

# growing the economy:

solving the London  
housing crisis

Edited by Peter Bill



THE SMITH INSTITUTE

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Published by the Smith Institute

ISBN 1 902488 64 4

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## Preface

Wilf Stevenson

The Smith Institute is an independent think tank, which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the institute has centred its work on the policy implications arising from the interaction of equality, enterprise and equity.

As part of that agenda, the institute has been publishing pamphlets and running seminars on the government's determination to secure full employment and rising prosperity in every region and community of the country. This is, we believe, an important strand of policy making. We also believe that, although these ambitious economic goals have not yet received as much attention from commentators and other policy makers as the government's successful measures to create macroeconomic stability, or its championing of strong competition policies, they will prove to be at least as important to the future prosperity of the nation in the long run.

As part of this programme, we are delighted to be publishing the second pamphlet in our series on growing the economy. *Solving the London Housing Crisis*, edited by Peter Bill of *Estates Gazette*, comprises six specially commissioned essays by key experts within the area of housing and planning.

It seems to be agreed that there are going to be real barriers to jobs and growth in the motor of the economy, the South East, unless the present housing crisis in London is resolved. However, the fact that this issue spans not only central and local government – and at both central and local government levels, spans several departments – and that it involves the private sector increasingly as a partner and not just as a delivery mechanism, means that this is a very complex topic. Indeed, it is these complexities that have frustrated similar good intentions in the past.

We hope that *Solving the London Housing Crisis* will mark the beginning of a new approach to subjects such as planning good-quality and affordable key worker housing, creating developments that promote community cohesion and constructively involving the private sector in the process of providing homes for Londoners. We also hope that those who read the essays and participate in the seminar that it prefigures will be stimulated to add their voice to the debate, in the hope that policy makers and those interested in the future of local government can be both better informed about this topic, and encouraged to focus on possible solutions.

The Smith Institute gratefully acknowledges the support of St George plc towards this publication.

## Foreword

Peter Bill

The problem is easy to define: London needs more new homes. The solution is easy to define: build more. What is less easy to define is how, where and what? How can the system be improved? Where is the land coming from? What sorts of homes need to be built?

These are simple but pretty big questions. How can developers, housing associations, the 32 boroughs and the City corporation be stimulated to provide not 17,000 homes a year, but at least 23,000? Where is the land coming from to build homes that will reduce council waiting lists? These have risen by 25% in five years and now stand at a shaming quarter of a million. Finally, what type and tenure of homes can be afforded by the million Londoners who cannot afford to buy – and the tens of thousands of key workers who can barely afford to live in the capital?

Alastair Stewart, the City analyst who produced a report for *Estates Gazette* in February on key worker housing, highlights the plight of this last group. The key point he makes is that there will still be a shortfall of almost a quarter of a million homes for key workers and intermediate earners by 2016 even if the mayor's plans to increase the number of new London homes to 23,000 a year are met fairly soon.

In this monograph, Stewart further addresses the issue. Five other experts, with solutions of their own, join him. Social policy commentator Anna Minton says that councils must find a way to capture and put to use the increase in land values that housing permissions bring. Former environment secretary John Gummer says that building at higher densities is essential and that far more use should be made of the improved compulsory purchase powers. Charmaine Young of leading London developer St George makes a plea for changes to the planning bill to encourage faster permissions for schemes that meet pre-determined criteria. Geoff Marsh of London Residential Research suggests that local authorities should have statutory obligations to build key worker housing. Developer Elliot Lipton, of Stanhope associate company First Base, calls for a new planning use class for affordable housing and explains how the building industry could build prefabricated homes for £100,000 each – without any subsidy.

So, the answer is easy: Local authorities under an obligation to build a set number of affordable homes link up with developers and impose improved compulsory purchase

orders on cheap waste land. Then high-density prefabricated houses are built using fast-track planning procedures. Half of them are sold on the open market for £100,000; a quarter are handed over to a housing association for those who cannot quite manage the full price. Then the remaining 25% are sold to the local hospital, which uses them to house nurses.

This is, in fact, the emerging model. Prototype schemes built roughly along some of these lines are being tested all over London. True, local authorities have not imposed overall social housing targets: but plenty are taking their lead from the mayor and imposing set levels on those sites that are being built. True, the compulsory purchase regime is not being widely used: but at least the powers have been toughened. True, the planning system is not working well: but the ODPM is still in the middle of the biggest overhaul of the system for 50 years. And it is also true that PPG 3 will now allow local boroughs more flexibility in land use and so encourage housing.

On top of this, the ODPM has accepted that economic growth in the South East must be accommodated in places like Thurrock and Ashford. Provided the transport links are built, that will ease pressure on the capital.

So, just be patient? It is not an option for London. To repeat Alastair Stewart's projection: even if the 23,000 new homes a year could be magicked out of the system from 2004 onwards, there may be a shortfall of *almost a quarter of a million* homes for key workers and intermediate earners in the capital by 2016.

That is because the capital is stubbornly growing. Greater London Authority estimates put the figure at an extra 700,000 people by 2016. Those who already live in London are angrily aware of this.

Look at the depressing example highlighted by Geoff Marsh. In a fit of social responsibility, car maker Ford said it was happy to build 220 units for the NHS to lease as part of a mixed-use development in Chiswick. The scheme ticked all the social responsibility boxes: brownfield, high-density, low car-use. It has been refused planning permission. Why? Many reasons have been given. But, as Marsh says, the decision was affected by the "highly articulate and well-organised local amenity society".

The point this makes is clear: increasing the number of homes in London may be a hard place to get to. But there is at least a growing consensus on how that place can be

reached. The issue that cannot be addressed at local level is the rock of Nimby-ism.

When Harold Macmillan promised to build 300,000 homes a year in Britain in the early 1950s, nobody demurred. When Harold Wilson expanded the council house building programme in the 1960s, nobody demurred. When Southwark council wanted to build more than 3,000 new homes in and around Elephant and Castle last year, the attempt was crushed by a grass-roots revolt.

This is the key political issue. At street level, those in homes do not want more built nearby. At ward level, there are more votes in supporting those housed than in championing the homeless. In the council chamber, there is more chance for advancement by playing to the antidevelopment mob in the gallery than there is listening patiently to the even-handed arguments of professional officers.

At the next two levels up, the picture brightens. The GLA has a set of well-developed policies. The ODPM is doing much to reform planning and encourage house building in the South East. There is also a fair degree of political consensus. Tory party housing policy is more Nimby-ist than Labour, while Labour policy emphasises social housing more than does Conservative policy. But generally there is agreement: more homes are needed.

At the top level, the political picture darkens again. Hospitals and schools? Downing Street loves them. Better transport? Well, yes, of course. But what about homes for all? Pardon? Let's not upset Mr Voter in his back yard.

Social inclusion is the unifying thread of future Labour policy. There can be no social inclusion with 57,000 people holed up in temporary accommodation in London. There are 227,000 socially excluded folk sitting hopelessly on council waiting lists. More than a million are excluded from the private market by prices that will continue to rise, thanks to supply shortages.

The planning system is being fixed. Consensus on how homes for all can be provided is emerging. The notion that up to half of all new homes be reserved for those for whom they are the only affordable option is sound. No one wants to go back to vast council estates. But what can be done to assuage the fears of Mr and Mrs Nimby? This is a tougher question to answer than all the rest. But it is a question of political leadership.



## Chapter 1

# Towards a socially inclusive policy for housing

Social policy commentator Anna Minton outlines the changing picture in the capital's housing market – detailing the plight of the social sector – and welcomes the positive opportunities that the crisis brings both for developing innovative solutions and for the entry of new players

Kate Johns is 26 years old and is a producer with a television company in central London. Her salary is £23,000, placing her firmly outside today's property market. Even the cheapest available homes in the outer London suburbs average £100,000 for a studio flat.

She is, however, eligible for low-cost home ownership schemes and recently bought a 30% share in a housing association-run one-bedroom flat in Shoreditch, on the market for £255,000. She pays £900 a month in rent and mortgage, out of a net monthly income of £1,400, and although she can just about afford it she feels that she is constantly stretched to the limit. While she likes the flat, she does not feel that it should be classified as "affordable".

Kate is, of course, just one of tens of thousands of Londoners paying the price of the capital's housing crisis, which has repeatedly hit the headlines with horror stories of key workers such as firemen forced to live in Wales and commute. It is no surprise that the critical issue of housing for what is becoming known as the "intermediate market" has risen right to the top of the political agenda.

### **Need across the social housing spectrum**

Pressures are also mounting at the lower-income end of the social housing sector. Overcrowding among social housing tenants is a particular problem, with London accounting for 51% of England's overcrowded households (those with more than 1.5 people per room) and a severe shortage of large affordable homes. Housing associations alone need some 12,000 additional homes with five or more bedrooms, for tenants in overcrowded accommodation.

Shelter, the housing charity, cites the following case study of nine people living in a two-bedroom flat as indicative of the situations that case workers increasingly face. The family, which includes husband and wife and six children, has been on a London borough's housing transfer list for five years. Three of the children, girls of 14, 13 and eight years old, are sleeping in a box-sized bedroom and there are significant health problems in the family, which Shelter believes have been exacerbated by their living conditions.

Meanwhile, homelessness in the capital is at an all-time high. Although the number of people actually sleeping rough on the streets has declined, all other indicators for homelessness have risen substantially. In December 2002 some 57,466 households were in temporary accommodation in London, compared with 48,700 in November 2000. At the same time, the number of households accepted as homeless by local authorities in the

capital has consistently increased, from 24,300 in 1997/98 to 27,950 in 1999/2000 and 30,960 in 2002/03.

These figures have led some in the social housing sector to wonder whether the system is encouraging people to register as homeless, since that is the only way to get onto local authority priority waiting lists and thereby ensure they are given a home. Today, 50% of all council allocations into social housing in London are from households registered as homeless. Consequently a debate is raging in the sector about whether or not the promise of secure tenancies to homeless households is actually acting as a perverse incentive and encouraging a dependency culture.

Whatever the rights and wrongs of this complex and controversial debate, there is a danger that it is masking the key critical issue facing housing in London. This is the crisis of undersupply, not just in the intermediate market but in all the sectors that make up social housing today.

An indication of the level of demand is provided by the London Housing Strategy 2003, which reveals that 226,789 households are on council waiting lists, an increase of 25% over five years. Taking out the numbers on priority homeless lists, this still leaves just under 200,000 households in the capital in social housing need, a figure that contains a significant number of ethnic minority households and people living in poor physical conditions. The mayor's Housing Commission has estimated that 23,000 new affordable homes are needed in the capital every year. From next year, Housing Corporation grant is calculated to provide 10,000 a year, but so far only just over 6,000 a year are being produced.

The key reason for this undersupply is simple. Social house building has decreased dramatically with the end of council house building programmes. At the same time, since the introduction of the right to buy, 250,000 social rented homes have been sold in London. Across the country as a whole, fewer than 22,000 social and affordable homes were built in 2002, compared with 35,915 in 1990 and 110,010 in 1980.

