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The Barker Review of Housing Supply

This company is a small property investment company specialising in the Private Rented Sector. We are a member of the Residential Investors Committee of the British Property Federation and have particular expertise in relation to the Rent Acts and have been engaged in the Private Rented Sector since the early 1960s.

It is regretted that the Review of Housing Supply in its pre-amble and its discussion of the terms which it sets itself appears to pre-judge certain issues. For instance “the nature and extend of the housing shortage in the UK” implies that there is, as a fact, a shortage. The end of that paragraph on page 3 states “the Review will not cover issues of low demand or wider issues of regional policy”.

That is very much regretted since it is therefore the more likely that the Review can only necessarily gain an incomplete and partial picture of housing supply if it wilfully cuts itself off from considering issues of over-supply in specific sub-markets, for example. That is said as a general criticism.

To back that up, the scale and pace of new development particularly in inner urban areas in Greater Manchester of typically one and two bedroom flats has been such as to flood the rental market for that category of property. Landlords such as ourselves are now experiencing for the first time in 40 years such low demand that units of good quality property stand vacant and tenants cannot be found. This is not because the units are over priced either. The abundance of newly built property available through buy-to-let schemes to rent is such that in many cases you cannot persuade tenants to even go and view property which is not brand new. In this sense the Private Rented Sector has, in this area, become a very strong buyer’s market. At the same time, the scale and pace of continuing new development is unabated and brings with it the prospect of continuing oversupply.

Having said which, we will not comment upon issues 1, 2 and 3 raised in the Barker Review as we do not believe ourselves qualified to speak on them. As to issue 4:-

In our opinion the Private Rented Sector has not expanded provision of affordable houses because the provision of such housing is simply not profitable. Furthermore the concept of “affordable housing” is fundamentally flawed and, in our respectful submission, misconceived.

It is entirely right that an advanced economy such as that in England and Wales should have a social housing policy. It is, however, more efficient in principle to have such a social housing policy aimed at subsidising (if that be necessary) the individual household rather than the house. The point is that we already have a sophisticated housing benefit system which can be worked upon and improved and that would be more likely to target benefits where they are needed rather than to create ghettos of cheap property. Ultimately, building and construction costs are fixed and the only way that housing can become “affordable” is either by a subsidy or by shrinking the size of the house. One only needs to look at the report appearing in the Estates Gazette for 21st June 2003 at page 38 (St George Slated Over Small Flats) to see the inevitable consequence. If, as part of the price for a planning permission a developer is forced to create housing which is, were it to stand on its own feet, uneconomic, the natural tendency would be to shrink the house and accordingly the associated building costs to the minimum permissible. As a society, if we permit that, all that we are doing is creating the slums of the future and building up additional social problems and creating modern ghettos.

Politicians who criticise the concept of affordable housing have also rightly pointed out that if you take a key worker, say a nurse or a teacher, and put them into “affordable housing”, you not merely force them to live in a ghetto of similar and potentially deprived accommodation but they are then trapped by their job. It is the law of unintended consequences that people then will also face diminished job mobility as they will be caught in a new and vicious housing poverty trap. Longer term that will impact upon the quality of education, health services etc, because of such traps.

The answer is that key workers should be properly paid. They should be paid at levels which enable them to compete in local markets on proper terms for ordinary and decent accommodation, not shunted instead into affordable housing. Others, cases of poverty and need, should be dealt with through a proper and targeted housing benefit system.

The Private Rented Sector recognises that housing that is constructed *ab initio* to be affordable stands in a different category from ordinary housing. It is unlikely to let on the open market because it will either be in a deprived area or the housing itself will be too small in terms of square footage or cubic capacity, or too poor in finishes to be ordinarily acceptable. By way of example, one leading Housing Association in Greater Manchester has had to accept this month that a development of over 200 houses in Moston, Manchester has to be demolished. These houses were newly built at great expense within the last ten years. The fact is that they were built in the wrong place (because it was cheap) and the units of accommodation are too small, so people do not want to live in them. This kind of waste is unsustainable for our society as a whole and it is driven by poor and misconceived strategy.

The fact of the matter is that for the bulk of the population, standards of living are rising as prosperity and the National Economy grows. That drives rising expectations. Prospective tenants in Manchester are reluctant to view non-new property. Where we were able to get a tenant viewing (at all !) recently the tenant walked into the living room and said “no parquet floor” and walked out. The floor was in fact covered with a high quality new carpet. A unit which does not have a smart kitchen and bathroom is, similarly, practically unlettable.

What we are simply saying is this – at a time of rising affluence and rising standards, an investor cannot afford to take on property that is not perceived (in whichever market, (flats houses etc,) it may be engaged) as being of good quality. At a time of constantly rising aspirations to invest in cheaper housing stock or housing stock which is poorer in any way would be to fly in the face of what the market is demanding. It would be money thrown away, not invested.

Finally, although it isn't stated within the question that you have phrased and framed as issue 4, it is a matter which arises from your pre-amble in the paragraph above where you say “house builders/developers do not appear to have been attracted into the rental sector despite rising rental prices in many areas”. That is a misconception. Rental prices are not rising in any areas in this part of England that we are aware of. on the contrary rentals are flat or falling but capital values are still firm, at least in the North. The rental market is a different market than the market of property for sale and builders and developers remain wise at present to take the profits whilst they can from the market for sale rather than lock in to the rental market which is already in decline due to oversupply.

Yours faithfully

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