

31 July 2003

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

Dear Ms Barker

RE: BARKER REVIEW OF HOUSING SUPPLY

We are pleased to enclose our response to the key issues raised in your review.

Over the last 20 years, the Stanhope team have developed over 50 office buildings, either on their own or in partnership with others, providing more than 12 million sq. ft. of commercial space within central London and the M25 area. Many of Stanhope's projects have been major masterplanned schemes and whilst primarily office led, have also provided a mix of uses and substantially new public realm. Some of Stanhope's developments are considered the most significant development projects in Europe of the time, most notably the Broadgate development in the City of London (3.5 million sq. ft.) and Stockley Park adjacent to Heathrow Airport (2 million sq. ft.).

Currently Stanhope are a sponsor and shareholder of Exchequer Partnership, which is the project company for the refurbishment of H M Treasury, Whitehall. Stanhope is also a partner in other major masterplanned projects including Chiswick Park (c. 2m sq. ft.) and Stratford City (c. 13.5m sq. ft.).

Stanhope have pioneered the introduction of new construction techniques to the Commercial and Arts sectors and independent benchmarking has demonstrated that these techniques typically achieve a 20% cost reduction and a 25% improvement in build speed compared to similar projects.

In undertaking this development programme, Stanhope has commissioned more than 450 research studies and won over 60 awards for development, design and construction excellence. Stanhope's commitment to the wider benefits of the built environment is emphasised by their involvement, alongside its core business, in Arts projects such as National Gallery, Royal Opera House, Tate Modern, BFI's Imax Theatre and work for the National Heritage Lottery Fund.

Whilst to date, Stanhope has not directly delivered residential accommodation, many of our schemes have included residential elements, and emerging projects include significant residential components – for example 4,500 homes in Stratford City.

We have recognised a level of 'market failure' in respect of the delivery of mixed-tenure residential schemes, particularly in the urbanised areas of the South East; and to respond to this, First Base has been set up as an associate company of Stanhope to introduce Stanhope's development and construction techniques into high density urban residential accommodation. First Base is focussed on the Affordable sector.

Stanhope believes that focussing its commercial best practice methodology into the residential sector through First Base has the potential to significantly reduce costs, speed up delivery, and improve the quality of building delivered.

We have recognised the challenge set out in the Communities Plan and believe we have the skills, experience, understanding and resources to respond to these needs.

In setting out below our response to the issues raised, we have primarily focussed upon areas where we have direct practical experience.

Issue 1: Is the supply of land overly constrained, and if so how, and by what?

Given the move to higher density development, we do not believe there is a shortage of land.

There is certainly not a shortage of land for open market housing.

However, we believe there are a number of economic and planning barriers which are restricting the availability of land for affordable housing, including:

- The high value of land with permission for residential development restricts that land only to development for open market housing, if developers are to achieve their required rates of return on capital. This in turn concentrates the effort of the majority of the private sector at the top end of the market and leads to the private sector holding a bank of land for future open market residential development.
- To regenerate existing built environments, and to bring forward new communities, requires significant investment in a wide range of infrastructure including transport infrastructure, anti crime measures, education, health facilities, and recreational facilities. A key issue therefore is who funds this upfront commitment? Development projects within regeneration areas are by definition more 'risky'. Placing unrealistic planning burdens on these 'pioneering projects' may result in restricting the pace of development.
- To create desirable integrated communities, there is a need to redress the overwhelming prevalence of social rented accommodation on some of the sites which is felt to inhibit the development of other tenures. Our own view is that the higher the density, the more careful we have to be in having a prescribed level of social housing, as too high a level of social housing can result in unsustainable estates. High density estates will be less detrimentally affected if a proportion of social housing is replaced with a greater proportion of intermediate market housing.

In addition, residents of housing estates which have been transferred out of local authority control, have control over the reinvigoration of their estates, and the power to veto higher density development (which is sometimes misinterpreted as an indicator of a lower housing quality). There is a need to build understanding on this important issue through high quality design and good quality management. Intensification of uses within an existing estate can, if appropriately facilitated, deliver benefits to the local community.