### **The role of private developers**

This picture of chronic undersupply is mirrored in the private sector, which is critical to the social sector for two reasons. First and foremost, social housing is increasingly built as part of private developments. If private-sector development slows, the supply of social housing inevitably stalls with it. Second, undersupply in the private sector contributes to

the squeeze on social housing, as rising prices ensure that key workers and those in the intermediate market start to look to the social sector for housing.

It may at first sight seem perplexing that despite the apparently ideal market conditions of high employment, low interest rates and high demand, house builders are not meeting demand. Evidence in London shows that housing construction is, if anything, falling even further. Recent figures from London Residential Research reveal that although the number of planning permissions granted in the past seven years has almost doubled, the number of building starts has actually fallen. The argument is therefore gaining ground – summarised in a recent submission by the Royal Institution of Chartered Surveyors to the Treasury-commissioned Barker review on housing supply – that house builders are controlling supply and releasing new homes at the level that suits them best.

This is, of course, entirely in line with their obligations to shareholders and is a policy that appears to be reaping dividends, as profits and share prices have doubled over the past five years. Meanwhile, analysts' predictions and anecdotal evidence indicate that this trend is set to continue, with forecasts revealing that the larger house builders are pulling back their volume forecasts but not their price forecasts.

### **Policy shake-up**

Given the present crisis, it is hardly surprising that social and affordable housing provision is facing potentially its biggest shake-up since successive Conservative administrations introduced the right to buy and shifted the focus of provision away from local authorities and onto registered social landlords.

Simply put, the system is not working. However, with government spending priorities tighter than ever and the ongoing prospect of economic downturn in the shadows, the government is unlikely to look favourably on large-scale increases in subsidy for social housing, despite the crisis in the politically important intermediate market.

The aim of housing policy in London, as articulated in the London Housing Strategy, is to maintain a dynamic economy while providing for greater social equity. "The danger is social polarisation: a two-track city of increasing wealth and entrenched social exclusion. Housing has a key role to play, both in supporting economic growth, and in achieving better social inclusion," the strategy states.

A key concern is that some policy trends being pursued could significantly enhance polarisation and social exclusion, with the attendant social and economic costs that would bring – from rising crime to falling educational standards and reduced social mobility.

A return to large-scale public house building programmes is clearly neither possible nor desirable. However, it is impossible to see how the supply crisis can be solved without ensuring that more homes are provided in the social and affordable sector. This will mean looking at new mechanisms and delivery vehicles and testing out every conceivable solution, from private finance and private renting to the public sector. In the capital, where local authorities still control the lion's share of social housing – 17% of all London homes are under council control, compared with 9% in the housing association sector – it could mean considering a continuing role for local authority housing, although perhaps not following the traditional model.

Whatever imaginative solutions and delivery vehicles emerge as alternatives to help resolve the crisis, the debate will inevitably raise some uncomfortable questions about subsidy. It is likely that new ways of raising subsidy, by capturing the rise in land values earmarked for development, will have a role to play.

It would be foolish to deny that resources are limited, but as one expert in the sector put it: "Government has to avoid choosing between a right and a right. It's got to do something about key worker accommodation but, equally, it can't ignore the rest of the sector."

The emergence of the key worker crisis in affordable housing provision since the beginning of the 1990s boom has led to a distinction being made between two types of social housing. This is now split between what has been traditionally understood as "social rented" housing and the category of "affordable housing", providing homes for key workers – such as nurses and teachers – who are otherwise unable to afford to buy in London. In addition, affordability problems in the intermediate market have led to the growth of housing association shared-ownership and low-cost home ownership schemes, although whether or not these fall into the category of housing for key workers can be unclear.

Social housing is facing pressure from all sides, as supply provided through section 106 agreements woefully fails to meet demand in every part of the sector.

**Aiming for mixed tenure**

It has become clear that single-tenure housing estates of purely social housing where the majority of tenants are on housing benefit are breeding grounds for social problems. While the evidence against concentrations of single-tenure social housing now appears to be conclusive, there is also general agreement among researchers that tenants and home owners in low-income areas gain from the integration of higher-income households. The main benefits are an improvement in image and physical environment, better facilities and services, and reduced crime, all of which encourage a sense of place and of ownership among residents – key factors in enhancing a sense of community.

This concept of creating mixed communities is now enshrined in government policy favouring the development of mixed and balanced communities. Government guidance, as laid out in PPG 3, states: "Local planning authorities should encourage the development of mixed and balanced communities: they should ensure that new housing developments help to secure a better social mix by avoiding the creation of large areas of housing of similar characteristics."

Despite this, many in the social housing sector increasingly feel that the estates they own and manage remain far from mixed and, rather than providing a ladder out of poverty, remain a mechanism for preventing social mobility.

**The housing association as developer**

This shift in perception coincides with changing market issues in the sector. The affordability crisis in the intermediate market is altering priorities, as well as opening the door to the possibility of associations becoming profit-making entities. The perception is that grant funding to the sector will remain limited, yet new government proposals would enable private developers to access grant funding to build social housing – causing concern to associations.

As a result, the housing association sector is repositioning itself. At its conference last year, the National Housing Federation spoke of the sector's "collective failure" and consequent poor image and embarked on its Housing's Better Future campaign, which was launched in September at this year's federation annual conference.

A number of concerns arise from this repositioning. First, there are worries that although housing associations are increasingly taking on the role of house builder, building at today's high market values, they are failing to make a dent in the affordability problem.

Many of the affordable low-cost home ownership and shared-ownership programmes are in fact far from affordable for the average key worker and first-time buyer, so can have little impact on the supply crisis. Even so, there is significant demand for housing through these schemes.

Despite this demand, housing associations are progressing slowly with such schemes, in what appears to be an echo of the private sector's slow release of supply. Although prices for shared-ownership properties have risen exponentially in London, the number of low-cost homes built has dropped substantially. In 2001/02, housing associations completed some 1,165 shared-ownership homes – far fewer than in previous years.

### **Shifting the focus away from the homeless**

The second problem with housing associations taking on the role of developer is that they appear to want to shift their emphasis towards the key worker and intermediate market, providing rented social housing for key workers, low-cost home ownership, and homes for sale for the intermediate market.

The corollary of this is that fewer resources are likely to be available for the 60% of social housing tenants on benefit. This chimes with the viewpoint, which is gaining ground, that the sector should be seen as not a hand-out but a hand up. The potential arises here for conflict between the various needs of the sector, and in particular the problem that the homeless and vulnerable could be overlooked.

Local authorities are claiming that a growing number of housing associations are reluctant to house people on priority homelessness waiting lists. An increasing number in the housing association sector are suggesting that providing lifelong secure tenancies to homeless families encourages a dependency culture. Consequently there are growing calls for the introduction of assured shorthold tenancies.

The issue of introducing shorthold tenancies is often linked to the topic of antisocial behaviour, but the key question is not the justifiable argument that antisocial behaviour should merit the removal of a secure tenancy, but whether there should be any secure tenancies at all in the sector.

Homelessness professionals and people working in the more vulnerable end of the sector warn that a central issue for their client group is the problem of instability. Stability is critical for people finding their feet, and the notion that the social housing sector is a

temporary pit stop for those in crisis is unlikely to provide long-term solutions. Shaks Ghosh, chief executive of homelessness charity Crisis, says: "All that will happen is that they'll come round the block again. What we have to do is create stable communities."

Removing secure tenancies could further marginalise the majority of those in the social housing sector, who do not fall into the key worker bracket. Allocation policies based on some of the present trends will, it is feared, leave them housed in ghettos of the excluded. While this may leave a small, functioning intermediate housing sector, it will do little to address the growing issues of social polarisation in the capital.

In the Royal Institution of Chartered Surveyors' submission to the Barker review, one housing and property consultant described social housing as: "built at a loss, run at a loss and occupied by losers". As the social housing sector repositions itself, the danger is that it too will come to see its core client group in this way.

### **A patchwork of solutions**

Having painted a relatively bleak picture of housing in the capital, it is vital to emphasise that such a time of policy change also provides immense positive opportunities for innovative solutions and new players to play a part.

Housing and its bedfellow, housing finance, form a highly complex and largely unloved sector with grand and idealistic visions that is becoming bogged down in the minutiae of policy, grant funding and borrowing on the basis of different revenue streams. Despite the government's proposed four town extensions – in the Thames Gateway and around Milton Keynes, Stansted and Ashford – neither the private sector nor housing associations are building in anything like the numbers required to make any real impact. The supply crisis demands radical and visionary change.

In addition to its complexity, another problem that the sector faces is that there are available few of the short-term solutions beloved by politicians of all hues. Building houses takes time and any consequent impact on affordability is likely to take years, if indeed supply is increased enough to reduce prices significantly.

Despite the deceptively attractive prospect of a sweeping overhaul of the system, the answer is more likely to comprise a patchwork of solutions. These solutions will probably involve a mix of all the players in the sector, from housing associations to private house builders and the private rented sector, as well as new delivery vehicles and even local

authorities – long thought to have given up the ghost.

Housing associations will need to play a pivotal role in significantly boosting affordable housing supply. Not only are associations very well placed to do this, they also have an enviably strong track record of innovation in socially pioneering concepts – and arguably higher design standards than many private house builders, perhaps because of the stronger levels of regulation to which they are subject.

For example, at Caterham Barracks in Surrey, the Guinness Trust has created a mixed community on the site of a former army barracks, with 25% social housing seamlessly integrated or “peppercotted” with luxury semidetached houses developed by house builder Linden Homes. This development is a model of the type of mixed community proposed by government guidance. Another example of innovation is the Joseph Rowntree Housing Trust’s Caspar projects, which provide inner-city cost-rent schemes for young professionals unable to afford market rents. These are just two of many examples.

### **Capturing land value**

Following the government’s recent consultation on revising PPG 3’s planning guidance for housing, the issue of capturing land value – which is the same principle on which section 106 agreements are based – could form a central plank of new policy solutions. There is growing interest in investigating this area.

According to the consultation, land in former industrial parts of London zoned for employment use now looks likely to be freed up for residential use, which will ensure significant uplift in the development value of the land. As part of these changes in use, land is likely to be earmarked for affordable housing. It appears possible that local authorities, in liaison with all types of developers, could ensure that the uplift in land value is fed back into the site to enable more social and affordable housing to be built.

Earmarking land for affordable housing will probably mean that land prices will not soar, but there is still likely to be an uplift which could be used to build more affordable housing.

In a recent announcement, planning minister Keith Hill relaxed some of the rules surrounding best value for local authorities, giving councils the power to sell off land for less than its market value, provided that the undervalue does not exceed £2 million. He said that the aim of the General Disposal Consent 2003 was to give local authorities much

greater freedom to make decisions about land use for the benefit of the community.

In areas such as this, regarding land value and planning, local authorities in London may still have a significant part to play regarding the shaping of the capital's housing policy. This would echo the situation at the Greater London Authority, where the mayor has no actual housing powers but has exercised his planning powers to great effect in determining housing policy through his controversial 50% requirement for affordable housing on all new housing developments.

