

# affordable housing

## The Smith Institute

The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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## Preface

Wilf Stevenson, Director of the Smith Institute

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 interactions of equality, enterprise and equity.

House price rises across the whole of the UK have led in recent years to increasing problems of affordability, particularly for first-time buyers. The affordability crisis is particularly acute in Greater London, the South East and the South West, where the fastest price rises have occurred. According to HM Land Registry, the average house price in England and Wales hit £149,935 in June 2003. By comparison, in Greater London it rose to £240,126.

It is clear that home ownership is now beyond the reach of many workers, with the National Housing Federation showing that in 53% of counties (46 out of 87), households with incomes below £30,000 cannot afford to purchase a home. As 70% of UK households have incomes below this level, the opportunity of home ownership is once again becoming a preserve of the upper middle classes and of the rich.

Although average house prices have risen over the past six years, the number of homes being built has not, with official figures showing a shortfall in the number of new homes of 62,000 per year. But as the Barker review showed, the costs of constraining supply go beyond higher house prices and a lack of market affordability. Inadequate housing means that the UK will become an increasingly expensive place to do business, with high housing costs and reduced labour market mobility. In addition, weak responsiveness of housing supply and the volatile behaviour of our housing market poses risks to economic stability and overall economic welfare. As the Chancellor has said, "most stop-go problems that Britain has suffered in the last 50 years have been led or influenced by the housing market".

The Smith Institute, in partnership with English Partnerships, the Housing Corporation and the Mayor of London, is pleased to be publishing this collection of essays by key experts in the field of housing. We hope that their contributions will help to develop the debate on promoting affordable housing.

## Foreword

Margaret Ford, Chairman of English Partnerships

I am pleased to support this latest monograph from the Smith Institute in order to continue and deepen our thinking on affordable housing. The institute provides an essential forum for thoughtful debate, away from the day-to-day urgency of public policy making, and gives us space to reflect on critical policy matters in a challenging and constructive way. This monograph fits very well with recent work by the institute on regional economic development and on new localism, for, in many ways, housing policy is deeply rooted in each. In this short foreword, I would like to explain the ways in which English Partnerships is responding to changes in housing policy.

### **The context in which we work**

#### **Economic stability and success**

We have now enjoyed the longest period of sustained growth and stability since the Second World War. This government, through its macro- and microeconomic policies, has achieved record low levels of interest rates, continually reducing levels of unemployment, and stable, low inflation across virtually all sectors of the economy. Economic growth has been successful and sustained. Growth and plentiful employment opportunities have been combined with historically low levels of mortgage rates, making house purchase a very attractive proposition.

#### **Financial self-sufficiency**

Having a stake in your own home represents an important element of financial security for many people in Britain. As a society, we are all growing more aware of the need to be financially self-sustaining in our old age. The pensions report published by Adair Turner in 2004 underlined for many people just how important it is to have a range of savings vehicles to support their old age. Having a stake in your own property is a well-understood component of that financial planning and also underscores people's natural preference for making that personal choice. This realisation has undoubtedly fuelled the growth of buy-to-let properties over the last 10 years, as traditional pensions and savings vehicles have looked less reliable.

#### **Choice**

Important elements of economic and social policy come together to drive the debate on affordable housing. As Anne Power has illustrated elsewhere in this publication, housing policy in the UK is as much informed by our industrial heritage as by anything else, but

the big change in the last 30 years has been the rise of owner-occupation as the tenure of choice for those able to exercise it. Over 70% of families in the UK now own their own home, and more aspire to do so; as Power points out, the importance of home ownership is deeply rooted in our national psyche. Although the right-to-buy removed many social homes from public ownership, the policy undoubtedly saved many estates from falling into decay and provided many families with a stake in their local area as well as an important financial asset for the family. The recent introduction of Social Homebuy in the ODPM's five-year plan underlined the government's commitment to extending that choice to more families living in social rented accommodation, by enabling more people to buy a share in their own home and a stake in their own neighbourhood.

### **The housing market and tackling inflationary pressures**

However, while other sectors of the economy have become stable over the past decade, the UK housing market has been volatile. Housing inflation over the past 10 years stands at 159%, with the price of new homes increasing by 126%. There has been proportionate inflation in the total subsidy for social rented homes (mixed-funded rent) over the decade, from £29,023 to £66,051 per home, although there have of course been major efficiency gains by the Housing Corporation across the wider range of low-cost housing schemes. Often defined as a South East issue (the mayor of London sets out the case eloquently elsewhere here), the same issues of price inflation can also be found in most other parts of the country. House prices rose 27% in the North West last year – and by 33% in Liverpool. This has started to create affordability problems in many different markets, so the problem is no longer simply a Southern issue.

Of course, the problems in the housing market do not just focus on owner-occupation. The continuing work led by the social rented sector to provide high-quality social housing is an extremely important component of a well-functioning housing system and provides modern, decent accommodation for many people for whom owner-occupation is neither desirable nor affordable. But subsidies to that sector continue to mimic inflation in the wider housing market. In other parts of the country the issue is about oversupply of older homes that people no longer seem to want, in places where traditional economic activity has not yet been replaced with new employment opportunities. Most commentators conclude that matching supply and demand remains the problem: the right type of property, in the right location, provided at the right price, remains the shared goal of housing policy. There are different views, however, on how to achieve it.

### English Partnerships' response

I believe that in the Sustainable Communities plan and the subsequent ODPM five-year plan, government has devised a way forward that tackles these challenges in a compelling and enduring way. Recognising the need to provide families with choice and quality in housing options, mindful of the particular characteristics of the UK housing market and protective of our precious countryside, it is now taking action on five fundamental areas of delivery:

- use of previously developed land;
- reform of the planning system;
- adoption of new construction techniques;
- introduction of flexible tenures; and
- changing attitudes to publicly owned land.

The ODPM's plans bring all these aspects of policy together and the government is committed to developing new settlements that address the issues within the context of sustainability.

For English Partnerships, "sustainable communities" means settlements that are well planned, designed to be safe and pleasant, with amenities within walking distance and a real sense of community cohesion with mixes of tenures: communities that are economically viable and have a real regard for their environment. And communities like the Greenwich Peninsula that are built on previously developed land, utilising existing infrastructure.

Where this is unfeasible or undesirable (because continued economic success also needs expansion), it means extended settlements in locations like Northampton and Milton Keynes that are well planned and well thought through, with the maximum involvement of the existing communities. But it is in addressing the following five fundamental areas of delivery that we can effect most change:

- use of previously developed land;
- reform of the planning system;
- adoption of new construction techniques;
- introduction of flexible tenures; and
- changing attitudes to publicly owned land.

## **Use of previously developed land**

The need to make better use of the nation's stock of previously developed land is a theme that runs throughout this publication. It is an issue that unites the analyses of Anne Power and of Kate Barker (in her review of housing supply). It offers the potential to increase supply while also strengthening our existing urban framework and reducing the pressure on our precious green space. English Partnerships' research has found that more than 2,000 potentially developable sites with an average area of 8ha have lain vacant or derelict since at least 1993 and a further 4,500 sites with an average area of 2ha date from between 1993 and 1998. Although this land is not easy to unlock – that is why it has lain vacant for so long – our analysis shows that it has great potential.

