- Programme funding for integrated community development which provides housing, community facilities and transport infrastructure.
  - Dedicated delivery vehicles for the key growth areas and an encouraging climate for private sector involvement in project delivery.
  - Additional, appropriately qualified staff to assist in the planning and delivery process.
61. While the current government reforms seek to both streamline and simplify current procedures for both plan making and the handling of planning applications, they do not, in our opinion, address some of the fundamental resource and delay problems endemic in the planning system. In particular, the absence of statutory timetables and mandatory periods for plan making and reaching decisions on planning applications, mean that the new system will continue to display many of the features of the present system.
62. The proposals replace one complex system with another which on close scrutiny appears equally complex. Moreover, the new proposals seem unlikely to prevent the continued weighting of environmental issues above considerations of economic growth and social progress we referred to in 6(3) above. Indeed, proposals for greater community consultation and grass roots participation in the revised planning system may even introduce greater inefficiency into the operation of the system.

*Are section 106 agreement an effective means for addressing and mitigating the impact of developments?*

63. The ambit for Section 106 Agreements is "regulated" by Circular 1/97. The key contextual principles are that the obligations must be directly related and connected to the development for which the obligation is being offered and should be relevant.
64. The operation of the Section 106 regime tends to be too narrowly focused on site specific or localised issues. The system is able to recoup contributions towards local off-site road improvements where additional traffic necessitates the need for junction improvements and the like and also providing for local schools. The system fails to "mitigate" or provide contributions towards the funding of more strategic infrastructure which is essential for continued population growth – i.e new hospitals, road widening schemes, new public transport systems (or upgrades to existing public transport). This is especially important for the Growth Areas where funding of strategic infrastructure will be essential. The ability of central government to fund transport and secondary health projects will influence greatly the rate and scale of housing output which is achieved.
65. There is an important issue here for taxation and the scope for any additional calls on Section 106 agreements. As previously identified, landowners are becoming increasingly concerned at the combined effect of general taxation and Section 106 contributions. One way in which there might be some additional scope for raising the potential for funding of infrastructure by way of Section 106 agreements is to allow landowners to defray capital gains tax liabilities reflecting the effect of Section 106 contributions. In other words recognise overtly that Section 106 agreements are a form of property tax and allow landowners to offset Section 106 "taxation" before liability for capital gains tax is calculated.

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

66. Where Section 106 obligation policies in Local Plans are triggered by development scale or site size thresholds there can be a tendency for applicants to deliberately seek to achieve applications below the thresholds, often by splitting a site into two and making parallel applications. This is a particular issue with the size thresholds for affordable housing. This places developers promoting large strategic schemes at a disadvantage in having to shoulder a disproportionate share of the cost of infrastructure and affordable housing requirements.

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

67. Not really, except when fire regulations compliance make certain conversions uneconomic.

***Do regulations governing change of use effect the use of existing buildings for housing?***

68. Not specifically as a consequence of change of use. Of more relevance are policies and standards related to the appearance of buildings in Conservation Areas or alterations to a listed building. Clearly, overall market conditions exert an even greater influence. This is especially relevant for older office buildings in secondary or tertiary locations where there is always the potential to switch into housing or hostel use if residential values increase and office rents decline.

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

69. Development in local authorities which apply low car parking standards and accepted demand management approaches to achieve a reduction in car borne commuting are penalised by comparison with adjacent authorities who may adopt a more relaxed approach. Major enhancement of the transport system in Southern England can only be achieved if every authority in Southern England adopts the same approach and there is some funding of common transport infrastructure from a uniform strategic pool of development related contributions (Section 106).

***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?***

70. Most developers and housebuilders seek to incorporate higher proportions of low cost market shared ownership and sub-market rent types into their schemes. This needs to be encouraged. These tenure types offer greater financial flexibility and can often be provided by the developer without the need for public subsidy. Thus, all intermediate tenure types offer a way of making significant contributions to increasing the amount of affordable housing while allowing public subsidy to be concentrated on social rented housing. At the same time, these tenure types also promote greater social balance, especially in large scale developments and offer to may an interim stage of housing towards full owner occupation, still a fundamental aim of government housing policy.
71. The financial viability of these individual tenure types inevitably revolves around their scale and the level of subsidy required in any particular scheme. Generally they offer greater flexibility to developers and produce more affordable housing numbers for less public subsidy.