### **The role of subsidy**

Although many developers claim that the 50% rule is unworkable, others are eagerly taking up the mayor's challenge. The solution seems to lie in a flexible application of the policy and an acceptance that it will be more difficult to apply on some sites than on others that require higher levels of subsidy.

The 50% target makes it clear that such policies cannot work without subsidy, a point further reinforced by the levels of new building needed within the capital. While the Thames Gateway and the proposed extensions around Milton Keynes, Stansted and Ashford will undoubtedly provide much-needed homes to serve the South East generally, the developments are unlikely to serve the interests of a nurse working in, for example, Kingston upon Thames. Consequently, the only option appears to be to continue to pursue policies favouring a greater mix throughout all parts of London.

While much of the focus of increasing supply is on building a proportion of affordable housing in new private developments, it is also worth mentioning the successes of policies that seek to provide lower-cost home ownership in areas of existing social housing and increase the mix in that way. In Scotland, for example, Gro Grant – a grant available throughout the 1990s that subsidised developers to build homes in low-cost areas where production costs were greater than the end value of the homes – has been universally hailed as a successful way of building mixed-income developments. A prime example is the Crown Street scheme in the Gorbals in Glasgow, where new townhouses with communal back gardens have been built side by side with the old 1960s tower blocks.

Such schemes depend on subsidy, which is also vital to boosting supply in the capital. However, it is recognised that resources are limited and that all possible funding mechanisms and delivery vehicles need to be looked at.

This leads to the thorny question of private house builders being eligible for social housing grant. Although this raises issues about the future management of the homes, it now seems that house builders will be able to bid for public money to build affordable homes – a process that the government hopes will stimulate competition in the sector, raise standards and increase supply. With house builders such as St George already showing an active interest in this area, the lines between such builders and social developers such as the Guinness Trust may become increasingly blurred. However, it seems certain that housing associations will continue to be drivers and innovators in the social sector.

### **Making use of the private rented sector**

The other key area for housing in London is the private rented sector, which is increasingly being looked at as a means of meeting the needs of those in the intermediate market as well as those in more vulnerable groups. The debate about privately rented accommodation meeting the needs of the social housing sector is still in its nascent stages although it is already being considered by some as the possible future for social tenants.

In London, private-sector landlords are increasingly involved in housing on former local authority estates through unfortunate abuses of the right-to-buy system, according to a recent report from Herriott Watt University, commissioned by the ODPM. It revealed that leasing companies have acquired thousands of homes over the past four years, by exploiting a loophole. Tenants are encouraged to buy their homes with the offer of cash incentives, provided that they agree to move out immediately so that the company can lease them out. These homes are mainly rented out on the private market, but in some cases are leased back to councils, housing associations and government agencies dealing with asylum seekers.

Considerable issues surround the use of the private rented sector for social housing tenants, particularly those on benefit. It is already widely recognised that, in some parts of the private rented sector, unregulated landlords provide poor-quality, overcrowded accommodation at high costs – which are picked up by the benefit bill. There is a real danger that these areas, alongside residualised estates, could become ghettos of the excluded.

The private rented sector is nevertheless an important avenue to explore. Encouraging interest from investment vehicles such as the real estate investment trusts of the US is a key approach, while the provision of tax-transparent vehicles would also stimulate

interest. Particularly in London – where there is still a majority of local authority-owned stock, which does not fall under the National Housing Federation's new proposals – there is a danger that many tenants could find themselves in limbo and so all options need to be considered.

Another option is the relatively new delivery vehicle of the arm's-length management organisations. These ALMOs are also working up proposals for the Treasury on allowing them to raise money by borrowing against their rental streams.

The wide-ranging patchwork of possible solutions to London's housing crisis thus ranges from innovative ways of raising finance to the entry into the frame of delivery vehicles such as private house builders. However, accompanying the solutions that make up this patchwork must also be a framework encompassing a vision for the future of social rented housing. Without this, there is a very real danger that it will become a tenure of last resort, creating ghettos of the excluded with all the attendant, costly social problems.

This is not to underplay the urgent needs of the intermediate market, which is so vital to the functioning of the capital's economy. It is simply a plea for the need to strike a balance between the needs of the affordable market and the rest of the social sector. Simultaneously, it is a plea for the government to continue its policies promoting the development of mixed and balanced communities and ensuring that areas of social exclusion are not allowed to breed and grow. There is then every chance that the capital can both address the housing supply crisis and move towards a socially inclusive policy for housing.

## Chapter 2

# Every new home counts

Housing demand has increased because of changes in society and the shortage is not just of affordable homes. Policy makers must encourage the building of all kinds of homes, at high densities and using innovative methods, while providing the infrastructure to open up new areas for development, says former environment secretary John Gummer

There is no possibility of solving our housing crisis by using the current approaches. We are mistaking the symptoms for the disease and therefore failing to cure the patient. Local authorities and national government are locked into a political assessment that is at variance with the facts and it is the most vulnerable who are suffering. That is why we really must go back to those facts and look again at the causes of the disastrous shortage. Otherwise, our attempts to provide answers will continue to fail.

In making that reassessment, we have one great advantage: no one now doubts that there is a housing crisis. That, in itself, is a huge step forward. After all, for a long time we were in denial. When, eight years ago, as secretary of state, I first announced that we would need to create nearly 5 million new homes if we were to meet the needs of 2020, the world was determined to disbelieve it.

Some environmentalists even accused us of causing the demand and suggested that if we did not build the homes, then the need for them would disappear. The parallel with road building and traffic was canvassed without any understanding that housing shortage does not reduce need, it merely drives up prices and drives out the most vulnerable and least able and thus those who are most in need.

### **A revolution in lifestyle**

Gradually, the facts of the situation have triumphed over the doubts. People are living longer and living in their own homes longer. That means that significant amounts of accommodation become available ever more slowly than in the past. Young people leave home earlier and expect to form a household – albeit a one-person household – earlier. Marriage structures have changed enormously and divorce contributes significantly to the higher demand for housing.

Previously, spouses would usually remarry, so that the number of homes needed would remain the same although the homes would be inhabited by different couples. Now, people are much more likely to live separately after a break-up. Once, the mother would take the children, with an expectation of limited or no access for the father. Now, both parents tend to share the children, each partner therefore requiring sufficient accommodation for them. After a break-up, partners in subsequent relationships may live together but expect to retain their own homes.

It is no wonder, therefore, that the need for more than half of the additional homes required arises from these changes in marriage patterns. This means that most of the

demand for new house building comes from changes in lifestyle rather than through population growth or movement.

Two other factors are at work. The first, again, comes down to lifestyle. British people have, for more than a century, expected more space than their Continental counterparts. It is not just that we have not been a nation of flat dwellers and want our own house and garden. It is simply that we have had greater expectations. This was graphically illustrated during the effort to get people to move out of overlarge council accommodation during the 1990s. It was not felt possible to define "overlarge", even in London, in a way that did not allow for a spare bedroom. By contrast, private flat owners – let alone social tenants – in Paris, Milan or Berlin would certainly consider such additional space a luxury rarely to be afforded. With these already high UK expectations increasing with greater affluence, this factor is further exacerbated.

In London and the South East, a second factor comes into play. It has been a conscious part of British economic policy to attract and retain foreign investment. Our relatively favourable corporate tax structure has succeeded in attracting significant numbers of EU and foreign executives to work in the businesses that have come here. In the London area, there are more than 200,000 from France alone. Thus, the pressure on the better type of housing is increased disproportionately.

### **There is no escape**

The underlying causes of the housing shortage are therefore inescapable. What is more, unless we believe that Britain will return to a more traditional pattern of family life, then we must expect the pressures to increase. The demand side of the equation can be taken as a given. Yet, on the supply side, house building has declined to levels not seen since the First World War. Within those historically low figures, the number of "affordable" homes has also fallen significantly and by a greater proportion.

The effects of the shortages that this has created are now felt nationwide. While pressure in London and the South East has grown incrementally, prices have risen throughout the country and, at least for the moment, appear firmer in the North. This is a classic case of prices rising on the back of unsatisfied demand.

The situation is made more acute by interest rates that are at a historically low level. Large numbers of people are therefore able to service mortgages that are very high in relation to their incomes. This escalation of debt has become a matter of serious political concern,

yet the signs are that it will continue to increase as buyers, of necessity, come back into the market. Housing is a need that just has to be satisfied and people will take the risk of going even further into debt to get a roof over their heads.

I have concentrated on house purchase not only because it is the preferred choice of most people but also because rental cannot be seen as a way out of our problems. At a time of shortage, rents merely mirror the market cost of purchase. There are certainly more homes to rent than in the days of the rent acts. The bipartisan political agreement on dismantling statutory controls has been the major reason for that. Yet, ironically, the growth of buy-to-let mortgage facilities has become a factor in increasing the prices of the very properties that would previously have been bought and done up by those on the first rung of the housing ladder.

### **Macmillan got it right**

There is therefore no bilking the issue. Britain has too few homes. That shortage is increasing, will further increase, and ought to be diminished. Indeed, if it is not diminished, housing will force its way to the top of the political agenda in a manner that we have not seen since Harold Macmillan won an election on the promise of 300,000 houses a year. It is no wonder that the present prime minister is personally chairing the cabinet committee charged with the regeneration of the Thames Gateway nor that housing provision is the overriding preoccupation of the deputy prime minister. Yet, even with that undoubted ministerial commitment and resource, the fundamental analysis is still lacking.

We need first to recognise much more keenly the laws of supply and demand. Macmillan saw that as absolutely basic and, in making his promise, refused to be pushed into distinguishing between council and private building. He understood that the only way to deal with a crisis was to ensure that we built everything that we could. With shortages at every level, any new unit helped to relieve the pressure. Families that could finally move into larger accommodation released a home for those with fewer children. The upwardly mobile would leave space for those lower down.

It would be different if house builders were insisting on building executive homes that could not find buyers, while refusing to build terraced housing when there was a ready sale to be made. In practical terms, whatever they build they can sell because supply lags so far behind demand at every level. In such a market-driven crisis, only the market can properly find the solution.

Yet, we are all approaching this as if the facts were quite different. We act as if there were a shortage only of "affordable" homes. We therefore tax the providers of unsupported homes by forcing them to build an ever-increasing proportion of low-cost housing. That tax is paid by the purchasers of the rest of the stock. This further pushes up house prices generally, and then even more people need "affordable" housing. Worse still, as the figures for housing starts show, many developments are made impossible by this tax, so landowners or builders hold back until they can see the sums adding up. We know that, in consequence of this tax, some planning consents that have been given have not led to actual construction. What we cannot know is how often planning permission has never been sought because of the regime that we have created and are now intensifying.

### **A Treasury problem**

Of course, individual local authorities do not see the big picture like this. They have a local need, and section 106 agreements have been the only way that they can see to meet that need. The fact that it is a means that exacerbates the problem more generally cannot weigh heavily with them. That is why the issue is primarily one for central government. In handling it, the Treasury has played an important and largely damaging role.