- The demise of the public sectors' housing development operations has also exaggerated perceptions that there is a shortage of housing land. RDAs are not currently rewarded for the provision of housing and are therefore not currently seeking out opportunities. Local

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authorities no longer have a direct role in delivery of affordable housing (due to the removal of LASHG and the remit for new builds). Furthermore local authorities have been encouraged to transfer out control of their housing estates and have lost the ability to use in-fill sites or to re-plan existing buildings. Therefore the private sector requires more encouragement and assistance to allow it to fill this gap.

- Large quantities of appropriate land are held by the public sector who have large land portfolios, which are currently under used or used at low density. The current process for disposing of such land is cumbersome and there are insufficient incentives to bring the land forward for development at the earliest date.
- Where public sector disposals are made, the current focus appears to be on short term receipts to fund a gap in the capital programme, rather than to maximise long term value – and in particular the full economic value to the community at large. For example, a hospital selling land on the open market is an opportunity forgone to provide accommodation on that land for employees, and therefore results in higher salaries, increased recruitment costs and the increased use of temporary staff leading to higher cost of delivery and lower standards of delivery.
- Although the provision of housing is a statutory role, the lack of reward for this drives the public sector to sell land to fund short term capital programmes rather than looking at the long term competitiveness and economic stability of an area.
- Significant development sites which are in the private sector are often not being developed for affordable housing because of fragmented site ownership. Although it might be possible to persuade owners to sell the land, many of them would demand ransom compensation, which negates the option of using the land for affordable housing. In areas where the aspirational value of land is high, the financial risks of a prolonged land unification process are such that these sites are unviable.
- Statutory uncertainties and short term market fluctuations combine to provide major disincentives to the up-front investment required to generate a coherent private sector driven affordable housing strategy, i.e.
 - The current planning policies towards affordable housing in terms of the quantum required, the mix required, whether affordable is provided on or off site and where the income (assuming reduced or no SHG) is relatively speaking de-minimus. Such facilities lead the private sector to deferring decision making.
 - The removal of social housing grant, and the resultant requirement that any social rented accommodation will have to be cross subsidised by the open market properties. This directly affects land value and significantly increases the risk profile of the development.
 - Current fluctuating market values for residential accommodation.
 - Where land is currently suffering from degeneration and lack of infrastructure, land owners will tend to sit on their land. In these circumstances, many landowners feel that if they hold the land, these disincentives may disappear in future years. Alternatively, in some areas landowners may wish to hold on to existing land until major improvements in infrastructure are made. Although in many cases landowners do not currently have to contribute to the value of these improvements, it has a positive effect on the value of the land.

- Contamination and contamination policy - due to uncertainties and lack of understanding, many potential housing providers will avoid contaminated land. Furthermore, current restrictions on professional indemnity cover make the purchase and development of such sites much more difficult. As many of the appropriate sites are Brownfield land with contamination issues, a clearly established Government led insurance-backed process for decontamination (perhaps similar to terrorism insurance) could have significant benefits.
- One of the key results of the above issues of uncertainty is that land optioning becomes a necessity to help reduce the developer's upfront capital requirement. The result of this however is that at an early stage in the process potentially available land is put in the control of a range of commercial interests on a long-term basis, therefore frustrating a coherent integrated strategy being developed.

Issue 2 - Constraints facing the Industry

Finance

As with overall land availability we believe that in principle, there is ample supply of potential finance available for housing development, however:

- To secure cost effective finance requires certainty and development risks being allocated to parties who understand the specific risks rather than to the financiers and;
- Projects need to be led by developers who understand the overall risks and market dynamics required to create an appropriate development.

Certainty relates in particular to, planning consent being in place and to being sufficiently flexible to respond to market needs and to land assembly having been completed.

The risks that funders will wish to see covered by other parties include cost certainty, decontamination and certainty on delivery and quality. It is often a long process to take an idea from conception to a position whereby certainty and risk as described above have been dealt with. It is this that detracts from the availability of funding for projects, and to the providers of the capital expecting very high returns, thus potentially making projects unviable.

It is important to note that, assuming a set target Return on Capital Employed, longer term projects and larger schemes will require the developer to require a higher profit on cost. This will not drive developers to build at the highest potential density on a site.

The other key issue is the identification of sites which already have the necessary infrastructure or more likely where such infrastructure is capable of being provided. The funding of such infrastructure by the developer adds to capital demands and risks- this can sometimes make the process unviable.

