

BARKER REVIEW OF HOUSING SUPPLY.

Before answering the set questions it is important to underline that long term sustainable solutions to national housing supply problems involve the Government looking imaginatively at eradicating regional disparities in demographic concentrations. Encouraging the development of new additional housing in areas of existing high demand, whilst responding to immediate needs, fails to address the root causes for the shortages in the first place. In what is perceived to be an overcrowded island, it is short sighted to fuel expansion in population growth in the very areas where infrastructures are already close to breaking points. Positive action on economic, social and environmental fronts is required to make those 'under-populated' areas of the country a more attractive option for people to live. As this was being achieved, housing developers would then be more willing to open up dormant markets; encouraged by the prospects of attractive profit margins within a (less risky) expansionist market.

Issue 1: Land Constraints.

It is unsure that the case has been conclusively proven that there is an absolute shortage of suitable land available for development. There seems to be a lack of imagination – especially outside high profile flagship schemes - employed in determining how existing brownfield sites and those sites / properties that have potential for redesignation as residential use. Perhaps the argument is around what is deemed to be suitable rather than on the actual paucity of developable land and property. The definition of suitability would have to take into account such issues as location, cost-effectiveness, ownership, planning constraints, and links to local housing strategies / regeneration initiatives. Potential for development should be judged against this criteria and estimation of suitability adjusted accordingly, by doing this potential supply should increase from present estimates.

There are a number of factors that reduce landowners' willingness to sell – leaving aside the difficulties that sometimes exist in establishing outright ownership. These include times when:

- The owner has unrealistic expectations of the site value; often this is fed by receiving interest from more than one source.
- The owner may be using the inflated value of the site as a means of collateral for other investments and is therefore reluctant to liquidate this asset at a lower return.
- The owner may have expectations for using his/her asset as a 'nest egg' or anticipates that the market has not peaked yet and prefers to hold on until some time in the future when they expect the market to have finally reached its zenith.
- The shift away from more traditional forms of long/medium term investment products towards property ownership, fuelled by low interest rates on savings.

- The land may have restrictive covenants attached or perhaps there is a 'ransom strip' in place.
- The expectation / perception that the CPO route will provide the best return.

Land assembly can be very difficult on brownfield sites. There can be really complicated issues, such as:

- Establishing ownership in the context of a sometimes patchy historical legal evidence.
- Co-ordinating layer upon layer of ownerships many of which could have constraints, covenants and other third party interests.
- Managing the critical path through a variety of delivery actions from agreed price sales to compulsory purchase without any real certainty that assembly success will be achieved – especially in cases where the viability of the development site depends upon securing all or most of its different components.
- Carrying through the process without really knowing what the final costs of assembly will be and, therefore, whether or not these will outweigh the returns on the completed development.

Optioning land does restrict the overall supply of land in that it could cause delays in development – especially where there are no / loose time restricting clauses attached to the option. The assumption here is that the option for exclusive use is primarily taken out as a preventative measure rather than a positive means of moving development forward. Where options exist on complex sites subject to land assembly, this adds further complications to unravel. Owners are particularly attracted to optioning because it could mean transferring risks and costs to a third party – especially in obtaining planning permission. Its main positive use would be when optioning, say, industrial land with a view to exploiting its residential potential in the future. So here optioning is a positive, however indirect, method of increasing supply.

On the surface there is sufficient land allocated for housing in Bolton and similar urban areas in our region to meet housing need. However, this assessment depends upon a particularly tight definition of housing need. It is only when extending housing need to include wider issues that problems arise. There is a serious question as to whether or not local development plans move beyond mere crude supply issues so as to take into account affordability and social cohesion factors.

Issue 2: Constraints faced by the building industry.