In housing, the Treasury has cast aside one of its most fundamental beliefs. Nowhere else does it accept the hypothecation of taxation. As every environment minister has found to his cost, the Treasury routinely vetoes any suggestion that a particular tax or levy could be made more acceptable by being directly applied to a particular end. Yet, the mandarins allow the huge economic distortion that arises from taxing some house buyers to pay directly for others' homes as if it were nothing to do with them. In fact, of course, it is a tax that has been invented precisely because the Treasury was not willing to accord to housing the revenues that were needed. The blame must therefore be fully shared by Conservative as well as Labour governments. Indeed, that is part of the problem. Every political party has found it easier not to confront the issues that universal shortage presents.

It is here that we come to the second inconvenient but inescapable fact. Planning has an economic cost. I refer not to inadequately resourced planning departments but to the simple fact that, if we seek to restrict building and land use for the common good, it has an effect on the price of land. That price we all have to pay. Yet, we give the impression that planning involves only the cost of the process: that no one picks up the bill for the policy. We therefore fail to price the policy in the way that the Treasury insists we price almost every other policy. (I say "almost" because we have also been too scared to price

the policies that have exacerbated marriage break-up. When politicians feel helpless, they tend to ignore the realities.)

The policy of protecting the green belt and insisting on building on already used land is a good policy. It was controversial when I first stopped out-of-town development but it is now accepted across the political spectrum. However, it has a price. Part of the purpose of the planning system must be to see that we pay that price in the most cost-effective and least distorting way possible. This demands, first, that we ensure that sufficient land comes forward for development. That is a much more complex statement than is usually thought. It means that, from the first, developers finding a brownfield site capable of housing development can seriously expect to get planning permission. That is not to say that every proposal, whatever the design or layout, mixed or not, will be acceptable. What it means is that the planning department ought to want to say "Yes", that its demands will be about quality and design and not about screwing money out of the developer, and that it will strain every sinew to make the development possible.

### **Every home counts**

We have to repeat the mantra: "Every home that is built makes a real contribution to solving the housing crisis". Of course, local planners need to ensure that we do not build tomorrow's slums, today. They have to insist on a sustainable environment that will enhance and not despoil the community. Above all, they ought to be seeking ways to enable developments to be better, not using them to achieve other ends. More and better homes is the end.

To this change in attitude, we have to add an increased willingness to use compulsory purchase. The government's encouraging proposals, which we hope to see better fleshed out in the postponed planning bill, will go some way to encouraging this, but there is still much that could be done to improve the proposals and make them more user-friendly and therefore more likely to be used. Local authorities ought to be seeing these proposed changes as a weapon in their armoury, which developers could expect would be wielded on their behalf. The housing crisis demands that we all work together to provide a solution.

That is where the third element becomes essential. John Prescott has done a great service in insisting that densities must increase if we are to get the homes we need within a sustainable planning policy. It is a policy that I began and I am therefore all too aware of the almost vicious attacks that such an attitude provokes from those still wedded to

the theories of Ebenezer Howard. All that tripe about town-cramming has done a great deal of harm, deprived many people of homes, and significantly reduced the vibrancy of our cities.

Regeneration demands much greater density and it is through the use of that planning mechanism that we can do most to ensure affordable housing is produced. Instead of 106 agreements, we need to insist on minimum densities but allow the maximum possible freedom to the developer to decide the mix. That means that if it wishes to provide for people whose housing expectations are for more space, it will charge them the proper price for their plot. Instead of paying a tax to be applied to others, they will pay the market rate for the land they use.

Pushing up the density will also force developers to use new methods of construction in order to get the necessary quality. Indeed, higher densities should lead Mr Prescott to push forward more quickly with the revision of the Building Regulations and particularly with their adaptation to a high-density world. Modern factory-building techniques, new materials and technology, and higher standards and finish – all these can bring to high-density housing the quality it demands. Ensuring that this happens is a key part of the planning process.

### **The development process**

The government can do a good deal to improve the climate for house building and to remove the obstacles but, in the end, the developer is the spring of the action. Developers' resources, imagination, and expertise are generally better than any alternative. However, local authorities can help by identifying sites that have not previously been found, by getting rid of zoning policies that sterilise land for manufacturing businesses that will never come, and by looking at their own estates in an imaginative way. This last is crucial.

The need to increase the density of so much of the supported housing built since the war is a priority. One of the reasons why I opposed so strongly Mr Prescott's early willingness to build 10,000 houses in the green belt, right next to Stevenage, was that there is plenty of space in Stevenage itself. Like most new towns, it would be significantly enhanced by denser and more mixed development.

So, in tackling the housing crisis, we do have significant weapons at our disposal. Local and national government can help to return housing starts to their previous levels by using the planning system more effectively; and the new bill, although more limited

than I would have hoped, will make a significant difference. Even so, without urgent, large-scale additions to the national land bank it will all take far too long. This means that we will just not catch up with a demand that is increasing every day.

### **Infrastructure is key**

Whether it is the Thames Gateway or any other significantly underused land, there is usually a good reason why development has not taken place. More often than not, it is because of poor communication and infrastructure. Grandiose plans for growth round Ashford have already had to be shelved simply because the infrastructure cannot be provided fast enough to meet the more ambitious targets.

The Thames Gateway will continue to move very slowly and will not attract the developer support that is needed, unless the government and local authorities get the transport right. Relieved of the distorting section 106 tax, house builders could be expected to make a contribution towards that infrastructural development. However, it will have to be nicely judged to leave sufficient profit in the projects to be able to pay enough for the land to entice present owners and users to sell.

Nor will compulsory purchase solve the problem. Government promises and European legislation make it impossible to force people to sell at less than the market price. There will therefore have to be a reasonable deal that does not put the whole weight of infrastructure creation on the developer. Otherwise, developers simply will not develop.

Local authorities have not been vocal enough in pressing central government to see the provision of infrastructure as a key responsibility that must be undertaken if the housing crisis is not to worsen. Instead, ministers have avoided the essential commitments to road and rail without which land will just not be developed. People will not go and live in today's equivalent of Thamesmead and local authorities must not allow central government to think that they will. Fast, efficient connection is what people expect and is the first requisite for regeneration.

So it is all to play for, but only if everyone plays for it. Facing the realities of supply and demand; working to build, in high densities, all kinds of houses using innovative methods and materials; and providing the infrastructure to open up new areas for development – these are the prerequisites. If we continue along the present path, the crisis will continue too and we shall face the wrath of the public and deserve it.

## Chapter 3

# Quantifying the supply shortage

Dresdner Kleinwort Wasserstein analyst Alastair Stewart quantifies the problem of London's affordable housing shortage and sets out three possible future scenarios for the pattern of supply and demand, concluding that even meeting the mayor's ambitious targets for boosting home building will not be enough to resolve the crisis

London faces a shortage of almost a quarter of a million homes for low-paid workers over the next 13 years, despite plans by mayor Ken Livingstone to deal with the problem.

Population growth in the capital of 600,000 since 1983 has stoked house price inflation, causing skills shortages in both the public and private sectors. With a further increase of 700,000 inhabitants forecast for the next 15 years, a lack of housing for key workers is one of the most pressing threats to London's long-term economic growth.

The shortfall of homes for key workers and for London's intermediate-income households – defined by the Greater London Authority as those with incomes of £15,000-35,000 – will reach 229,000 by 2016, even if the GLA's target is met of building 23,000 homes a year, with up to 50% affordable housing.

There are two other possible scenarios of shortfall: if the present level of 2,600 affordable housing starts a year continues, the shortfall will rise to 239,000. If, however, house prices fall and housing associations can then afford to buy, the shortfall will shrink by around half.

### **Key workers and intermediate earners**

For the purposes of this analysis, core key workers are defined as being in the essential public services – education, health, the emergency services and transport – while intermediate earners are other low-to-moderate earners in both the private and public sectors. Although their need is not as pressing, these workers are important to the economic health of the capital.

The severe housing problems faced by both groups are already hampering economic growth in London. The National Institute of Social & Economic Research estimates that 60,000 key workers will leave the capital over the next 10 years. In the health service, the position is already critical, with about 7,000 vacancies for nurses. In the GLA's workplace survey, 35% of nurses claimed that they planned to search for similar jobs outside London in the next year.

London's intermediate-income households, defined by the GLA as those with incomes of £15,000-35,000, have the worst of both worlds. Their earnings are too high to qualify for rented social housing, but they have little chance of affording to buy. On a 3x multiple of salary the maximum mortgage would be £105,000; with a 5% deposit this would achieve a price of just over £110,000. According to the Land Registry, in only three London

boroughs was the average price of a flat below this level in the second quarter of 2002. The London-wide average for flats and maisonettes was £205,323; for terraced houses it was £236,906.

### **Extent of the problem**

London has approximately 130,000 nurses and 50,000 teachers. Most core key workers in the capital cannot come close to buying a home. The average gross annual income of a primary schoolteacher in 2002 was £26,360, while a staff nurse could earn £21,1805. Transport workers earn far less.

The GLA report, *Key Issues for Key Workers*, examines the problems faced by four types of workers in the essential services: teachers, nurses, bus drivers and police officers. Employers in all four groups have experienced problems in recruiting and retaining staff. Staff turnover is 10-15% per year, which clearly has hampered delivery of services.

The report included a workplace survey of the four groups. The relevant findings include:

- **Earnings:** No nurse earned more than £25,000; 94% of teachers earned less than £30,000 and no bus driver earned more than £20,000. Only the police service had an appreciable number of members (30%) earning above £30,000, enabling them to buy a property.
- **Tenure:** Only police officers and teachers showed a majority in owner-occupation: 67% for police officers and 56% for teachers. Just 26% of nurses owned their homes, while 39% rented from private landlords. A mere 12% of bus drivers were owner-occupiers, while 40% rented from councils or social housing landlords and 28% from private landlords.
- **Employer-provided accommodation:** Only the health service showed any notable commitment to employer-provided accommodation. Some 13% of nurses were in either temporary or long-term accommodation provided by the NHS.
- **Distance to work:** Nurses, arguably the group working the most antisocial hours, in most cases have to live a long distance from work. Some 60% lived more than five miles away and almost half of these had to travel at least 10 miles. The only group travelling further were the police: 69% travelled further than five miles, while almost half lived more than 10 miles from their workplace. This appears to be a deliberate choice, since the police are the group most able to afford to buy. In fact, 73% said that they did not want to live any closer, while 61% of nurses and 64% of bus drivers did.

- Desire to change job/leave London: The effect of housing problems on recruitment was highlighted by the large number surveyed who were considering either leaving London or remaining but switching to another profession in the next 12 months. Some 35% of nurses were thinking of leaving the capital, while 28% of teachers said that they would like to change jobs or relocate.

Looking at the wider issue of intermediate earners, the shortage of affordable accommodation is at crisis levels. There is no detailed survey available on the shortfall of specifically intermediate housing in the capital. However, according to research by FPD Savills, 800,000 households – one-quarter of the London total – cannot afford to buy a £75,000 flat, which is lower than the average price of a flat or maisonette in any borough in London.