**Issue 4: Private Sector Provision of Affordable Housing*****Are there additional barriers that have prevented this expansion?***

72. In answering this question it is important to distinguish between the two broad types of affordable housing – social rented housing – and low cost market, shared ownership or sub-market rent. Local

authorities which are no longer able to build council housing naturally wish to achieve social rented housing to which the authority will have 100 per cent (or a high proportion) of nomination rights. Consequently there is a tension between a local authority wishing to maximise social rented provision and a developer wishing to provide a more varied tenure mix.

73. However, even where the planning system achieves a significant proportion of social rented housing through Section 106 negotiations (with the dwellings to be constructed by an RSL) funding availability via the Housing Corporation does not match the potential supply of social rented planning permissions in many areas. In London most Boroughs achieve full funding of land and construction costs by developers through Section 106 agreements. Outside London this is rare. Most authorities negotiate the provision of a proportion of development sites in the form of "free land plots" for social housing with an RSL having then to obtain Social Housing Grant for construction costs only. It is here that the Housing Corporation's allocations do not match the supply of free land plots.

*Are these areas of provision simply not profitable?*

74. Clearly the provision of affordable housing reduces the value of land and, pushed to an extreme position, a landowner can simply refuse to sell at the reduced price. This problem is reinforced where there is no obvious direct connection between the scale of affordable housing being sought, the nature of the development proposed and the viability of development with a high proportion of affordable housing. A realistic balance needs to be achieved. Some local authorities fail to recognise this and/or do not have sufficiently experienced or qualified staff to undertake negotiations based on knowledge of development economics.

*Low cost market, shared ownership and sub-market rent options can be viable.*

75. Generally, outside London and the major cities, prevailing market rental levels (based on average weekly or monthly rents) offer inadequate returns to developers of new schemes when compared to other forms of investments. In London, the capitalised value of rents cover construction costs and there is the prospect of rental growth. The latest Survey of English Housing shows that the average of all assured rents in England increased by an average of 6% per annum between 1990-2000. If we take account of inflation at about 3.5% per annum over this period the real increase in rents is about 2.5% per annum which does not compare favourably with income growth in alternative investment options in the 1990s.

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

76. Following on from the above, whilst average rental growth was low relative to other investments in the 1990s, this may not be true for the 2000s, when there are fewer alternative options. With inflation at 2% or thereabouts income growth of 6% may be attractive if it is relatively risk free. Furthermore, the Survey of English Housing's average rate of increase in rents reflects conditions throughout England. In the major cities, and especially London, returns have been greater and are likely to continue to be so. Consequently, investment in rented property is likely to remain attractive, subject to the scale of market rental housing which can be afforded. This does provide an upper limit on the quantum of rented housing which is in demand.

**Conclusions**

77. Our key conclusions regarding the main causes for the current undersupply of housing in Southern England are set out below under the four headings adopted by the Barker Review. We agree that attention is given to these matters in order to achieve uplift in housing output.

*Constrained Supply of Housing Land*

78. The supply of housing land is undoubtedly constrained by the inefficient plan making and land release mechanism of the present town planning processes that operate in England and Wales.
79. There is not an aggregate shortage of potential housing land in Southern England in locations which reflects government's sustainable planning objectives as set out in A Better Quality of Life - A National Sustainable Development Strategy. Whilst there may be localised areas of low housing demand relative to land supply largely due to isolation from major employment centres and poor (public) transport accessibility these demand conditions can be addressed by investment in improved transport infrastructure and measures to attract more local jobs. In this way demand in the less attractive areas can be enhanced over time. At the same time, however, it needs to be recognised that additional land allocations need to be agreed in areas where there is a current high and sustainable level of housing demand. There are such areas in Southern England where there are few environmental constraints to development - Milton Keynes, Aylesbury, Northampton, Harlow and Cambridge, for example.
80. In our view, the key issue that needs to be addressed is the planning system's failure to plan for sufficient additional houses and then deliver the housing targets which have been agreed. Regional housing targets must reflect realistic projections of growth in the number of future households plus allowances for vacancy rates. This requires a review of the 1996-based household projections and regular updating of regional household targets, distributed down to Districts, at the same time as Regional Spatial Strategies are updated. It also requires that District Councils are required to adopt District level targets in their Local Development Frameworks without delay.
81. We welcome many of the initiatives introduced by the ODPM to reform and speed up the planning system, many of these will be formally introduced through the current Planning Bill. We do not believe that the new system will be necessarily quicker or indeed more efficient in its operations but the changes are a welcome attempt to deal with current difficulties.
82. We believe Government needs to go further to speed up the release of land in areas of identified shortage. In particular it should:
- Prioritise resources to ensure that local authorities and development partners in the areas of high pressure can plan on the basis of long term housing development programmes which will be complemented by central government funding of key infrastructure and services.
  - Develop positive and distinct incentives to encourage brownfield development and encourage the fast tracking of applications which bring forward previously developed land. The incentives might be both focal and procedural.
  - Introduce greater procedural disciplines into the process of plan preparation and handling planning applications. Statutory timetables should be introduced for both plan making and development control and should be reinforced with both fiscal incentives for good performance and penalties for inadequate performance. Current Government reforms do not go far enough in this regard.