That is why English Partnerships is producing a national brownfield strategy with the government. This will provide, for the first time, a coherent plan to make the most of these opportunities to reuse this land. Where the sites are in areas of housing need, they will be targeted for development. As part of this process, we are setting up pilot projects in 12 local authorities across the country to explore the barriers to development described by Ken Livingstone elsewhere in this publication. This work will provide the vision and the practical advice necessary for the owners of derelict sites to realise their assets while providing community benefits, by tackling land that has lain derelict.

## **Reform of the planning system**

The planning guidance on the creation of sustainable communities (PPS 1) that was launched at the recent summit in Manchester illustrates how the new planning system can accelerate delivery and increase quality. Its principles are already filtering into the system and the recently streamlined planning framework encourages this, but as the Deputy Prime Minister's Homes for All plan demonstrated, this is going to take time. We need more homes now, but planning has conventionally been a long process, even when streamlined.

It is this typically lengthy process that English Partnerships aims to challenge. We are doing this by using practical examples, such as Upton, our 1,200-home urban extension to the south-west of Northampton, where intensive community involvement and a high-quality design code enabled outline planning consent to be obtained in six weeks. We are also providing practical assistance, such as with our recently formed advisory team on large applications (ATLAS), which assists local authorities to increase the quality of major development proposals in the greater South East in order to unlock stalled developments. In this way, we are showing the way forward for the market as a whole and supporting

local authorities in adapting their approaches to make best use of the new freedoms in the planning system.

### **Adoption of new construction techniques**

The acceleration of the planning system and an increase in the amount of developable land must be matched by an increase in the speed, efficiency and quality of construction. Construction costs for affordable housing are rising at four times the rate of inflation. We live in a period of rapid innovations in construction technology that, although highly successful in other parts of the economy, are simply not being applied to residential developments.

We believe that it makes sense to use modern technology to deliver modern homes. That is why English Partnerships recently produced the Summit House model, which uses modern methods of construction to produce a high-quality, environmentally efficient affordable home that is, above all, enjoyable to live in and affordable to run. The most common query we received when we launched the house at the recent Manchester summit was not “How did you do it?” but “How can I buy one?”

Millennium Communities – a programme launched by the Deputy Prime Minister in 1997 – have been created to demonstrate how the latest techniques can deliver high-quality development in a wide range of different locations. As John Callcutt says later in this publication, our concentration on design, construction excellence and high environmental standards in these seven communities, spread across the country, provides better practical illustration of what we mean than any artist’s impression ever can.

Some 80% of the people who bought homes from Countryside at the Greenwich Millennium Village said they did so because of the sustainability and quality. A recent World Wildlife Fund survey found that 87% of people want to know the environmental rating of their homes and would be willing to pay an average of 2% more for environmental efficiency. It is a measure of the success of the millennium communities programme that the standards we set at the outset in Greenwich have had to be revised upwards several times to ensure that they remain ahead of a rapidly developing market.

### **Introduction of flexible tenures**

Housing choice must include the provision of a range of options for the provision of affordable housing. This is a national issue, not one restricted to the South East, since the social mix in areas suffering market decline can be distorted if we do not continue to

provide them with high-quality new affordable housing. Our Summit House will therefore form part of a development in the coalfield community of Allerton Bywater near Leeds.

Until recently there has been a piecemeal approach to the provision of new affordable housing, with a tendency towards isolated, site-by-site development. This fails to exploit the economies of scale and the negotiating power available to public-sector purchasers. That is why English Partnerships' London-Wide Initiative has acquired a portfolio of sites from public and private sellers, in partnership with the Greater London Authority and the Housing Corporation. This portfolio provides the value and security necessary to obtain high levels of quality and affordability from private-sector bidders. By retaining the freehold, the public sector can recycle receipts from sales into the provision of more affordable housing.

We have chosen three development consortiums from a competition to develop a pilot phase of 4,000 homes, starting this year. The London-Wide Initiative programme should eventually grow to 15,000 homes, some 50% of which will be for key workers, with a further 35% affordable homes available to others.

Efficient site assembly must be matched with efficient construction to make a real impact on affordability. We are therefore running a Design for Manufacture competition, with the ODPM, to demonstrate that it is possible to build good-quality homes, using modern and efficient techniques, for a construction cost of £60,000. The competition invites organisations to bid for the right to construct one or more new developments on sites owned by English Partnerships. By using public-sector land to provide the sites, the competition can focus on improving construction efficiency, quality and design. It will produce up to 1,000 homes, but more important is the spur it will provide to the market as a whole. The flood of expressions of interests we have so far received demonstrates the market's appetite for change.

### **Changing attitudes to publicly owned land**

We can also tackle affordability by making best use of surplus public-sector land, now managed under a single register by English Partnerships – a classic piece of joined-up government in action. In addition to making such surplus land available to support a wide range of policy objectives, the register provides the opportunity to make selective purchases to pursue the objectives of the Sustainable Communities plan.

Where we act to intervene in this way, there is a responsibility on us to turn this land

around quickly, and to demonstrate where we have added value: an example would be the former RAF staff college in Bracknell, which we purchased a year ago. Here we have provided a fresh development brief and increased the opportunity for better-designed housing, with greater density and with a higher component of affordable housing than would have been achievable had the site gone on to the open market. Critically, we have been able to link a previously isolated site with our investment in the town centre, and so create high-quality new public space between the two areas.

Another example of this new approach to public-sector land is the Hattersley Estate in Tameside, Greater Manchester, where the local authority's stock transfer was blocked by a significant funding gap. English Partnerships has helped the authority to contribute council-owned land around the estate by acting as a guarantor for the development. As a result, the council will be able to attract private finance to facilitate the transfer and introduce more housing for sale, resulting in a higher-quality development with a better social mix.

The transfer of 100 surplus NHS sites to English Partnerships this year will make a major contribution to the stock of affordable housing. This land, together with our own holdings in the new towns, provides an opportunity to accelerate the first-time buyers initiative, under which the long-term growth in land value can be captured and recycled into future programmes.

Changing policy in stewarding public land is common sense: as government organisations we now all view our land holdings in a wider context. In particular we are building portfolios that look to the long term, thus providing a more attractive investment opportunity for institutional finance. The forthcoming review by Sir Michael Lyons will further open up the debate about the sort of imaginative uses for public land that we, together with the ODPM, have been pioneering.

## **Conclusion**

As the national regeneration agency, we have a role to play in accelerating delivery on land that we manage on behalf of government. In addition to our wider regeneration objectives, over the next three years we will have begun 30,000 new homes and reclaimed 900ha of brownfield land – the land supply of the future. Our contribution to the housing numbers, while important in its own right, tells only part of the story. Our success will lie in the degree of influence we can bring to bear in changing the way in which new and extended settlements are created.

Our aspiration is for continued development of brownfield land, creative and efficient use of surplus government land, well-designed homes in high-quality, mixed-tenure environments, developed at a faster pace due to more streamlined planning and more efficient methods of procurement and construction. Dealing with the particular characteristics of the UK housing market will require many facets of public policy to change, and we are privileged to be in the forefront of much of that change.



## Chapter 1

# A political target

Peter Bill, Editor of *Estates Gazette*

*The energetic approach of postwar governments to housing provision provides a striking contrast to the lethargy of recent decades. Labour is belatedly taking steps to address the supply problem now that it has become too big to ignore, but is today's political climate just too chilly for a genuinely bold approach?*

## A political target

### Peter Bill

Harold Macmillan was appointed housing minister in October 1951: a year in which 195,000 new homes were built. He was asked by the new Conservative Prime Minister, Winston Churchill, to add 105,000 to that figure. By 1954, when Macmillan was promoted to defence, the 300,000 target had been beaten by 48,000. Most of the 1.75 million local-authority homes built by the Conservatives between 1951 and 1961 stand quietly unremarked in Britain today.