### **London house prices and first-time buyers**

Buying the most basic of flats in all but the furthest-flung regions of London is beyond the reach of most aspiring first-time buyers. Between the fourth quarter of 1995 and the third quarter of 2002, the average price of a London home rose by 170% to reach £207,040 – breaching £200,000 for the first time ever. During 2002 not only did prices rise, but so too did the rate of increase. Prices accelerated to an annualised growth of 17.9% in the third quarter.

Despite a slowdown in transaction volumes in the first half of 2003, the main housing surveys still indicate that houses being sold are fetching even higher prices. As the lower volumes may reflect the unwillingness of vendors to accept lower prices, the true nature of house prices could be even worse than the surveys suggest.

The first-time buyer segment of the market is critical to the debate over key worker housing, as a large proportion of key workers aspire to own or at least part-own their home. The recent difficulty in entering the market has been demonstrated by most surveys. The Council of Mortgage Lenders estimates that the proportion of mortgages for house purchase across the whole UK taken up by first-time buyers fell from 49% in the first quarter of 2000 to 31% in the first quarter of 2003. The average deposit for a first-time buyer across the country in April 2003 was almost £25,000.

Although there is no geographical breakdown to the CML figures, it is reasonable to assume that the proportion of new entrants to the London market is at the same level as or lower than the overall figure and that the average deposit in London must be higher.

Entrants to the market are paying more than they can afford, at least relative to the rest of the housing market. While first-timers pay less than the overall market average, the discount is narrowing. Between 1983 and early 2002, first-time buyers paid between 62% and 67% of the average price paid by households trading up, averaging out over the past 20 years at 64.8%. Since the beginning of 2002, the proportion has risen to 71.3%.

At these levels, affordability becomes a serious concern. The multiple paid by the average earner in London for the average first-time property is now at its highest recorded level, 5x. This compares with a peak of 4.8x in 1988 and an average since 1983 of 3.3x.

### **The affordability myth**

The key argument used to justify high house prices is that interest payments are lower than in the past decade. The mortgage repayments on an average property are now 27% lower, despite a near doubling in prices. However, there is more to affordability than monthly payments. There are three problems with this argument: the constraint of maximum mortgage lending rates, the effect of low inflation on the real lifetime cost of a property, and the fact that the "saving" in interest payments is being spent elsewhere.

Rates may be lower, but the factor constraining most buyers, particularly first-time buyers, is the maximum multiple of salary offered by lenders. This is generally similar to that offered in the last peak, 3-4x gross income of the lead borrower (and usually a lower multiple of the partner's salary). Salary multiples are closely monitored by the Financial Services Authority, which frowns on higher multiples for standard mortgage lending. At an average London first-time buyer's price of £169,283, a 95% mortgage at 3.5x earnings implies a salary of almost £46,000. This is one-third higher than the average male salary of £34,367 in the capital.

The second problem with the affordability argument is low inflation. Mortgage payments are lower as a proportion of salary when taking out a loan, but salaries are growing at a lower rate than in the past. In the late 1980s, a first-time buyer would typically push for as high a mortgage as possible. The first few years would be tough – and many borrowers would take in a tenant on a temporary basis. But, with earnings growth in the capital at around 11.5%, the burden would quickly become more bearable, and within a few years it would be possible to trade up.

At present, earnings are growing at around 4.5% in London and there is, if anything, downward pressure on wages. This means that the mortgage remains a financial burden

for much longer and it takes longer for borrowers to trade up. This is reflected in the decline in the number of housing transactions across the country, which in the 1980s peaked at 16% of total housing stock but have now fallen to 9.3%.

The third problem with the affordability argument is that the extra spending power theoretically created by lower interest rates is being spent elsewhere. Household debt, including mortgages, personal loans and credit cards, is running at a record £818 billion across Britain. The consumer spending boom is being at least partly supported by widespread equity withdrawal. This could be storing up problems for the future – record debt levels and low income growth suggest real hardship ahead for many homeowners.

### **Calculating present demand**

Using income distribution and household tenure data to give a very rough estimate of how many households are excluded from both the owner-occupier market and social housing on the grounds of their earnings being too low or, indeed, too high, produces a figure of 200,000, calculated as follows.

Data from the Department of Work & Pensions shows that 33% – just over 1 million – of London's households have an income of £15,000-35,000, putting them into the category of intermediate earners. It is reasonable to assume that any household earning less than £35,000 and not already owning a home has a minimal chance of buying one.

Assuming that owner-occupation accounts for 50% of those earning £35,000-45,000, 75% of those in the £45,000-50,000 band and 95% of those earning over £50,000 produces a figure of 684,000 households with an income of more than £35,000 and owning their own homes. Subtracting this from the total number of owner-occupier homes in London, 1.79 million, gives a total of 1.11 million households with an income below £35,000 and in owner-occupation.

Subtracting this, in turn, from the total 2.26 million households earning less than £35,000, leaves an assumed 1.15 million who are not home owners. Finally, subtracting from this number the 278,000 homes owned by registered social landlords and the 520,000 council dwellings gives an estimated 351,000 households earning below £35,000 living in private rented accommodation.

Private renting is the only option for these households, as they earn too little to buy but too much to qualify for social housing. However, their low incomes mean that, for many,

either the rent will take up a large part of their take-home pay or their housing will be substandard – or both.

Despite these difficulties, some will want to stay in private rented accommodation. The GLA workplace study of public-sector key workers indicates that the majority want to move out of private renting, principally into owner-occupation. On average, across the three groups most representative of core workers – nurses, teachers and bus drivers – 78% want to move within the next three years and 73% of these – 57% of the total – want to become owner-occupiers or obtain a housing association or local authority home.

It is reasonable to assume that the same proportion – 57% desiring a change of tenure from private renting – holds true for the wider body of intermediate-income households. If we apply this 57% to the 351,000 intermediate-income households not in owner-occupation, we arrive at the figure of 200,000 as the number of households that have no option other than to rent privately but are unhappy with their situation.

Assuming that key workers make up 10-20% of this intermediate-income total (excluding those below the £15,000 income threshold, who are eligible for housing association or local authority accommodation) gives a figure of 30,000 core key workers in need of more appropriate accommodation. This is three times the calculation of vacancies in a 2000 survey of nurses, teachers and bus drivers by the London Housing Federation.

### **Forecasting future demand**

The GLA estimates that London's population will grow by 700,000 between 2001 and 2016. Research into household formation by the GLA estimated that the average household size in 2000 was 2.35. In its planning targets, it has assumed that this size will remain constant until 2016. These assumptions suggest a further 297,872 households. However, the draft London Plan forecasts a further 311,000 households within the same period, equivalent to just over 20,700 homes per year.

The mayor has a minimum annual target of 23,000 new homes. This figure coincides with the government's recommendations within RPG 9/Circular 1/2000. The GLA's Housing Capacity Survey 2000 estimates that a maximum of 23,000 homes could be provided each year. This comprises 19,000 new dwellings and 4,000 vacant homes being brought back into use. The mayor has set this as a minimum target until 2006. A capacity study will be carried out within the next three years to review this target.

However, the GLA's projections of long-term population increase are questionable. In the draft London Plan, the mayor argues that a continuation of the present trend should form the basis for planning. The GLA projects a further 636,000 jobs in the capital up to 2016, comprising a gross increase of 854,000 offset by a loss of 218,000. By far the largest component of this projected rise is a forecast increase of 440,000 jobs in the finance and business services sector.

At this point, a forecast 440,000 increase in financial and business services seems optimistic. The financial services industry seems more likely to experience a decrease in employment in the short term. On the basis of the last slump, 50,000 jobs could be lost over the next three years.

The other area for projected growth is in people-based services, such as entertainment, leisure and retail, where the GLA expects 178,000 jobs to be created by 2016. Spending on leisure and luxury shopping is volatile and hard to predict, but these projections also appear optimistic.

The best-case scenario for the next four years is that job losses in financial and business services will offset any increase in employment in other areas of the London economy, so there should be limited or no overall growth in jobs.

Thereafter, demand should increase in line with the rise in employment. Assuming a five-year delay in job growth, this would reduce the net job creation to around 420,000 by 2016, rather than the 636,000 forecast by the GLA. Applying a household size of 2.35 indicates 178,000 extra households in London. Having already established that around 33% will be in the intermediate-income category, this suggests that demand for intermediate housing will grow by almost 90,000 between 2007 and 2016. This figure is adopted in the demand/supply scenarios I and II below. However, in the market-based scenario III, lower demand growth of just under 65,000 households is assumed.

### **Sources of supply**

In all three scenarios for supply and demand, set out below, the London Residential Research analysis of the planning and development pipeline is used to provide the forecasts up to 2007. An analysis of the LRR database indicates a potential maximum supply of 104,062 homes by 2007, 70% of the total pipeline of 148,577. This averages out at 20,812 per year. This figure is a maximum and, of course, depends on the willingness and capacity of developers to deliver.

Section 106 agreements require developers to provide a proportion of affordable homes within their developments. In the 1990s, this was approximately 25%, but the mayor of London is pushing for 50% in most areas of London. Within the affordable homes allocation, 70% should be rented social housing and 30% key worker or intermediate housing.

The GLA's Housing Capacity Survey indicates that reducing the level of vacant properties to 3% of housing stock will free up approximately 1,666 homes per year. Perhaps one-third would be specifically aimed at key workers in a particular occupation, such as health workers. These would normally be sponsored by the employer and are assumed to be affordable.

Another source of potential supply is building above supermarkets, filling stations and the like. A study by the then DTLR into the airspace development potential above single-storey uses, such as food stores and petrol stations, estimated that an extra 25,000 units could be provided on these sites over 15 years. A 50:50 split between market housing and affordable housing is assumed for these. Since these developments would not normally have gardens and would usually be close to transport, they are particularly suitable for key workers/intermediate-income groups and less so for families.

### **Demand and supply: three scenarios**

Forecasting supply – particularly in a 13-year time frame – is much more difficult than forecasting demand, since it depends on political policy and the state of the housing market. Rather than present a straight forecast, it is more useful to examine three potential scenarios:

#### **Scenario I: the mayor's plan**

This scenario takes as its starting point the mayor's projection of significant growth in population, jobs and new homes, of which a large proportion will be affordable. This is a top-down scenario, with high demand being met by a major building programme, in most cases requiring 50% affordable housing provision. The emphasis is on rented social housing rather than key worker or intermediate housing.

Scenario I adopts the implied maximum of 104,062 homes from section 106 developments indicated by the LRR pipeline figures to 2007, plus 27,383 from other initiatives. This is followed by the GLA's target of 22,930 additional homes a year from 2008 to 2016. The cumulative total of new London dwellings by 2016 would be 337,815.

Affordable homes would account for 150,843 of these new homes, based on calculations assuming that, for the section 106 developments, an average of 45% would be affordable from 2008 onwards and taking the present LRR average of 38% affordable up until then. This figure of 150,843 new affordable homes by 2016 also includes housing from other sources such as employment site developments and specific key worker initiatives.