#### *Industry Constraints*

83. In general, whilst there are a number of individual industry based constraints which cumulatively combine to limit the potential of achieving a high and consistent uplift in housing output these are readily capable of being rectified provided that government encourages the development of a longer term planned programme of housing production. It is the short term nature of aspirations and the short term perspective of political visions which encourages such a short term, stop-start approach to housebuilding and the land, labour and capital inputs to housing construction.
84. The current emphasis on brownfield housing development, in the absence of any recognition of the additional costs involved or incentives for levering out an enhanced rate of output, also conspires to limit

the potential of the industry to deliver more housing. At the very least, there should be a differential approach to Section 106 contributions on brownfield land. A more expansive approach to Section 106 agreements would seek to allow "taxation" through the Section 106 system to be offset against capital gains tax liabilities, in order to avoid double property taxation.

*Policy Constraints*

85. The following key measures in relation to planning policy and the operation of the development control system would enable a faster and higher rate of housing delivery:
- Allowance for more flexibility in PPG3 in relation to the phasing of larger sites so that they can be brought forward in parallel with smaller urban extension and brownfield sites instead of sequentially.
  - Provision of a clear statement in PPG3 that in dealing with Local Development Frameworks District Councils will be expected to give equal weight to all four of the Government's sustainable development objectives and not give pre-eminence to the environmental objective.
  - In order to obviate local political concerns about housing development and in order to achieve sustainable communities Government should make clear that it intends to make provision for additional local investment in service facilities and infrastructure where this rightly is a charge to central government departmental budgets.
  - The guidance for Section 106 agreements needs to be clarified so that it is simplified and made more equitable and does not penalise the provision of comprehensive development. Support and training may be required for staff in local authorities having to deal with large scale schemes.

*Affordable Housing*

86. The recent statement regarding consultation on revised policies on affordable housing are welcomed. It also needs to be recognised that if funding is not to be provided for Social Housing Grant then developers should not be expected to fund the full additional construction costs, as well as other Section 106 items.

APPENDIX 1

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SCHEDULE OF PREVIOUS RESEARCH

1. Land Availability : A study of Land with Residential Planning Permission by the Economist Intelligence Unit, 1978.
2. The Implementation of Planning Policies and the Role of Development Plans, Department of Town Planning, Oxford Polytechnic, 10985.
3. Land Use Planning and the Housing Market, by Coopers & Lybrand, 1985.
4. Land Use Planning and Indicators of Housing Demand, Coopers & Lybrand, 1987;
5. Land Use for Residential Development in the South East, Roger Tym & Partners, 1987.
6. Land For Housing Progress Reports 1986 & 1988 – DoE.
7. Housing Land Supply and Structure Plan Provisions in the South East 1988 (and 1989 draft) – SERPLAN.
8. Guide to Rural Housing – CLA February 1989.
9. Enterprise In The Rural Environment – CLA April 1989.
10. Welcome Homes : Housing Supply From Unallocated Land – CPRE December 1988.
11. Comments on Draft Strategic Guidance For London – HBF.
12. Housing Land Monitoring Report – CPOS 1988.
13. Housing Land Availability, HMSO 1991, Roger Tym & Partners.