In October 1964 Richard Crossman was appointed housing minister: a year in which 374,000 homes were built. He was asked by the new Labour Prime Minister Harold Wilson to push still harder. In 1968, under Anthony Greenwood, the figure reached a high-water mark of 414,000. Many of the 1.5 million council homes built by Labour between 1964 and 1974 are blighted. Large numbers of high-rise units have been torn down.

In May 1997 no one was appointed to Tony Blair's new Cabinet with sole responsibility for housing. That year 181,000 new homes were built: 153,000 privately, 28,000 by housing associations – and just 468 by local authorities. Six years on? Not much change. In 2003, 175,000 new homes were completed: 158,000 by the private sector, 17,000 by housing associations, and 247 by local authorities. With so few extra homes being built, there were no worries about the quality and location.

Until now. In the year-and-a-bit since those last completions were logged, interest in housing policy has escalated for two political reasons: first, the realisation that Britain's successful economic growth – especially in the South East – will be inhibited by lack of homes; second, the recognition that lack of supply is pushing up prices, and so excluding many who simply cannot afford to buy.

Steps are now being taken to increase supply. Subsidies are being increased to provide more social housing. The planning system has been reformed to speed up building applications. Guidelines have been altered to make it tougher for objections to succeed. Deputy Prime Minister John Prescott has called for 200,000 more homes in the South East by 2016. In London the mayor, Ken Livingstone, is trying to almost double the numbers built, to 30,000 a year. A strengthened English Partnerships is acting as a catalyst in this process.

The old quality issue that still haunts Labour is being addressed by focusing on building “sustainable communities”. On 24 January 2005 the ODPM drew these policies together in a new five-year plan: *Sustainable Communities: Homes for All*. But will that be the case in 2010? Will Britain be dotted with sustainable communities holding homes for all?

Hold both halves of the title up to examination and it is easy to spot gaps and flaws. Look first more closely at the concept of “sustainable communities”.

The ODPM has issued guidelines. They suggest work/rest/play communities where offices, homes, retail and leisure are mixed together in a bit of a jumble. Fine – these places used to be called towns. So why is it that housing seems to have a separate policy life all of its own? Mixed communities demand mixed policy formulation. One of the challenges facing government is to build a “sustainable community” of its own. Not just at departmental level, but also among the various agencies that see their roles as just building houses.

The private sector is equally split, with the commercial property sector regarding residential developers as mere box builders, while house builders think office and retail developers are little more than opportunistic spivs. There are early signs of a coming together, shown by the uplift in interest in mixed development. But it is hard to see developers ever becoming truly mixed.

### **Homes for people, not investors**

There is also nothing very sustainable about the size of many homes being built today. The average household size may have halved in 50 years, to just under two people. But so, just about, has the size of the home. The problem is that it is hard to fit more than one person into the 400-500 sq ft flats that are commonly being built today. If the divorce rate falls and family sizes rise, these blocks will become empty matchboxes and will suffer same fate as those built by Labour in the 1960s. Why are they being built so small? Because they are being built for investors, not for those who actually have to live in them.

In Leeds, for instance, 3,700 units are under construction today and another 3,700 have planning permission. Many are being bought off-plan in bulk by big investors, who then sell on to single investors, who hope to let them – not realising that the whole block is owned by landlords hoping to let to single yuppies. Here and elsewhere, so-called property clubs are exploiting public hunger for property by charging huge fees to negotiate bulk discounts for people who want an investment to supplement their pension. It requires

little imagination to see the political storm that will follow if prices fall and the *Daily Mail* starts getting complaints. Building homes for investors rather than those who need them to live in is the antithesis of sustainability.

But the issue of size and tenure pales besides the issue of “homes for all” – the numbers – and what seems like a quite deliberate avoidance by both main parties of giving an overall target.

In 1951 the Conservatives publicly pledged to build 300,000 homes a year. They managed 348,000 a year by 1954. In its 1964 manifesto, Labour said 400,000 homes was “a reasonable target”. This was achieved by 1967, and by the next year 414,000 were built.

In 1997, Labour issued no target. The numbers dropped from 181,000 to 161,000 by 2001. No target was deemed necessary after the 2001 election. The numbers did rise to 175,000 by 2003, but only thanks to the private sector. Social housing completions actually fell, from 21,000 to 17,000.

However, between now and 2021 the number of households in England is expected to increase by nearly 190,000 each year. Add Wales. Add Scotland. Add Northern Ireland. Add the number of homes that need demolishing. Add the number that time and weather will make uninhabitable. In Great Britain the number of new homes needed each year is ... who knows? Perhaps no one wants to say. Perhaps 250,000; maybe 300,000? But will either Labour or the Conservatives issue a manifesto pledge of 250,000 completions a year by 2008? Most unlikely.

### **Setting a target**

Why? Because, of course, the public-sector tap can no longer be turned on at will. No one wants council houses. Politicians cannot rely on the private sector to deliver. The difference between the high and low numbers over the past 50 years is largely down to fluctuations in the number of public homes built. Let's take a guess: very roughly, an increase of 100,000 in the number of new homes being built each year for the next 15 years. The overall target should be, say, 275,000 new homes to be built each year.

Valiant efforts are being made in London and the South East to raise completions. But look at the numbers contained in the chapter by housing minister Keith Hill. They show that completions in the region rose by just 13,100 in the three years between September 2001 and September 2003, when the figure reached 57,900. These numbers have no doubt risen

since then, and will go higher as the pledge to build an extra 200,000 homes in the region by 2016 kicks in. That, with luck, will add 20,000 a year. With luck, the South East will escape the worst: economic expansion will not be seriously impeded. The policy of providing 30-50% affordable homes in all new developments will ease the clamour from key workers. And the new settlements at Milton Keynes, Ashford and the Thames Gateway will grow – with luck.

But what of the less lucky regions – and Scotland, and Northern Ireland? Will they be able to add another 80,000 homes each year to the figures? And just say they could – are there hard plans to force developers to make 30-50% of these homes affordable for lower-paid workers? It does not seem so.

The unavoidable facts are these: If economic growth continues at the present pace, the rate of house building cannot keep up. If demand continues to outstrip supply, prices will rise faster than wages. That will bar more and more low-paid workers from owning their own home. There is no chance of a return to the mass construction of public-sector homes. There seems little political appetite outside the South East for imposing social housing quotas. There seems little urgency outside the South East to raise completion levels.

What perhaps needs to be publicly acknowledged is that there are now real limitations to the power of politicians to deliver a “homes for all” housing policy. Social changes over the past half-century have put paid to the public option. The economic success of Britain over the last eight years, combined with the rise in Nimbyism, has put paid to the chance of the private sector ever filling the demand gap. Not even a Winston Churchill or a Harold Wilson would dare suggest solving this housing crisis by promising to build another 100,000 homes a year. But perhaps someone ought to be careless enough to dare.