Although this number sounds large, the present view of the GLA and of many London boroughs is that 70% of affordable housing coming out of section 106 developments should be rented social housing directed at homeless households. This leaves only 30% for key workers or intermediate earners – in other words, only 45,000 of the 150,843 new affordable homes.

Taking into account supply from other sources, the cumulative provision for key workers and intermediate earners will rise by 56,556 by 2016. However, demand will increase by 85,703. This will therefore add another 29,147 to the present shortfall of 200,000. On this clearly subjective model, the shortfall increases to 229,147.

#### **Scenario II: the status quo**

This scenario is identical to scenario I in all respects except in the supply from section 106 developments. It adopts a higher supply than the GLA target, based on the five-year average output identified from the LRR pipeline figures to 2007. But the affordable homes total is maintained at 38% – the present level – for the rest of the forecast period, rather than moving to the 45% GLA target. On this basis, the shortfall should increase by more, to 238,943 by 2016.

#### **Scenario III: a market-led approach**

Scenario III takes a pragmatic approach, attempting to assess the impact of market forces. Demand growth is lower than predicted by the GLA, while housing production and tenure mix remain at present average levels. House prices are assumed to fall, taking many into the private housing sector and reducing the demand for intermediate housing, while allowing windfall opportunities for housing associations.

To examine the impact of falling prices and rising wages up to 2016 on those households that cannot at present afford homes, the intermediate-income households can be divided into bands. The higher bands, naturally, would need a lower decline in prices and a smaller increase in incomes to enter the private housing market.

Estimating that 24,200 households earn £27,500–30,000 – a median of £28,750 – wage inflation of 4% from 2002 to 2003 would bring the average income for these households to £29,612. With a 3x income multiple and a 5% deposit, the maximum affordable house price would be £93,513. This is still too low, as the cheapest apartment in most boroughs last year was around £110,000.

However, another year of 3% wage inflation in 2004 would bring the maximum affordable price to £96,317. If there were a 10% fall in price for the £110,000 house in 2003, followed by a 5% fall in 2004, the base house price would be £94,050. Those in this income band would then be able to enter the market.

Repeating this analysis for each income band, assuming 3% long-term income growth, combined with two years of house price deflation followed by no change in 2005 and then annual house price inflation of 2.5% up to 2016, the number of key workers and intermediate earners who could then afford to buy their own homes would be 89,100.

Adopting the same supply factors as in scenario II, but including windfall gains, such as housing associations buying extra properties due to lower property prices over the next five years, the shortfall diminishes to almost 103,000.

Although these are broad-brush calculations, they show that the draft London Plan is in itself insufficient to make serious reductions in the backlog of key workers and intermediate-income groups in housing need. The most powerful factors in addressing the shortfall are house prices and the allocation of affordable housing. There is limited scope for government to influence supply, but a return to arguably more realistic prices would take a vast chunk out of the shortfall, at least of intermediate-income groups. Allocation is a more sensitive subject, but shifting priorities from the homeless to key workers would alleviate many problems in the essential services. Clearly, difficult political decisions need to be taken.



## Chapter 4

# The case for fast-track planning consents

Land availability is not the problem. Simplifying the planning process so that development proposals can come forward rapidly is the key to increasing housing supply, says Charmaine Young CBE, regeneration director of leading London developer St George. Her plea is for the government to provide for fast-track consent for intrinsically sustainable schemes to entice developers into the brownfield arena

The supply of new homes is inextricably linked to the planning system, so it is important that planning reforms proposed by the government will increase the output of new homes. The Planning & Compulsory Purchase Bill has now returned to the Commons. Unfortunately, government amendments were made before the interim Barker report on the causes of the housing undersupply, and the bill is expected to complete its passage before the final report is published next spring.

Kate Barker's report is expected to cover how the house building industry interacts with the planning system, the tax regime and the government's objectives of creating sustainable communities. The industry has asked for a deferral of the planning bill to await the completion of both Ms Barker's review and that of Sir John Egan into the skills required to build sustainable communities. This would enable any recommendations relating to the planning system to be implemented within this legislative process.

We are surrounded by clear information that more homes have to be provided, including those for key workers. Recruitment and retention problems are biting hard in the private sector too. If businesses cannot ensure that the necessary staff are attracted to the jobs on offer and have difficulties in retaining their workforce, it will have a severe and direct impact on the economy of London and hence of the UK.

We must ask ourselves why, in buoyant market conditions, homes have not been delivered in the quantity required. We are building fewer homes now than at any time since 1924. We must also question why our house builders are investing in Arizona and not London, and are buying each other up to the extent that there are now only 14 major listed house builders nationally. Much has been said of the house building industry returning high profit margins, but they are clearly not high enough to attract shareholder investment compared with other industries.

It is of particular concern to see praise from the City for the UK's leading house builders' results for not focusing their work within the M25. It seems that house builders who avoid the urban agenda in London and the South East are actually commended for it. The industry is continuing to contract and this has to be of major concern to all those who wish to see an increased output of homes.

Development is a high-risk business and, clearly, it is essential that more developers be attracted to brownfield urban development. The question is whether the government's new planning reforms and the mayor's London Plan really encourage the volume of skilled

development needed to tackle the shortfall of housing provision.

At the Urban Summit last year, the deputy prime minister called for an increase in the output of housing for all tenures and said that it was imperative not to repeat the mistakes of the past 30-40 years. Both the government and the London mayor have recognised that the private sector and its shareholder investment need to be attracted in order to finance the delivery of the homes required. However, at the same time, the development industry is being asked to shoulder increasing responsibility for the delivery of the affordable housing that was once provided through local authorities and, in the last decade, by housing associations.

The public sector has yet to welcome the private sector as a profitable industry. Incentives must be created to encourage the private sector to bring forward more investment and to attract more developers to brownfield regeneration. We also need to ensure that landowners wanting to bring forward their land holdings for development are able to secure planning consent within a reasonable time scale.

### **National planning reform**

We are at a major crossroads. The government's planning bill introduces planning reforms that, in the government's own words, are to ensure that "planning is to rediscover its purpose, to be a strategic proactive force for economy, prosperity, social cohesion and environmental protection".

What we must ask of every clause in the bill is whether it will create a constructive approach that will speed up the development process and deliver sustainable development and balanced communities, while increasing housing output. Or will it exacerbate the present adversarial system – adding further development control and more obligations, increasing development land tax and undermining the competitiveness of the industry? This would result in yet further reduction of housing output.

It is acknowledged that there are major pressures on local authority planning departments. It is therefore questionable whether the introduction of new legislation at this moment, when we need ambitious solutions to increase housing supply, is the right approach.

I believe that it is far more important to focus on simplifying the planning process so that development proposals can come forward rapidly. The House Builders Federation has proposed to the government that fast-track planning consents should be delivered where

intrinsically sustainable development is offered. This would encourage responsible developers and deliver high-quality, 21st-century solutions. The proposal has been encapsulated in a 10-point plan, incorporating the following criteria:

- The scheme should be on a brownfield site.
- The proposals should be of high-quality architectural design.
- A sustainability audit should be provided, including an accessibility statement.
- An environmental impact assessment should have been undertaken.
- A transportation analysis would also need to be supplied.
- The scheme should be designed to reduce car dependency, through higher density with less parking provision.
- The government's Rethinking Construction framework should be incorporated.
- An element of community investment is essential.
- A comprehensive consultation process should be undertaken.
- The scheme should provide for 25% affordable housing with public subsidy from the Housing Corporation at its present rates.

If such schemes were promoted by the industry, planning consents in favour of intrinsically sustainable development would be given. It would not require primary legislation and could be introduced through circular guidance. With a clear message from central government to local authorities and the planning inspectorate that sustainable, responsible development should be approved, this single positive proposal could significantly increase housing output.

Other ways of reducing the time taken to secure planning consent could be through the proposed urban development corporations for major regeneration areas – such as those being developed for the Thames Gateway – or through the use of the existing “simplified planning zones”. Each of these approaches would place a lesser burden on planners and could allow the private sector more innovation and encouragement. London benefitted greatly from the strengthening of the financial sector with Canary Wharf, which was built through the private sector’s entrepreneurship where planning constraints were removed.

It is critical that specific changes are made to the bill before it is enshrined in legislation. The overwhelming view from the private sector – both the commercial property developers and the residential house builders – is that outline planning consents must be retained. Although the government has now amended clause 40 to permit outline applications to be made where statements of development principles have been issued, it

has maintained clause 92 which enables the repeal of outline consents.

Without the facility of outline consent, it will be virtually impossible to bring forward complex brownfield sites to deliver the government's objectives of creating sustainable communities. It is not possible to work up major developments to satisfy a detailed application. It is important to look at recent major proposals, such as those for mixed-use development at Greenwich, homes and employment around the new Wembley stadium and regeneration of Stratford's rail lands, as well as innovative proposals for redeveloping suburban areas in outer London such as Barnet. It is schemes such as these that could actually bring about the step change that the government is seeking.

There has also been much debate over developers maintaining the ability to apply for parallel applications – twin tracking – and repeat applications. These facilities allow developers to get into effective dialogue with councils and communities, but the planning bill proposes to remove that ability. The removal of these facilities would, rather than increasing the number of housing proposals agreed at a local level, give developers no incentive to seek such agreement. A greater use of the planning appeals system would probably be the result.

The industry has sought retention of the five-year life of a planning consent in relation to complex brownfield sites. Bringing forward such schemes often entails harnessing a wide range of ownerships, highways and infrastructure complexities and even compulsory purchase orders. Such schemes often have difficulties beyond the developer's control, which may well take more than the three years proposed to resolve.

The government has brought forward recent consultation over proposed changes to PPG 3 and the potential withdrawal of Circular Guidance 6/98. These could exacerbate the problems. Local authorities have welcomed the changes, which they interpret as allowing them to designate sites for 100% social housing and to dictate the mix not only of affordable housing elements but also of private-sector housing.

### **A strategic framework: the London Plan**

At the same time as central government's national reform of the planning system, London will also be going through regional government's introduction of the spatial development strategy – the mayor's London Plan.

This has provided a good strategic framework, with recommendations for urban development not only in central London but also in the outer boroughs. It is, however, predicated on the improvement of the transport system. The chancellor's present difficulties mean that investment for this could be deferred, but it is crucial that the development opportunities earmarked in the London Plan are still allowed to come forward. We cannot allow the lack of infrastructure and highways constraints to prevent development proceeding.

A recent transport survey, 21st Century London Living, has examined how people living in apartments in central London approach car ownership and car usage. This survey has identified that, for brownfield developments with reasonable access to public transport, levels of both car ownership and car use are much lower than previously thought. In essence, the concept of sustainable development actually works. It is therefore important that such schemes are allowed to go forward and are indeed actively encouraged.

London is often said to be bursting at the seams. This has led the government to identify four growth areas – the Thames Gateway, Ashford, the M11 corridor and Milton Keynes – to deliver the demographic and economic growth to ensure that UK plc can continue to compete on the world stage, housing its population and delivering the necessary jobs. There is no shortage of land for development in London, only a shortage of land with planning consent for development.