House builders do experience problems in accessing finance especially when they are relatively small concerns and, as stated in the background consultation paper; there is still a feeling that residential build is a more risky investment than commercial. Also it should be noted that funding for either refurbishment and /

or, brownfield development is even more difficult to access. Gap funding presents a serious problem for social housing providers hoping to re-develop key urban sites associated with complex land assembly and mixed tenure / joint funding schemes. Opening up the eligibility for Social Housing Grant to the private sector and possibly to ALMOs is an interesting policy option being explored by the Government. This should help to encourage more private sector involvement in social housing by providing subsidy at source. However, every effort needs to be made to ensure that the subsidy is used for social housing schemes and not simply translated into commercial advantage.

There is a serious anticipation that a skills shortage will occur over the next few years. Not only will this greatly hinder the progress of capital programmes, but also, it will inflate the value of building trade operatives - effectively inflating the overall cost of build schemes. The regional economic disparities here will be significant as the higher wages offered within the 'hotspots' of the south and south east will attract disproportionate numbers to these areas. This would leave regions like the North West at a severe disadvantage and may lead to even greater regional disparity. The situation is likely to come to a head when the Housing Market Renewal Fund Pathfinder begin to accelerate their development programmes. A number of initiatives are being set up to investigate alternative production methods, replenish the skill base and to develop partnering arrangements but, at most these will provide a partial solution to the problem.

The expansion of alternative off-site production techniques is a promising area for investigation as quality aspects improve. However, there is a marketing problem with this type of product as it is still generally associated with the system-build failures of the last century. A great deal of influencing will have to be done before such methods are utilised sufficiently to make a real impact on supply.

Attracting private sector involvement in new build and refurbishment schemes – especially in regeneration areas - does depend considerably on achieving economies of scale. Small scale infill sites generally tend not to provide sufficient return for the risk involved. In these cases a number of sites need to be brought together to reach a 'critical mass' but, once more, the problems of site assembly kick in making the process potentially very complicated.

Further complications arise when the brownfield site is blighted by either/and contamination and dereliction. Although technical advances in the last decade have meant most contaminated land can be reclaimed within acceptable timescales, the difficulty still exists in making these opportunities financially attractive to the private sector. Previously English Partnerships had been able to help direct European money towards gap funding and there are encouraging signs that the legal logjam preventing this method from continuing seems to have been breached. It is essential that private sector builders are encouraged to reclaim the most testing sites by subsidies aimed at reducing the risks involved in

investing in these key regeneration schemes. By underwriting schemes in this proactive manner there is opportunity to regain public subsidy in part or in full through claw backs related to the final profit margins. Any resources raised through this means could then be recycled back into similar regeneration schemes.

The Government needs to give serious consideration to facilitating the development of potential sites through a range of measures aimed at both bringing together key partners (Councils, developers and lenders), and, by helping ease the process of delivery through a mix of subsidy, clearing legal / procedural logjams, and encouraging best practice / innovative thought. The construction trade faces a difficult period where important issues (such as) - the struggle to obtain suitable sites; the need to balance competitiveness and co-operation so as to produce profit yet develop homes that actually helps to tackle housing need; the importance of providing reasonable levels of risk that would attract lender investment; and the imminent threat of significant skill shortages – collide

Issue 3: Policy and its application.

Problems exist in giving developers a clear and consistent message on how they should discharge their obligations to provide an element of social housing on schemes. This is because there is no consistency of interpretation across authorities. Experience shows that most developers on most sites would seek to reduce their commitment as much as possible – perceiving that profit margins are shrunk proportionate to the percentage of affordable housing created. Whilst challenging Local Authorities, who attempt to maximise social housing share and shape this accurately around housing need, developers quite reasonably have used the inconsistency of approach between authorities as a defence. If ‘y’ authority allows them to interpret their social housing obligation in a loose way what is the legitimacy of the neighbouring ‘x’ authority follow a much more proscriptive approach?