## Chapter 2

# Evolution of a housing problem

Professor Anne Power MBE CBE, Centre for Analysis of  
Social Exclusion, London School of Economics

*A series of social changes since industrialisation have seen inner cities decay and, later, suburbs burgeon, creating a host of environmental and economic problems. The housing challenge demands that we increase densities, bringing life back into the centres through concentrated programmes of urban regeneration.*

## Housing and society

Professor Anne Power MBE CBE

Is there a housing crisis? The United Kingdom is an extremely well-housed nation. By international standards we enjoy a large and relatively spacious housing stock, mainly of houses with gardens – with one home for every two-and-a-bit people.<sup>1</sup> We have generally low levels of overcrowding, although the problems for those experiencing it can be acute, particularly in London. We have rising space standards in all tenures and income brackets, although sharing has increased – mainly in the South East, among young people and students.<sup>2</sup> But we are a rich country and getting richer very fast, so we want more and better housing. This drives much of our housing demand and creates shortages, high prices and an extremely uneven distribution of housing between richer and poorer people, creating problems of affordability, particularly for those wanting to buy.

The homelessness crisis is often a misleading catch-all to help politicians and the media identify housing need and important gaps in provision. The vast majority of figures on homelessness are actually about people being housed, not about people becoming homeless. This reflects our homelessness legislation dating from 1977, which places a duty on local authorities to help house certain vulnerable categories of people to prevent homelessness, and they report these rehousing figures as “homelessness”.<sup>3</sup> Yet, plainly, we do have housing shortages, and private housing is too expensive for many households.

So, what shapes our housing problems? Why do we have so much empty, poorly maintained and unpopular housing? Can we provide enough affordable but attractive housing in places where people want to live?

### **Our housing problems are shaped by our history**

Britain is the earliest urban industrial society, so we have a heavy legacy of older housing and the damage of 200 years of industrial history. Our earliest government intervention in housing was driven by concerns over public health. The government encouraged public bodies and landlords to demolish appalling slums and move people on. On the back of this, we invented an enduring and generally successful urban housing form: the terraces, with their squares, gardens, alleys, dense streets and mixed uses. In poorer areas for poorer people, the terraced housing model was meaner but it seemed to offer big advantages

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1 Halsey, AH, Webb, J *Twentieth Century British Social Trends* (Macmillan, 2000)

2 *Housing in England 1999-2000* (DTLR, 2002)

3 *Homelessness Statistics September 2003 & Repeat Homelessness Policy Brief: Policy Briefing 6* (ODPM, 2004)

over flats.<sup>4</sup> It offered the typical low-income working family four rooms, their own front door and a tightly knit community.

Victorian terraced housing offers high-density living to around 5 million households today, and in successful neighbourhoods continues to attract high-income buyers. Virtually the whole of inner London and solid inner neighbourhoods all over the country have been “gentrified” through its enduring, compact, flexible and coherent design.<sup>5</sup> Yet this popularity is belied by the abandonment of terraced properties in declining urban neighbourhoods across large parts of the North and, to a lesser extent, the Midlands.

### **Outward flow of people**

In spite of the dense building of our inner cities, government intervention in this century has generally driven people out of cities. Our urban industrial problems led to an ideal (adopted far more strongly in this country than in other European countries) of the garden city, whereby we tried to combine the wonders of the countryside with the freedoms, enjoyments, access and culture of the city. Our new-town model is based on it. Since the late 19th century this idea has driven much of our planning, our housing development and our thinking about cities as places to move away from.<sup>6</sup>

There were exceptions to this outward movement of people and housing, such as the philanthropic initiatives of the Peabody Trust, the Guinness Trust and model dwelling companies, which built blocks of flats at high density within cities as the old slums were cleared. These developments displaced the very poor into ever more crowded slums and housed the more secure working class of the late 19th century.<sup>7</sup> They offered an alternative model, which Britain hesitated to adopt. Everywhere else, on the Continent and in Scottish cities, high-density flats or apartments became the model inner-city housing structure.

The outward exodus and suburban growth were further fuelled by the First World War, when all building stopped in the war effort and draconian rent controls were imposed. They lasted almost uninterrupted for 75 years, until 1987, and had three huge, long-run consequences for our housing.

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4 Burnett, JH *A Social History of Housing 1815-1985* (Routledge, 1989)

5 Rogers, R, Power, A *Cities for a Small Country* (Faber & Faber, 2000)

6 Hall, P, Ward, C *Sociable Cities: The Legacy of Ebenezer Howard* (J Wiley, 1998)

7 *Royal Commission on the Housing of the Working Classes: Municipal Reform Pamphlet No 17* (London Municipal Reform League, 1885)

Firstly, they blighted the inner-city terraces by withdrawing essential rent income for repair. This in turn led to the radical decline of private landlords, who provided 90% of our housing in 1900 but less than 10% in 2000. Secondly, they led to the power of the state over housing decisions growing on a scale beyond anything seen in other European countries over the following 60 or so years, creating some giant public landlords.

Finally, these pressures drove our love of suburban owner-occupation, which then became deeply embedded in our national psyche, particularly between the wars, when the government first directly subsidised individuals to buy, mainly outside existing cities. This was the beginning of suburban sprawl, predominantly for working people.<sup>8</sup> This combination of factors had a major impact on jobs as well as housing. Many small workshops, services and enterprises folded as inner cities declined.<sup>9</sup> This legacy stands today.

### **Council estates and slum clearance**

As the blight of inner cities accelerated through tough rent controls and large-scale suburban building, councils began the construction of mass council estates to tackle slums. To create space for building, the government shifted its subsidies from general housing supply to a giant slum-clearance programme that eventually caught every inner city in the country in its grip. Terraced housing was the target and we knocked down 2 million homes, but blighted at least double that number. This dislocated established communities, traditional urban structures and housing supply itself.

Demolitions and blight carried on right up to 1983, when the last large council estates were still being finished. Such was the scale of this blight that by the 1970s every city and town in the country looked as if it had been at the heart of the blitz.<sup>10</sup> In fact, slum clearance removed at least five properties for every one that was destroyed in the blitz, and the impact on inner-city neighbourhoods was devastating.<sup>11</sup>

The biggest consequence was to shift populations into rigid, inflexible tenures: council housing targeted at slum-clearance residents; owner-occupation targeted at those who could buy their way out of inner cities; and a shadowy private renting for the older “controlled tenants” and, increasingly, new immigrants. By the time that Margaret Thatcher was elected, we had built 6.5 million council homes, with 12 million owner-occupied

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8 Thomson, *FML Cambridge Social History of Britain 1750-1950* (Cambridge University Press, 1990)

9 MacLennan, D “Britain’s Cities: A More Positive Future”, Lunar Society Lecture, 1997

10 *Old Houses into New Homes* (Ministry of Housing & Local Governance, 1968)

11 Power, *A Property Before People: The Management of 20th-century Council Housing* (Allen & Unwin, 1987)

homes. Only 2 million privately rented homes survived.<sup>12</sup> Large council estates still shape our urban areas today.