We believe therefore that the planning and taxation issues surrounding the creation of developable land need to be dealt with on a regional or sub-regional basis providing early zoning of appropriate land and tariff type arrangements to pool the funding for infrastructure requirements.

Construction Techniques

We believe there is the potential to use commercial construction techniques for medium to high density urban housing schemes to enable a more efficient delivery of economically priced housing. Although commercial construction techniques have been successfully transferred into the Arts, Hospitals and Government sectors, they have not been used in residential projects in the UK to date. This is a UK specific anomaly; in many other countries (notably the US and Germany) there is significant crossover of technique with the same developers often involved in the construction of both residential and commercial space using the same techniques at the same time on the same site.

These construction techniques are proven and do not require any significant new investment or development costs. They include off-site construction of building elements, simplified installation of mechanical & electrical services, and standardisation of non-architectural components where functionality and reliability are more important than design whilst allowing design flare and differentiation where it is most important.

These techniques also involve a high degree of pre-planning (including 3D modelling) to allow design conflicts to be resolved, as well as sequencing and resource allocation to be understood before any work is undertaken on site. Combined with the use of off-site material aggregation centres and integrated logistics, these techniques result in improved productivity, lower wastage and a lower percentage of remedial work.

Best Practice commercial construction also assumes an integrated team approach where the main contractor and trade contractors are involved with the architect in detailed design. This assists the architect to design a building that can be built efficiently and effectively, allows the specification of products with appropriate longevity and quality, and speeds up the overall delivery of the building by resolving potential conflicts prior to commencement of work on site.

However, for the full benefits of these techniques to be achieved, larger sites are required. Our current belief is that the minimum economic size is 150 units and ideally it should be 200 units. A development program consisting of several thousand units would undoubtedly further increase the cost and quality benefits; however we do not believe this is a pre-requisite.

As these techniques are already proven over the long term, we do not believe there are any issues associated with either mortgageability or consumer preference.

The use of these techniques does not have any impact on working capital or cash flow requirements.

Issue 3 – The impact of policy and its application on housing developments

Housing policy

Many assessments of Local Authority housing needs ignore the requirements of the Intermediate and Key Worker sectors.

The status of developments specifically targeting the intermediate sector are unclear to many Local authorities. Clarity is needed in this area. Indeed some local Authorities do not regard Intermediate Housing as genuinely Affordable Housing and therefore try to impose a Section 106 requirement for Social Rented accommodation (without any SHG).

The requirement for on-site affordable housing as part of the standard planning package for commercial planning consent does not appear to be sustainable on a site by site basis, or to be a mechanism to encourage the provision of appropriate housing in the right locations.

Planning

As we have indicated above, to attract developers and funding to the early delivery of housing, we believe requires changes to the planning system to create certainty and remove complexity. For example, long term (say) 10 year outline 'zoning' consents would enable developers and investors to take a long term view on investing in a particular location and would reduce the bureaucracy of detailed planning by being similar to systems previously adopted within development corporations; this would facilitate investment and speed up delivery. Furthermore as touched on above, if planning gain packages were dealt with by site specific section 106 agreements together with tariffs to fund sub-regional or regional requirements, this would help create certainty and provide the pooled funding required for major infrastructure.

To secure major strategic developments, the planning system needs to allow a strategic approach. The planning system currently places significant weight on the opinions of local residents, often to the detriment of the long term development and economic viability of a particular region. This nimbism severely restricts the development of many housing sites.

We are cautiously supportive of the proposed changes to PPG3 encouraging Local Authorities to look sympathetically at residential development on land allocated for industrial or commercial use, but no longer needed for that purpose. However, given our belief that there is only a shortage of land for affordable housing, we believe that any changes should only allow affordable housing development on these sites. We are fearful that if open market housing is allowed on these sites, these changes would not have a significant impact on the delivery of affordable housing.

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We therefore believe there is a requirement for a specific affordable housing Use Class to facilitate the differentiation. We believe that the definition of Affordable Housing for the new Use Class should be the definition set out in the “Draft framework of practice guidance”, and include a variety of equity share and shared ownership models for the intermediate market as well as sub-market rental and social rented housing.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Elliot Lipton', with a stylized flourish at the end.

Elliot Lipton