London is some 650 square miles; by taking 1% of that and building at moderate densities of say, 100 dwellings to the acre, homes could be provided for almost 1 million people. Most potential development sites are relatively well served by public transport and do not require the scale of public investment necessary to open up the Thames Gateway.

While the growth areas provide the potential for long-term strategic growth over some 30 to 50 years, it is essential that the land available in abundance across London is brought forward for development. This would then allow a more measured approach to funding the necessary transport and social infrastructure, such as schools and hospitals. These could be built within a sensible, strategic time frame – one that the government can afford.

The mayor has also, quite rightly, focused on the need for housing people in low-waged work. He has, however, suggested that only 30% of the affordable housing sought from developers should be earmarked for this market. Both London First and the House Builders

Federation, in responding to the mayor's plan, have said that at least 70% of the affordable housing should be targeted at this group in order to keep London working. Local authorities must accept that such key worker housing should form a satisfactory contribution from developers to their section 106 obligations and should actively encourage this type of accommodation.

### **Creating a climate for speedy delivery**

In addition to fast-track planning consents for intrinsically sustainable development, several further initiatives could speed up the delivery of more housing of all tenures:

- A clear acceptance by both the public sector and local communities of the need to increase housing output on sites in their areas.
- Releasing onto the market, with simplified planning regimes for sustainable development, all public-sector land holdings and non-operational former utilities sites.
- Greater control of the judicial review process relating to planning consents, which is increasingly delaying development proposals.
- Increased urban density approvals prior to transport infrastructure.
- Every clause in the forthcoming planning bill to be scrutinised to ensure that it will bring forward more homes, more developers and more land, and not create further delay to planning consents.
- The government to direct its inspectors and local authorities that sustainable housing schemes must come forward with rapid approval and that parochial issues cannot take precedence over the economic need to house London's workers.
- All levels of government to welcome a healthy and profitable house building sector.
- All employment zoned land to be reviewed and redesignated for mixed-use development, which recognises the economic and social benefits derived from such use.
- Potential reintroduction of urban development corporations with simplified planning regimes.
- Planners and local authority members to see their role as being proactive in the promotion of development, rather than as the custodians of development control.

The development industry is keen to work with government to deliver both an urban renaissance and additional new homes, but it is important to create a supportive regulatory and fiscal environment that recognises and facilitates private-sector investment. If we are to generate a thriving business economy and underpin growth, we must ensure a better climate for delivery. The continual onslaught of tax and regulatory initiatives can rapidly undermine the major listed house building companies, of which only

half are at present building in inner cities.

The house building industry has been consistently criticised for its attitude to design, its lack of output and its maintenance of traditional approaches to building. It should, however, be noted that since the 1960s the industry has produced almost 6 million homes and has created a strong owner-occupied market. Owner-occupation was recently shown as the tenure to which 90% of households surveyed by the government aspired. Between 1970 and 2001, the value of the net equity of home owners' property increased from £36 billion to £1,525 billion.

During the same period, local authorities built wall-to-wall social housing, designed by celebrity architects and fully publicly funded. Much of this now requires public-sector reinvestment for either retention or redevelopment. It has stigmatised council housing tenants and isolated them from society. We must not return to this approach in seeking to achieve greater numbers of homes.

The government is quite right in wanting to build sustainable communities and, for that, it needs to integrate different tenures in delivering balanced communities. To do so, the private sector has to be fully engaged and incentivised.

Both the mayor and the government have to understand their responsibilities to ensure that a framework is created that welcomes a profitable and innovative house building industry and frees up house builders to move ahead rapidly so that they can deliver intrinsically sustainable developments.

## Chapter 5

# Developing underused employment land

Rather than allowing the Nimbys to dictate the agenda, planning authorities should encourage employers and housing associations to work together to build homes on underused employment sites, argues Geoff Marsh of London Residential Research, who also wants to see a statutory obligation placed on councils to house key workers

Last year, I got to know a lot of nurses. They came to London from all over the world: South Africa, Nigeria, the Philippines, Thailand, India, Australia, New Zealand and Wales. Their motives for being in London were as mixed as their origins and accents.

The Aussies and Kiwis come to have fun and gain experience, along with their compatriots in teaching, local government and (non-legal) bar work. Those from developing countries have a more serious purpose: to earn enough money to send some back home to dependants who truly are dependants. Critics of importing nurses from developing countries with inadequate healthcare systems of their own completely miss the point: that the export of skilled labour is a crucial economic lifeline.

Take the example of "Barbara". Barbara is a highly skilled overseas staff nurse in her mid-30s, working in a major west London hospital. She is essential to the NHS and a comfort and inspiration to her patients. She works hard, is single and selfless, spends frugally, and lives within the hospital grounds in hostel-type accommodation. This takes the form of her own, tiny "student room", sharing a kitchen, bathroom and sitting room with three other female nurses. It is convenient and, at £65 a week, cheap. It is also driving her nuts, as prolonged close-knit sharing without privacy does.

But the lifestyle enables her to send several thousand pounds a year back home, a huge amount when you consider that a decent graduate salary in one of the new, highly sought-after information technology jobs in emerging economies like India is around £2,000 a year.

Barbara has been in London for several years. She would like to go home, but her family back home cannot afford for her to do so. What she does need is to move into accommodation that is more appropriate, and help might just be at hand – without public subsidy.

### **Two pleas to policy makers**

I have two simple pleas to the policy makers. First, encourage mixed-use, high-density employment and housing schemes on underdeveloped employment sites on main roads. This is a massively underused source of land in London and the South East. Second, if an employer and a housing association can work together to create mixed-use employment and residential sites, where the housing is unsuited to family needs, then the local authority should relinquish all nomination and tenancy controls.

The big housing associations like Peabody Trust, Stadium Housing Association (Network as was), Metropolitan Housing Trust and Acton Housing Association know far more than most local planning authorities about housing key workers. Let them decide who is eligible, and what is acceptable residential amenity. If local government cannot trust housing associations to make these kinds of decision, why on earth are we entrusting them with virtually all affordable housing delivery and management? My experience is that the innovative housing associations understand very well the demographics of London's world city role.

The affordable housing crisis has many dimensions. Present policies stand no chance of solving the homelessness crisis. But the key worker shortages resulting from housing market inefficiencies can be solved, provided that we start to deliver a different type of box, which matches Barbara's hopes and aspirations.

Last year, Tom McNulty, then minister for London, made a speech saying: "I don't care how it's done, or who does it, but bring me more homes for key workers." Barbara might have taken hope from Mr McNulty's refreshing statement. Certainly, the development community got excited. All kinds of residential developers, both in the private and social housing sectors, took this as a green light to dream up innovative but practical ideas, breaking free from the ethos of heavy regulation that has contributed to low housing output.

### **An ideal scheme**

One particular scheme in Chiswick seems to be exactly what Mr McNulty was looking for. The Ford Motor Company owned a site in Chiswick, on which it intended to build a new car showroom with repair facilities. It would be a single-use, low-rise building, creating some 60 jobs on a long-vacant site designated for employment use, so there would be no problem in planning terms.

However, a corporate social responsibility consultant to Ford noticed that the site could deliver far more than a state-of-the-art car showroom and service centre. It could create homes as well, on financially advantageous terms to Ford, with considerable public relations benefits, and at no cost to the taxpayer.

The DTLR, as it then was, had just published a report, compellingly entitled *Developing Additional Housing Above & on Non-Residential Sites*. That report urged local authorities, house builders and major employers such as the motor trade, retailers,

storage firms and drive-through fast-food operators to consider putting housing above their businesses, something that had already been happening in a piecemeal way.

The type of site that the report highlighted as providing development potential was typically a main road frontage, in a variety of locations. In the inner city, it might be somewhere like Caledonian Road, Old Kent Road or Uxbridge Road through Acton. In the posh suburbs, it might be Lower Richmond Road in the west or Finchley High Road in the north.

The major concern of the report's authors – London Residential Research and the University of Westminster – was whether living above a petrol station, supermarket or self-storage facility on a busy main road was a form of second-class living. Class is a relative thing, but it was concluded that as the seriously wealthy choose to pay huge sums to live above petrol stations in Mayfair, St John's Wood and Victoria, it should be good enough for key workers, particularly childless households. Tesco has shown in recent developments in Kensington and Hammersmith that conventional social housing can operate perfectly well above new supermarkets trading 24 hours a day.

Ford's consultant had no worries about associating Ford with either affordable housing or second-class living. He got to work and put Ford in touch with Shaftesbury Housing Association. Between them, they came up with a plan to build 220 self-contained studio flats for key workers above the new showroom. The NHS agreed to lease the units for 15 years, thereby enabling bank finance to be secured for the construction costs and avoiding the need for any public subsidy for either construction or subsequent letting and management.

The new homes are designed for those like Barbara. A typical studio would be about 355 square feet, or three times the size of a student or hostel room. It would be completely self-contained, with its own kitchen, bathroom, bed space and sitting area. The flexible design allows for two sharers living in privacy, or lovers living in bliss. The cost for this to the occupier would be in the order of £110 a week – higher than in a traditional hostel, but at least £50 a week cheaper than comparable accommodation in the private sector. If the space were neither appropriate nor affordable for its staff, the NHS would not have agreed to provide the rental guarantee. Barbara tells us she would love to live there, despite the extra cost.

Even setting aside a couple of hundred much-needed key worker homes, the benefits of the proposed scheme in planning terms looked overwhelming, at least to the development team:

- Mixed-use: one of the new mantras of creating mixed and balanced communities, lively and interesting street frontages.
- Brownfield: a long-derelict site, with a main-road frontage, formerly in industrial use, with a planning permission for new offices which had not been implemented.
- High-density: the only way London is going to be able to consume its own smoke in terms of population growth, notwithstanding the "sustainable communities" grand plan for Milton Keynes, Ashford, the London-Stansted corridor and Thames Gateway.
- Low car-use: just a short walk to two well-served underground stations, and occupied by groups most of whom would not wish to own cars.
- Good design: suffice to say the local amenity society was appalled, presumable believing that the North Circular is a cherished architectural feature of London, not to be messed with.
- Important precedent: the mayor is looking for at least 15,000 new homes to be built above commercial premises in mixed-use developments of this kind. Ironically, the planning profession is averse to change, so any precedent is useful.
- Spontaneous public-private partnership: totally in keeping with the spirit of the times.

Clearly, the planning application would be welcomed with open arms. Well, actually, no. It was refused under delegated powers on a variety of grounds, a decision partly influenced by the highly articulate and well-organised local amenity society. Having now met the objectors, the developer is hopeful of soon gaining permission for a slightly smaller scheme.

### **Clearing the way for progress**

This is not the place to go into the specifics of a particular proposal, but there are some important general points to raise, which I hope will clear the way for quicker progress in future on a very large number of such schemes.

- Mr McNulty's plea has not entered the hearts and minds of local authority planners. They are under no statutory obligation to promote or provide key worker housing. They have statutory obligations to the homeless, and that is where their priorities remain.
- Nor have the respective ministries for health, education and the police got across their message that shortages of key worker housing are a critical factor perpetuating recruitment and retention problems in the public services, which will form the battleground of the next general election.