The local authority landlord system became highly problematic because councils were too big, too clumsy and too bureaucratic to operate at a level that gave tenants a sensitive and locally adapted service. Housing had become a political football as a result of political ownership, and quality management was never made a priority. The numbers game dominated political debate. Governments did not seriously consider reinvestment and repair needs for council housing until the Thatcher era, when it was almost too late.<sup>13</sup>

### **Breakaway models – a more mixed approach**

As estate problems mounted, tenants began to organise takeovers of their particular areas where problems became too severe. If the local authority was supportive of tenant self-help, clusters of tenant-led initiatives emerged – Islington, Glasgow and Liverpool spring to mind but there are others. About 250 tenant co-operatives and tenant management organisations emerged in the 1970s and 1980s. They have on the whole survived the long haul, and operate at a local scale that delivers real change for tenants.<sup>14</sup> These multiple, small experiments in tenant management offer some of the most significant models for neighbourhood renewal policy. This is in sharp contrast to the Big Brother style of much council housing management. Councils themselves have also supported or initiated breakaway ideas – transferring nearly a million homes to housing associations, and occasionally supporting private or community ownership within estates by selling land or tower blocks.<sup>15</sup>

In spite of significant efforts by councils all over the country, council estates generally suffer a poor image today. There are enduring reasons for this: first, managing estate environments is a difficult and costly job and too little is invested in this; second, publicly built estates that no longer match aspirations require reinvestment on a scale only available through alternative ownership and management;<sup>16</sup> third, estate environments require hands-on localised inputs; and fourth, owner-occupation and continued suburban expansion have drawn out many economically active workers. Social housing accommodates a much poorer, more vulnerable population today than a generation ago.<sup>17</sup>

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12 Power, *A Hovel to High Rise* (Routledge, 1993)

13 Ibid

14 Cairncross, L et al *Tenants Managing: An Evaluation of Tenant Management Organisations in England* (ODPM, 2002)

15 *One Size Doesn't Fit All: Independent Commission of Inquiry into the Future of Council Housing in Birmingham* (Birmingham City Council, 2002)

16 *Sustainable Communities: Building for the Future*, London (ODPM, 2003)

17 *Improving the Prospects of People Living in Areas of Multiple Deprivation in England* (Prime Minister's Strategy Unit, 2005)

All these pressures have left too many inner cities with depleted estates, run-down private terraces, declining populations, and bare, abandoned sites. These are the areas that attract new migrants and often become segregated enclaves of deep disadvantage. They drive away people with choice, thereby reducing the supply of affordable housing.

### **Inner-city recovery**

Given our housing pressures, the need for revitalisation of infrastructure and repopulation of our inner cities has never been more acute. Yet this is unlikely to happen without radically changing the mix of incomes, tenures and uses. This requires new kinds of partnership to attract new investment. While local authorities remain the overarching elected body responsible for core services, governance and security, the private sector provides the vast majority of investment in enterprise, housing and services, and the nonprofit housing association sector has become the major agent for new social housing initiatives, affordable market housing and regeneration of old estates. Housing associations have grown from managing fewer than 200,000 homes in 1980 to around 1.5 million homes today.<sup>18</sup>

Learning from the more successful European experience of mixed communities and mixed housing provision, the government has progressively supported the shift from direct local-authority landlords to a much more diverse patchwork of tenant initiatives, housing association growth and the transfer of many large estates to alternative nonprofit landlords, as well as continuing sales under the right to buy.<sup>19</sup> As a result, the stock of council owned and managed homes has almost halved since 1980.

There is a very big difference between this more mixed, more European approach and the earlier public-sector approach. In Europe, where there is very little direct public provision of housing, levels of inequality are generally far lower, the integration of different forms of housing within neighbourhoods is greater, and the mix of provision between nonprofit and private housing is stronger. As a result, the density and attractions of their inner cities are far greater.<sup>20</sup>

### **Can regeneration deliver more mixed solutions?**

Comprehensive regeneration is already under way in many council estates – breathing new life into run-down areas. However, full-scale demolition is often unpopular because

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18 *Housing England: Housing Corporation's Contribution to Housing Across England* (Housing Corporation, 2005)

19 *Sustainable Communities: Building for the Future* (ODPM, 2003)

20 *Towards an Urban Renaissance: Final Report of the Urban Task Force* (Urban Task Force, 1999); *High-density Housing in Europe: Lessons for London* (DETR and East Thames Housing Group, 2002)

It displaces existing tenants and undermines the future supply of affordable housing. This pushes local authorities towards many more mixed options: advertising their stock to a broader mix of incomes, ages and ethnic groups, which many local authorities from Newham to Manchester are doing; mixing tenures on existing estates through small-scale infill private developments, some sales and more intensive management, as Islington, Hackney and Tower Hamlets are doing; improving community relations through involving residents in estate renewal, as Glasgow is doing; and redesigning estate environments through a more private-sector style of management, as new housing associations and companies that take on transferred council estates are doing.<sup>21</sup>

Regeneration bodies, often created by central government or councils but also by specialist developers, are becoming active partners with local authorities in this process. Most cities are on the road to renewal, with many successful estate regeneration schemes, mixed ownership, mixed tenures and much more intensive management. This activity is spilling over into run-down, privately owned, terraced streets in declining inner neighbourhoods, as Urban Splash is demonstrating in Salford.<sup>22</sup>

Improving existing neighbourhoods to expand affordable housing supply requires a radical upgrading of both run-down council estates and decayed terraced streets. These together comprise at least a third of our total housing supply. The Decent Homes programme, aiming to bring all social housing up to a minimal standard by 2010, will not tip the balance sufficiently. For it ignores estate environments, which give off the strongest signal of problems and continue to drive people away.<sup>23</sup> The idea of nonprofit and mixed-ownership housing areas as an alternative to monolithic council estates cannot be forced, but residents of severely declining estates want better conditions, better services and more viable communities. These do not come cheap. We have to tip incentives in favour of repair, reinvestment, regeneration and repopulation of declining cities.

### **Affordable housing need and density**

So, how should we provide enough affordable housing? Density is an obvious answer. Nearly three-quarters of our greenhouse gas emissions come from building and transport. Housing is a major driver, mainly because of low-density building, using 35% of all energy, and transport uses a further 25%. Given the imperative to cut greenhouse gases

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21 Power, *A Neighbourhood Management & the Future of Urban Areas*, CASE paper 77 (LSE, 2004)

22 Urban Splash information note on Langworthy, 2005

23 Power, *A Sustainable Communities & Sustainable Development: A Review of the Sustainable Communities*, CASE paper 23 (LSE, 2004)

by 60% to avoid disastrous climate change, we have no choice but to reinvest in existing areas and modernise existing homes. If we are to provide the housing that we need and to support the services that people want and our modern economy requires, while meeting our international obligation to tackle climate change and reduce environmental impact, we need to double present densities.

We have built at extremely low density throughout the last century. Because of the land constraints in a heavily populated and urbanised island, land is bound to be expensive and in fact makes up nearly half the cost of each home. Yet 40% of the land we use goes on roads and car parking. In low-density suburban areas, reliance on the car is almost total. Higher density makes rapid, efficient public transport viable, as the Docklands Light Railway shows.<sup>24</sup> With clever design, we could make more economical use of land – increasing our housing supply more cheaply, radically cutting the cost of each home and drastically reducing congestion.

Density has become a critical issue as households have halved in size. There were six people per household in 1900, four in 1950, and barely two in 2000. The population grows slowly but households expand rapidly. Existing communities often feel too empty, precisely because too few people occupy each home. Many elderly, single and family households feel isolated as a result. We cannot keep shops open, buses running, and schools and doctors in every community unless we double the number of households, to make up for halving the number of people within easy reach. Services operate only with a critical mass of people per hectare, and we can only create more mixed, more socially viable communities with a concentration of good services. Building more units in the same space makes social and economic sense. Greater density of homes will create a bigger housing supply at lower environmental and social cost. It will also be cheaper, home for home, and it will support more services.

