

14 August 2003

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

Dear Ms Barker

Review of Housing Supply

The Construction Products Association is the umbrella body for manufacturers and suppliers of construction products, bringing together the 20 major companies in the industry with 40 sector specific trade associations. Our membership accounts for some 80% of the £30 billion turnover of the UK construction products industry. New housing provision and repair, maintenance and improvement work is a key market for our industry accounting for a third of all UK construction output.

We accordingly welcome the opportunity to contribute to this review of housing supply. The housing stock in this country is the oldest in Europe and yet we build far fewer new houses each year per capita than other major countries. In England the total housing stock is 21.1 million dwellings and we are building about 150,000 new houses each year. On that basis alone, and there are many other demographic factors that need to be taken into account, each house will have to last 140 years. Urgent action is required both to tackle the present restrictions on new housing supply and to stimulate greater investment in the existing housing stock.

Planning Restrictions

Excessive restriction and inefficiencies in the planning system lie at the heart of the apparent unresponsiveness of new housing supply to respond to the rising demand for housing and has contributed to the recent increase in house prices. Changes to planning guidance (PPG3) aimed at encouraging the use of brownfield sites have exacerbated the problem with the sequential approach being exploited as a mechanism for delaying and blocking developments, even where there is little realistic expectation of "identified" alternative brownfield sites being developed.

The slow and restrictive planning regime has effectively regulated the level of new housing developments, with house builders having limited ability to adjust housing volumes in response to changing market conditions. The number of English planning approvals for dwellings granted did improve last year, rising to 43,9000?. However this rise only brought the number of approvals back to the levels seen in 1995 when the housing market was still shaking off the effects of the early 1990s recession. Furthermore the upturn in planning approvals has been led by an increase in minor developments (approvals for less than 10 dwellings) while major developments approved at 5,500 were some 13% down on 1995, suggesting the actual number of new homes approved remains below the 1995 level.

Against a background of a buoyant general housing market and faced with the restrictive number of planning approvals, house builders have been wary of rapidly building out their limited landbanks of sites with full planning permissions and have focussed on securing profit growth through widening their margins per property rather than increasing volumes. Whilst general house price inflation has buoyed margins, developers have also increasingly focussed on higher value and specification properties in order to gain premium prices. In response to both changes in planning guidance and market conditions, such properties are increasingly as likely to be apartments built on brownfield sites as 'executive homes' on greenfield sites. Accordingly the direct impact of the overall restriction on new housing volumes from the planning system is being disproportionately felt at the lower end of the housing market, exacerbating 'affordability' problems.

Social Housing Supply

Affordable housing is an ill-defined concept covering both social housing providing accommodation at below market rates and low priced homes provided by the private sector. Recent pronouncements on the need for more 'affordable' housing, particularly to assist in the recruitment of key workers on middle incomes, such as teachers and policemen, have helped obscure the need for Government to undertake an effective assessment and set clear long-term targets for new social housing provision.

Rising incomes and aspirations have helped support the long term growth in home ownership, which at 70% of all English households is among the highest in Europe. However, a significant proportion of households lack the financial incomes or security to become homeowners. In addition rental levels in the private sector reflect owners' required returns on the capital value of the property and accordingly such accommodation typically does not offer a long term solutions for such households, particularly given the increased restrictions on rental subsidy through housing benefit.

Changing demographic and social trends are increasing the overall number of households in the UK, including those in need of social housing, yet current levels of new social housing provision are insufficient to make up for stock lost through demolition and the right to buy, let alone meet the growing number of households requiring such accommodation. The Association estimates that current levels of new social housing provision in England alone should be at least doubled to around 60,000 homes a year.

The Government and local authorities have increasingly sought to use planning gain to secure a pool of more affordable private sector homes, often restricting their initial sale to key workers or local residents. Whilst this improves the short term availability of such accommodation, it is unlikely to improve accessibility to housing market over the long term without a general increase in new housing volumes. If the planning system continues to restrict new housing supply at current levels, rising incomes and household numbers will fuel long term increases in house prices over and above the general rate of inflation, and potentially average earnings growth. As prices rise those at the lower end of the housing market will be increasingly squeezed out. This could perversely result in planning authorities demanding that increased proportion of the limited properties gaining approval should be 'affordable', further restricting the number of new homes available to meet market demand and increasing the proportion of households dependent upon 'affordable' accommodation to gain a foothold on the property ladder.

Tax regime

The current zero rate VAT regime effectively provides a level playing field for new housing provision against alternative development uses for brownfield and greenfield sites alike. Although VAT is levied on non-residential construction, (e.g. industrial & commercial) this has little impact on the overall cost to the owner/ occupiers of such property as they are generally able to offset the VAT cost against the VAT

charges on their own products or services. In contrast any VAT cost on new housing would be directly borne by homeowner. As new housing accounts for only one in seven property transactions the price of new housing is effectively set by price levels in the general housing market. The initial impact of VAT being introduced on new housing would be to push down the value of housing land. This could effectively tip the scales in favour of alternative (commercial, industrial) uses of a potential site. Although planning restrictions are likely to hamper the reallocation of any particular site in the short term, the VAT change could deter landlords from bringing forward such sites for development. Furthermore such a VAT change could have a disproportionate effect upon brownfield sites, where land values are often lower.

The current VAT regime does, however, favour new housing over the improvement, extension and general maintenance of existing properties. Whilst a reduced 5% VAT rate is already applied to some repair maintenance and improvement (RM&I) activities, including the conversion of residential properties into a number of different dwellings and the installation of energy saving materials, most RM&I work attracts VAT at a rate of 17.5%. Extending the 5% VAT rate to all RM&I work would help close the VAT gap with new housing provision and would encourage more investment in maintaining and improving the existing housing stock. This would help to improve overall housing supply. Stimulating increased maintenance work would help prevent properties from falling into serious disrepair and becoming unfit. Encouraging improvement works, including extensions and loft conversion, would effectively lift the density of the existing housing stock helping to reduce the pressure on greenfield sites and aiding urban regeneration.

Increasing the use of alternative manufacturing methods

We believe there are significant opportunities to develop alternative manufacturing methods in the house building industry, and this is supported by the extent to which these have been developed and applied in other countries. A number of factors seem to have held this back in the UK, including the stigma that was attached to post war prefabricated buildings and with which modern methods are confused, a conservatism by house builders, no doubt responding to the attitude of their customers, and a reluctance on the part of manufacturers to invest without greater certainty about the size and continuity of the market for these products.

There is some evidence that attitudes are changing, particularly amongst those in the social housing sector where increasing focus seems to be placed on the achievement of sustainability in the construction of social housing. There is no doubt that alternative manufacturing methods offer the chance to achieve higher quality, faster build times on site, and generally reduce the skills needed on site, skills that are increasingly in short supply. If private house builders took a more holistic view about the cost of construction and were able to reassure their customers about the quality of housing constructed in this way, then there is little doubt that significant progress would be made in introducing alternative methods, with considerable benefits for all concerned.

We trust that these comments will be of help in developing your review of housing supply. Please contact us if you would like to discuss these specific points or any other issues relating to your review.

Yours sincerely

Allan Wilén
Economics & Special Projects Director