- The ODPM has not done anything near enough to help local planners and local housing authorities to address their understandable concerns about technical issues like nomination rights, a definition of key workers and what happens when the nurse marries an investment banker.
- The middle classes who agitate in amenity groups are more concerned about their residential amenity – house prices – than housing key workers, let alone the homeless or those suffering from substance abuse or domestic violence. It was ever thus.
- The multinational corporations like Ford, Texaco and Wal-Mart will look at the delays and uncertainties involved in complex mixed-use development and conclude that it is not worth the effort.

Mr McNulty has of course moved on to transport. To what extent his successor Keith Hill is interested enough to make things happen remains to be seen.

Despite all the delays and frustrations encountered at Chiswick and on many other key worker schemes, progress is gradually being made and the momentum will build. Against that backdrop, Barbara is one of the lucky ones. As an NHS nurse, she has public opinion on her side, and in John Yates, the NHS housing czar, a canny champion for her cause. Housing choices will improve for her, sooner or later.

There are many more even lower-paid workers in essential public-sector and private-sector activities, who have little or no political influence. We need only think of bus drivers, street cleaners, and the catering and hospitality industry. It is lads and lasses from eastern Europe who are driving the buses these days – which might explain why they brake so fast. They have no coherent lobby, although their needs are well understood through exemplary research such as Peabody Trust's Keep London Working programme.

Developments like the Chiswick scheme would, I believe, be very popular with the unloved key workers. But as it stands, planning policy with its limpet-like instincts to control eligibility for key worker housing might well prevent that happening.

## Chapter 6

# How to build a key worker home for £100,000

Developer Elliot Lipton, managing director of Stanhope associate company First Base, explains how the industry – helped by a new planning use class for affordable housing – could build £100,000 homes without any subsidy by combining a deferred land payment mechanism with the use of proven commercial construction techniques

It is possible to deliver a key worker home for £100,000 in London without any grant or subsidy. The solution is to build high-density homes in urban areas, close to transport nodes or other key community sites, using a deferred land payment mechanism and employing commercial construction techniques that can cut building costs by 20%. These homes could be built either by developers alone or in partnership with housing associations.

Developing a new style of deferred land payment mechanism will provide the most appropriate model to deliver a step change in the delivery of homes for intermediate earners at no net cost to the public purse. This would enable the public sector to receive fair value for its land, and still use it for affordable housing. The mechanism can be varied to address local needs in specific areas of undersupply.

The construction techniques required to provide the necessary building cost reduction of 20% are proven best practice in the UK commercial sector and in residential construction in the USA and Continental Europe. These techniques have been used successfully for the past 20 years.

This approach should deliver a substantial increase in the supply of low-cost homes for key workers in London. The focus is on low-cost home ownership, as research shows that most residents aspire to home ownership. However, to respond to those for whom a shorter-term tenure is required, the mechanism can also provide rental properties.

### **The land is there**

The ODPM's view that it is appropriate to build at higher densities near transport nodes is sound. If homes were built in areas with excellent public transport, using the higher densities proposed in the London Plan, then the land requirement to accommodate 200,000 homes would be only 990 acres – around 0.25% of the total land in London.

Furthermore, much of the housing land in London is under-utilised and at low density, with opportunities available for infill sites or for replacing the existing stock with new homes at high density. There are also opportunities to use brownfield as well as public-sector land.

Individual sites would need to be a minimum of half an acre in order to gain the necessary construction efficiencies and economies of purchasing and to allow the use of high-quality, efficient project management. Most of the new buildings should be five to

seven storeys, with some taller buildings in appropriate locations. One-bedroom units would be in the range of 345-430 square feet – this is in line with many open-market dwellings but slightly smaller than Housing Corporation standards.

These proposals could help to reduce the pressure on land elsewhere and so free it up to build larger homes, as well as reducing the waiting list for rented social housing. This would indirectly contribute to overcoming the shortage in rented social housing.

### **High density**

Many planners and some commentators are resistant to high density. The real issue is not high density but high occupancy, both by unemployed occupiers who are using the properties all day and by children, who need access to outside space or dedicated play areas.

High density is also blamed for many of the problems on 1960s housing estates. Research in this country and in the USA has clearly highlighted that these problems relate to the concentration of one type of occupier, as well as to the management, security, maintenance and proximity of facilities, rather than to density or building form. There are many examples demonstrating that, once these issues are solved, unpopular towers can become desirable again.

Many of the tall buildings built in the post-war housing boom are in fact of low density, while areas such as Maida Vale and Belgravia in London illustrate that some of the highest-density homes are both desirable and among the most expensive.

Research by East Thames Housing Group and the London School of Economics has concluded that residents accept increased density, provided that the impact of increased population is catered for by appropriate levels of open space, car parking, and community facilities including education and healthcare services.

Key workers, by their nature, are not in occupation all day and, given their age and life stage, many of them do not have children, who would require access to dedicated play space. They are therefore ideally suited to high-density living. These new developments would not deliver a significant proportion of family homes, but they would not need to do so.

### **A new use class**

Proposed changes to PPG 3 would encourage local authorities to look sympathetically at residential development on land that is allocated for industrial or commercial use but no longer needed for the purpose. While most of the proposed changes are positive, there is concern that if open market housing is allowed then these changes will not have a significant impact on the delivery of affordable housing. Any change of use should allow only affordable housing on these sites.

A specific use class for affordable housing is required to facilitate the differentiation. The definition for the new use class should be that set out in the proposed PPG 3 *Draft Framework of Practice Guidance*, and include a variety of equity-share and shared-ownership models for the intermediate market, as well as submarket rental and rented social housing.

### **Reducing construction costs**

In order to meet the desired selling price, the construction cost of these properties has to be reduced by a minimum of 20%. Commercial construction techniques can deliver this and are relevant to high-density urban housing. This approach is also relevant for other housing tenures, including rented social housing.

Offices have kitchens, toilets, and almost all of the other components commonly used in residential buildings. Although the quantities and locations are different – office buildings have centralised services, while in apartment blocks they are decentralised – the components are the same and, crucially, so are the skills and techniques.

A number of housing associations – including East Thames Housing Group, Peabody Trust, Joseph Rowntree Housing Trust and Southern Housing Group – have introduced some innovative construction techniques, as well as excellent architectural design.

However, commercial construction techniques have not been widely adopted in the UK. By contrast, in the USA, Continental Europe and much of Asia there is considerable crossover between commercial and residential developments, with the same techniques often used on commercial and residential buildings built by the same developer at the same time on a shared site.

All of the commercial techniques described below have been proven over decades in residential construction in other countries and in commercial construction in the UK.

This approach has been assessed in terms of buildability, compliance with regulations, marketability, design and costs and has been checked with industry leaders in the UK. The exercise has included reviews with Davis Langdon & Everest, Arup, Richard Rogers Partnership, Allford Hall Monaghan Morris, Laing O'Rourke, Bovis Lend Lease, and Adams Kara Taylor.

To deliver the target price, 5% of cost has been allowed to cover site conditions, abnormal costs, services availability and other site-specific payments.

Having an integrated team – with the developer, architect, construction manager and principal trade contractors working side by side – is one of the commercial techniques that could bring benefits. It enables the product to be designed to be built efficiently, creating a seamless transition for the design process to construction, while giving greater cost certainty. The direct client access that it offers allows timely decision-making.

Pre-planning with three-dimensional modelling is another useful commercial technique. A three-dimensional model is built for every project, based on around 10,000 actions that would be carried out on site. The benefits include allowing prototyping, driving team integration and enabling sequencing to be optimised so that logistics and resources can be scheduled correctly. It also means that problem details can be resolved before the building is commenced, and that workforce downtime is reduced.

Logistics planning from an off-site aggregations centre ensures that the right materials are delivered to the right area of the site at the right time and in the correct quantities – at present, 35% of raw materials delivered to most sites are wasted, according to *New Civil Engineering*. As there is less clutter on site, safety is improved, while the reduced number of deliveries means less traffic.

Costs can also be reduced through the use of standardised elements, but this does not mean standardised design. The design and creative effort of the scheme need to be focused on the areas that residents care about – external design, common areas, and the design and quality of the individual apartments. However, for items such as toilets, and other mechanical and electrical services, functionality and reliability are more important than design. There are significant gains to be made by standardising these elements in terms of increased reliability, reduced cost, easier installation, and quicker and lower cost maintenance.

Standardised elements are ideally suited to off-site manufacturing, another useful commercial technique. These can range from single baths or basins that have taps and waste preinstalled with simple snap-fit connections, through to whole walls. Standardisation allows sufficient volume for each component that the engineering and assembly can be resolved off site, and the on-site works simplified. This offers the benefit of reducing the amount of skilled workers required on site – particularly those skilled workers in short supply.

These techniques have similarities with those used in building Georgian and Victorian homes, when high-quality designs were standardised to enable efficient procurement at affordable cost, new materials were introduced, and doors, windows, plaster details and decorative items were available in a wide range of styles and quality from catalogues. These techniques brought buildings that were fast to build, well designed with good proportions, and easy to maintain.

### **Design considerations**

Many office developers have been using high-quality architects for the past 20 years, yet this is not standard practice in residential building. Using such architects would help to overcome concerns about high density, as well as ensuring that schemes are attractive to planners and create places that will be desirable to residents.

The design of the £100,000 homes must start from internal space planning. In office development, consumer need is the priority and specialised architects are employed to ensure that the built product fulfils the consumers' need. The same principle exists in most US residential schemes, yet in the UK many residential schemes ignore space planning altogether.

Housing associations have gone a long way towards understanding the needs of their customers and designing to meet those needs. They have also championed innovation – for example, Peabody Trust at Murray Grove, Joseph Rowntree Housing Trust at Caspar, East Thames Housing Group at E15, and Southern Housing Group at Nightingale Estate – and have understood the impact of their schemes on the wider community.

Their knowledge is crucial to delivery in terms of achieving low lifetime costs rather than just low initial costs. Research by the Royal Academy of Engineers suggests that the maintenance costs of buildings are typically five times the initial cost. It therefore makes economic sense to design buildings from the outset for low lifetime cost.

Housing associations have considerable expertise and deliver housing with high-quality reliable products, high levels of community services at affordable prices, and cost-effective long-term management and maintenance so that service charges do not make properties unaffordable. They have also been innovative in areas such as tenure, social impact and security.

Buildings must also be designed to be sustainable, not only through the traditional measures of sustainability – as set out in BRE's eco-homes standard – but also by being adaptable. Georgian homes are still around because they offer flexibility both internally and externally. By contrast, some of the homes built in the 1960s are having to be demolished because they cannot be adapted to meet modern users' requirements.

The delivery of sufficient new affordable homes within the London boroughs over the next three years is entirely achievable, using efficient commercial techniques combined with a deferred payment mechanism. The catalyst for change is intervention from the public sector and the government. Once a market is created, the private sector will compete vigorously to deliver the 200,000 or so affordable homes that London so desperately needs if it wants to continue to thrive economically.