### **Growth areas or low demand**

The government's massive house-building targets for the South East seem to fly in the face of this logic, since they spread housing far outside existing areas. They will suck out people who can afford to buy, leaving cities increasingly for those who cannot afford owner-occupation. Population changes over the last decade show that this is already happening. All cities except London and Leeds have been depopulating, losing jobs and experiencing more concentrated disadvantage relative to the rest of the country. Even London has lost large numbers of working families, while international migrants moved

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<sup>24</sup> Power, A et al *A Framework for Housing in the London Thames Gateway* (LSE Housing, 2005)

in to replace them. Ethnic polarisation is growing rapidly,<sup>25</sup> and congestion caused by outward flight is a huge and growing environmental, social and economic problem.<sup>26</sup>

Each new home in the growth areas will cost the government between £45,000 and £65,000 per unit just for the upfront infrastructure, roads, schools, hospitals and so on.<sup>27</sup> This money is simply not in the Treasury coffers. Our work in the London Thames Gateway supports the logic that most new housing should be built within existing communities, where there is already a transport, education, health and retail infrastructure, often in need of more mixed and more intense take-up. Densities are too low, and existing spaces and buildings underused. London's poorer East End, in the inner Thames Gateway, could be transformed by regenerating and adding to existing communities.<sup>28</sup>

In sharp contrast, in two-thirds of the country we have major underused capacity and an oversupply of homes. There we build more housing than we need, even for the projected increase in smaller households. Places like Birmingham, Coventry, Wolverhampton and Stoke-on-Trent are less than an hour and a half away from London, city centre to city centre. These older, former industrial cities have vast potential but a legacy of long-term environmental damage. If we charged the true environmental and infrastructure cost of new homes in growth areas, in a measure such as the levy proposed by the Barker review, and equalised the incentives for renovation by imposing the same VAT charge on new building work as on repair and renovation, investment and people would flow to these existing, underused areas. Some, at least, of the proposed growth would then spread just beyond Milton Keynes to these underused areas.

### Existing communities or planned new areas?

City centres prove the potential. Fifteen years ago they were dead. Now, at the hub of fast public transport connections, a new housing supply is burgeoning – in the form of high-density flats, with shops and cafés at ground-floor level, and concierges and supervision built in. This new “luxury” market is playing to the needs of smaller, more affluent households, different lifestyles and particular age groups that require proximity, services and vitality – creating happening places regardless of regional differences. Young professional workers, older “empty nesters”, split households and students are rediscovering the appeal

25 Lupton, R, Power, A *Minority Ethnic Groups in Britain*, CASE-Brookings Census Briefs No 2 (Centre for Analysis of Social Exclusion, 2004); Lupton, R, Power, A *The Growth & Decline of Cities & Regions*, CASE-Brookings Census Briefs No 1 (Centre for Analysis of Social Exclusion, 2004)

26 Environment Agency masterclass at the Urban Summit, Manchester, 2005

27 Kent County Council assessment of infrastructure requirement for growth areas, ODPM Feasibility Studies 2003

28 Power, A et al *A Framework for Housing in the London Thames Gateway* (LSE Housing, 2005)

of flat-living. Now we need to spread this success to inner neighbourhoods, making affordable, attractive urban family housing a reality.

We therefore need to shift incentives from new building to renovating the existing stock. The vast majority of terraced housing, flats over shops, older council blocks and interwar inner-city homes could be brought back into use. A VAT charge of nearly 20% on all repair and home improvements to our 25 million existing homes continues to bias investors away from poorer, older housing, since new homes are VAT exempt. Of course developers love it. Fully modernising and remodelling existing homes and their environments is a more subtle and laborious task, exposing many small, empty sites as well as existing homes. Such sites provide nearly half our housing supply, yet they go uncounted.<sup>29</sup>

We can expand our housing supply almost without touching new greenfield land and almost within the existing framework of communities, by reusing buildings, using infill sites and operating at a density that will sustain the services we want. The mayor's London Plan demonstrates that a sufficient supply of homes, with 50% affordable housing, is achievable within London's existing land area. Our recent report on the London Thames Gateway argues that it is possible to achieve a big rise in housing supply by increasing the density of existing communities and building on leftover and redundant small sites.<sup>30</sup> This way, our society can avoid the American outcome of impoverished and increasingly segregated inner cities. Unlocking the untapped housing potential of declining cities will help meet new demands, revitalise run-down areas and expand housing supply in an affordable and environmentally friendly way.

### **The global commons we share**

We are part of a global economy and a global environment. Land is finite and so is our planet. We simply cannot continue to consume building materials, land, road space, water and power supplies in the way we have. We have to change the way we live and build. The tools are to hand. Cutting our energy use and environmental impact by two-thirds over the coming generation is a tough but critical target, requiring serious demand management.<sup>31</sup> Housing and transport make up nearly two-thirds of this target. We can provide many more modern, affordable, attractive homes in good environments, if we marry powerful environmental imperatives to recycle existing assets with the social imperative to share urban spaces with more care.

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<sup>29</sup> *Towards an Urban Renaissance: Final Report of the Urban Task Force* (DETR, 1999);

Power, A, Rogers, R *Cities for a Small Country* (Faber & Faber, 2000)

<sup>30</sup> *The London Plan: Spatial Development Strategy* (GLA, 2004); Power, A et al *A Framework for Housing in the London Thames Gateway* (LSE Housing, 2005)

<sup>31</sup> *Energy White Paper: Our Energy Future – Creating a Low-carbon Economy* (DTI, 2003)

## Chapter 3

# Housing and the UK economy – building a progressive consensus

Ed Balls, Senior Research Fellow at the Smith Institute,  
John Healey MP, Economic Secretary to the Treasury, and  
Tony Pilch, Editor at the Smith Institute

*The government's housing reform agenda is based on a recognition not just of every citizen's right to decent, affordable housing but also of the wider impact of housing on the economic, social and environmental good of the nation. Much has been done since 1997 to undo the housing policy mistakes of the past, and reform continues apace to lock in macroeconomic stability over the long term and deliver strong, sustainable communities.*

## Housing and the UK economy – building a progressive consensus

Ed Balls, John Healey MP and Tony Pilch

Getting housing policy right is of fundamental importance both to the lives of everyone in our country and to the stability, sustainability and fairness of our economy and society as a whole. It is because the Treasury has recognised the central and growing importance of housing for meeting our economic and social objectives that it has taken an increasingly keen interest in housing policy issues and has worked closely in partnership with the Deputy Prime Minister, John Prescott, and his department – on the housing green paper, the Sustainable Communities plan, the recent housing and planning bills, the implementation of the Miles review of housing finance and the Barker review of housing supply, and the recent ODPM five-year plan, Homes for All.

At one level, the government's housing policy objective is very simple and fundamental – it is about ensuring decent shelter for everyone in our country. But few areas of public policy rival housing for its complexity:

- For many households, housing is both a flow of services - shelter – and, at the same time, a key store of wealth for the future.
- For the private sector, housing is supplied within a highly regulated marketplace, with supply - of land and planning permission – controlled and regulated by the local democratic process, unlike any other privately supplied good.
- The public sector, although very involved in the subsidy and provision of housing services for low-income groups, does so in a far more indirect and arm's-length way than in other public services such as health or education. Support to individuals is provided through a combination of rent subsidy and individual benefits, while housing services are provided through a mixed economy of the private sector, local authorities and housing associations.

Making good housing policy is a challenging task - not only because of its fundamental nature and complexity but also because of the long-term and sometimes unpredictable effect that changes in policy, planning and behaviour can have not only on housing but on wider economic outcomes.