Greater consistency can be achieved if the following changes are considered:

- A minimum proportion of 20% social housing is levied on each new development site (subject to schemes that are larger than nine units), wherever located in the country, and this is clearly explained in both local and regional planning guidance documents.
- It is only through local negotiation that this percentage could be reduced – but changes should only be agreed if it can be conclusively proven that there is insufficient need for social housing in the specific location or there are very special circumstances that make the scheme uneconomic if the full percentage was imposed. In every exceptional case there should be an obligation on the developer to sign a 106 agreement that allows for a proportionate payment to help finance social housing schemes (new-build

- or refurbishment) in the Local Authority - or possibly within the region as a whole.
- Each Local Authority should produce a clear and well-publicised statement as to how it defines affordable housing – and how it would expect developers to meet its obligations in each of the development sites where planning permission has either been granted or is being considered. This would have to be conditional on more detailed discussion but should not avoid making the case for rented housing on a particular site where this is most appropriate. It would also have to be informed by accurate (and regularly updated) information on housing need.
 - Local Authorities should be urged to develop stronger links with locally-active RSLs – so as to offer developers a partnership package option that would be able to deliver and manage the social housing proportion. In Bolton, as with a few other Local Authorities, we have a well-established RSL partnership structure – Bolton Community Homes - that offers this function. For such a service to be effective the Housing Corporation would need to be flexible enough to fund these joint schemes as they emerge.

These changes would remove the differences of interpretation across authorities and make the developer's obligational requirements crystal clear. Whereas the need for negotiation on individual sites is not removed, it would set a 'default' position and remove any doubt and inconsistency as to what type of social housing is required.

Issue 4: Why has the industry not expanded provision of affordable housing or housing for rent?

The main rationale for the need for public sector investment into affordable housing is that the industry is not able or willing to invest in the sector. Without intervention the housing needs, aspirations and requirements of less economically active people would simply not be met by reliance on market forces alone. In this sense, the public sector provides subsidies to fill gaps in the market - so the more encouragement given to private sector to intervene then the less the drain on public funds.

At present the development of new high priced housing on either greenfield sites or brownfield sites in attractive locations – such as found within some of our major city centres – provide the promise of risk-free substantial profit. Under these circumstances it is not hard to see why the industry would be reluctant to become major players in the provision of rented or affordable housing. There is a perception that the increased risks involved in developing difficult sites for a market that would not provide sufficiently attractive returns on investment is simply not worthwhile – especially if there is no gap funding or underwriting of risk by a third party.

Rented housing provision means a long term commitment where the realisation of profit is incremental and more susceptible to market fluctuations. Also the management of a rented portfolio requires skills that most developers do not possess so they have to be imported at extra cost. For many in the industry a quick return is required with no long term commitment – the process of site procurement, build and then sell for immediate ‘no-stings’ profit provides the simplest and safest investment method. Although some developers, as part of a mixed portfolio, build rented stock as a means for long term steady returns, this usually involves units rented at market value. Almost without fail, any private sector affordable or below market rent stock has been developed with some form of partnership arrangement where external subsidies and/or risk sharing has been initiated.

Most importantly, the lending institutions tend to follow investment strategies that serve to underpin and confirm the advantages of developers/builders choosing ‘market value’ new build to affordable / rented housing. There is no real encouragement for lending on such schemes that do not have some form of subsidy or underwriting of risk. Until this attitude is modified any progress in getting the private sector more involved will always be arrested.

Also private developers have suggested that their involvement in the lower end of the housing market would increase if there were sufficiently large economies of scale achieved. The main challenge therefore is to look constructively at how this critical mass can be achieved by ‘joining together’ smaller sites, possibly across Local Authority and even regional boundaries. The various national and regional offices of the Government should work towards creating a legislative and procedural framework through which developers, lenders, landowners, RSLs, Local and Regional Authorities can come together to pool resources and expertise in delivering a robust partnership mechanism aimed at increasing the level of private sector investment into rented and affordable housing – supported by tightening up of planning guidance and aimed at sharing risk.