It is important to get it right, because housing policy decisions have the potential to affect a vast array of other economic and social policy objectives – macroeconomic and financial stability and household consumption, savings and financial exclusion, productivity and

regional balance, employment and labour mobility, sustainable communities and environmental protection, poverty and neighbourhood renewal. In short, housing policy must be at the centre of the Labour government's economic and social policy in a third term.

### **UK housing trends**

When Labour came into government in 1997, it recognised that radical reform of the housing market was necessary both to deliver decent housing for all and to meet its wider economic and social goals. Many of the housing policies inherited in 1997 – the right to buy, financial sector liberalisation, the protection of the green belt, the introduction of personal housing subsidies – while often sensible, well motivated and highly successful in their own terms, have had unintended and unanticipated consequences which have posed real challenges for our economic future.

The resulting legacy in 1997 was unpromising. Problems of low investment, unresponsive housing supply, regional imbalances, inflexible labour markets and growing concentrations of deprivation, resulting in increasingly unsustainable communities, were all compounded by a history of macroeconomic instability.

Over the past quarter-century, housing policy in the UK has changed radically. First, the combination of financial liberalisation and the introduction of the right to buy for social tenants has expanded home ownership substantially over the past three decades. Owner-occupation has grown from around 55% in 1975 to more than 70% in 2003. Families in Britain want to own their own homes. Now more can own their own home than ever before – and can finance the purchase in more flexible ways than before.

Second, since the 1970s, public spending has shifted away from bricks-and-mortar investment and towards a greater diversity of provision, with the introduction of individual housing support. In 1975, more than 80% of public spending on housing was in the form of supply-side investment in construction-related local authority revenue streams. By 2000, more than 80% of housing support was channelled through demand-side support, such as rent rebates and allowances paid through housing benefit and, on a declining profile, mortgage interest tax relief, with approximately 25% of the £11.5 billion of housing benefit allocated each year going to private-sector tenants.

Third, the combination of a slow, cumbersome planning system that was unresponsive to market trends, poor incentives for local authorities to pursue housing growth (including,

in some cases, inadequate support for infrastructure investment) and the adverse effects of house price volatility on the behaviour of the development industry had resulted in an increasingly inadequate and inflexible housing supply. This was manifested through falling affordability, redistribution of wealth from those outside the housing market to home owners, poor design quality, restricted labour mobility, and growing regional imbalances, as well as through an overall cost to economic welfare.

### **Three challenges for housing policy**

These housing market trends pose a series of public policy challenges for the government, which can be grouped under three key themes:

#### **Individuals and risk**

First, as David Miles pointed out in his review of housing finance, the rise in owner-occupation, alongside financial liberalisation and the particularly British phenomenon of a mortgage market characterised by variable rates and complex short-term fixed deals, has meant a rise in the degree to which interest rate risk and related financial risks are managed by individual households. More than 60% of new mortgages in the UK are tied to short-term variable rates, compared with about 35% in Italy, 5% in France and none in the US or Germany.

In addition, individuals' exposure to financial risk has been amplified by the pronounced house price cycles in the UK market, which have been a source of wider economic instability - most recently in the late 1980s, when the combination of loose monetary and fiscal policy and a housing boom led to inflation above 10%, interest rates at 15% and 1.5 million families having negative equity. As the Chancellor of the Exchequer has said (in a statement to the Commons on the single European currency on 9 June 2003):

*... most stop-go problems that Britain has suffered in the last 50 years have been led or influenced by the housing market. The volatility of the housing market and potential for higher inflation is a problem for stability that we are determined to do more to address to produce greater stability and reduce the risks of inflation, irrespective of the decision on the euro.*

#### **Planning, supply and regional balance**

The second unintended consequence of housing policy in the 1980s and 1990s, as Kate Barker highlighted in her report on housing supply, has been the way in which historic underinvestment in housing and a de facto tightening of planning rules over the past two

decades have seriously impeded housing supply – and led to a growing mismatch between supply and demand, rising real house prices, and declining affordability.

Since 1960, the UK has invested a lower proportion of its national income in housing – private and public – than has any other EU country. Over that period, the number of housing completions has halved from its peak at more than 400,000 in the mid-1960s, to fewer than 200,000 per year since the mid-1990s, while the percentage of major planning applications granted has also fallen. Estimates of the responsiveness of housing supply to price signals have found that price elasticity of supply has fallen over the postwar period, reaching almost zero in the 1990s. As a result, average house price inflation in Britain over the past three decades has been 3.3%, compared with 1.2% in France, 1.5% in Italy and 0% in Sweden.

For individuals, the result has been a substantial increase in the household wealth of those already on the property ladder, alongside a big rise in the costs for first-time buyers of getting into the housing market. In 2002, first-time buyers paid on average £48,000 more than they would have paid if house prices had stayed at 1975 levels, or £32,000 more than if house prices had risen in line with trends in other European countries. As house prices rise, more people are priced out of the market. This is not just a housing problem; it is a matter of social justice.

For the economy as a whole, this mismatch between supply and demand has also entailed considerable costs - constraining economic growth and flexibility, distorting business location decisions, restricting labour market flexibility, hampering the delivery of public services, and reducing living standards for everyone in the UK.

The regional divergence in house prices has also been a major factor in widening regional economic disparities over the past three decades – making it hard for people to move from areas where house prices are lower to high-price areas, because of affordability, and hard for working-age households in high-price areas to move away, for fear of being unable to move back. Since 1975 real house-price growth in the North has been 109%, whereas in the South East it has been 184%. The result has been to constrain wealth creation and productivity across the country and to contribute to the regional imbalances that this government inherited.

### **Employment and polarisation**

The third challenge to have arisen over the past two decades, resulting from the shift to

individual housing subsidy and the diversification of tenure, was the rise in barriers to employment and a concentration of acute deprivation in specific geographical areas and parts of the residual social sector.

Throughout the 1980s and 1990s, the personalisation of housing-related support, with poor administration and very high marginal withdrawal rates, eroded work incentives for key groups on housing-related benefits, contributing to higher unemployment and economic inactivity and lower levels of labour mobility among social housing tenants. Between 1981 and 1999, the proportion of council tenants in employment in England fell from 47% to just 31%, with an increasing concentration of economic inactivity among social housing tenants and housing benefit claimants.

The inflexible way in which this support was delivered also acted as a significant constraint on labour mobility. With investment in social housing declining in the early 1990s - and given the scale of the repairs backlog faced by the incoming government in 1997 - many housing authorities have not, in practice, been able to give their tenants a choice about where they live and have instead allocated housing to individual tenants on a "take it or leave it" basis.

Furthermore, tenants claiming housing benefit who were looking to move to another area in search of employment or better accommodation did not know how their benefit entitlement would change until they had moved – and rightly feared long delays as applications were processed, compounding this uncertainty. With tenants being either prevented or disincentivised from moving to another area, intraregional mobility for local authority tenants fell to nearly a fifth of that for private tenants. The disparity in *interregional* mobility became even greater, with local authority mobility falling to a 12th the mobility of private tenants (and an even lower proportion of the mobility of private occupiers). The result has been a geographic concentration of high unemployment, social exclusion and problems of multiple deprivation in particular estates.

### **Addressing the challenges**

These housing trends have posed significant challenges for the government's wider economic and social policy objectives:

- Owner-occupation and financial liberalisation meant greater opportunity for the majority, but also exposed people to new risks – and for a minority this is a difficult burden to bear.

- The fall in the supply of housing posed a real challenge for productivity and regional balance.
- The personalisation of housing support raised new challenges for employment policy, neighbourhood renewal and Labour's goal to halve and then abolish child poverty.

This government has since 1997 already made real progress in addressing these challenges, through the housing green paper, the Sustainable Communities plan, the implementation of the recommendations of the Miles review of housing finance, the Barker review of housing supply and, most recently, the Homes for All five-year plan of the ODPM.

### Stability

To help individuals deal with housing risks, the new macroeconomic framework has improved the credibility of policy making and has reduced macroeconomic volatility. This has played a significant role in making individuals more confident about entering the housing market. Home owners and businesses can have confidence that in the coming months and years - continuing with this tough and forward-looking approach to locking in stability – Labour will continue to steer a course of stability for the British economy.

But while the government is taking the short-term action necessary to ensure that no risks are taken with stability, it also recognises the need to act to tackle the medium- and long-term imbalance between supply and demand in the British housing market.

As the Chancellor of the Exchequer said in his June 2003 euro statement:

*... further housing market reforms will be put in place - reforms right in any event for the British economy - reforms that will help ensure that, by having a reduced propensity to house price inflation, stability can be further entrenched.*

Further reforms to the housing market, following the Miles and Barker reviews, will help reduce house price volatility and maintain stability in the wider economy. The government has also extended the Financial Services Authority's remit to cover residential mortgages, which will help individuals better manage a key element of their financial risk, mortgage borrowing.

### Housing supply and sustainability

Since 1997, Labour has also introduced a number of reforms to tackle obstacles to

housing supply, ensuring that new housing development avoids repeating the mistakes of past policies, which resulted in poorly planned communities that have deteriorated, concentrating social and economic deprivation. The Sustainable Communities plan, launched by the Deputy Prime Minister in 2003, sets out a long-term programme of action for delivering sustainable communities in both urban and rural areas.

On housing supply, the government's aim is now to build on the success of the Sustainable Communities plan and also build a consensus around the Barker proposals.

As the Barker review made clear, the measures currently in train will probably not be sufficient to keep up with the expansion of household formation over the next 10-20 years – with population growth suggesting 3.8 million more homes may be needed by 2021. She estimates that if it was decided to aim to reduce the trend to the European average of 1.1% a year, an additional 120,000 of annual new supply would be needed. Reducing the trend even just to 1.8% would require an additional 70,000 private dwellings, compared with the recent baseline of around 140,000.

Kate Barker sets out a challenging programme of reforms to deliver this increase in the supply of housing, encompassing: reforms to the planning system; improvements to the delivery of housing development; and better incentives and more resources for new housing development, including social housing. The Barker review also concludes that it is, in principle, fair to fund this proposed package of measures partly through a planning gain supplement based on the uplift in land values resulting from the development process, with incentives for brown-field development, and for local authorities to retain council tax uplift. The review also discusses the need for enhanced investment in social housing.

Of course, as Kate Barker herself acknowledges, we must proceed with care. It is important to strike a careful balance between competing objectives.

In the 2004 budget, the government welcomed the Barker review and agreed that delivering its recommendation of commitment to stability and affordability would require a significant increase in development over time. The government has committed itself to establishing a long-term goal for affordability in the housing market and will be implementing this over the next 18 months. This goal will need to be reflected at a regional level through regional targets.

But achieving long-term stability will require everyone to do their part to ensure the delivery of all the elements within this overall package: in government, at the national, regional and local levels, and in the development industry. The government has said it will consider the progress made by end of 2005.

The ODPM's recent Homes for All five-year plan sets out the government's aim to deliver 1.1 million new homes in the South East by 2016, to help build thriving sustainable communities – linking housing policy to improvements in public services, transport and the environment.

Labour has put in place measures to help build communities that are economically and socially sustainable, through a combination of people-based and place-based interventions. The five-year plan took forward the 2004 spending review by detailing how the market-renewal Pathfinder initiative, tackling problems of low housing demand and home abandonment in acutely affected areas, would be extended to three new areas: the Tees Valley, West Yorkshire and Cumbria.

The first nine market-renewal Pathfinders, established under the Sustainable Communities plan, have developed solutions tailored to the needs of each area, in order to bring the local housing market into a better and more sustainable balance. These solutions have included a mixture of renewal, regeneration and demolition of the housing stock.

These Pathfinders already cover around half of the housing stock affected by low demand, and the 2004 spending review has provided the resources to continue and expand this approach in the North of England and the Midlands, with a trebling in investment to over £450 million a year by 2007/08, compared with £150 million in 2004/05.

The ODPM's five-year plan also set out measures to boost the nation's stock of social housing. The 2004 spending review announced a 50% increase in construction of social housing by 2007/08 compared with 2004/05, meaning that 75,000 new social rented homes will be provided over the next three years. By 2008, the government will have doubled annual investment in new affordable housing since 1997, to £2 billion. It aims to halve the number of households in temporary accommodation within five years.

At the same time, reforms have been introduced to enhance the delivery and efficiency of housing policy, including a single, independent housing inspectorate and new regional housing boards – bringing housing investment within a single regional pot and ensuring

better co-ordination of housing delivery with planning and wider regional economic strategies.

The five-year plan also provides support to enable more social tenants to become home owners. Homebuy will offer up to 300,000 council and housing association tenants the opportunity to buy at a discount an equity share in their homes; in addition, the first-time buyers initiative, together with Key Worker Living and other low-cost home ownership schemes, will help 80,000 families into homes of their own by 2010.

Homebuy is significantly different from previous such schemes. In particular, it will protect the social housing stock by giving social landlords first refusal to buy back a home if the owner moves on into the private sector.

### Employment

Labour has also acted to ensure that housing no longer performs as a constraint on labour mobility and employment opportunity. The government has pushed ahead with its structural and administrative reforms to housing benefit, to introduce choice-based lettings and provide enhanced mobility services, helping tenants move more easily around the UK.

Through the New Deals and tax credits, much has already been done to increase the economic gains of work and to reduce long-term economic inactivity. But we will need to look at ways of further integrating tax, tax credit and benefit systems in this area to improve work incentives across the board and to simplify housing benefit administration. Reforms such as the local housing allowances will contribute to this agenda by making the gains of working more transparent and by easing the transition to work.

Increasing the supply of affordable housing in high-demand areas and tackling problems of low demand in deprived areas are critical to boosting labour mobility and labour market flexibility. More will need to be done to tackle the concentration of severe deprivation and the culture of worklessness on the worst social housing estates, with programmes of intensive intervention, as well as by promoting more mixed tenure and encouraging the private rented sector. And the introduction of real estate investment trusts (REITs) will boost institutional investment while also protecting tenants through legislation on tenancy deposits, thereby encouraging a flourishing private rented sector where tenants' rights are protected.

## Conclusion

Decent, affordable housing is recognised as an entitlement of all citizens. Since 1997, the government has introduced a number of reforms to ensure that new housing development avoids repeating the mistakes of the past. Real progress has been made: unprecedented economic stability and low interest rates; over 1 million new home-owners; the number of nondecent social homes down by one million; and rough sleeping down by two-thirds.

But the government recognises that more needs to be done. Its goal is to create sustainable communities – mixed use, mixed tenures, designed to the highest standards, using less land to build more homes and helping thousands of key workers and first-time buyers to get a home of their own. In short, homes for all in sustainable communities.

Labour will champion people's aspirations for home ownership - but at the same time wants to do more to help individuals manage risk and lock in stability.

It wants to protect valuable countryside and make the most use of brown-field development - but in a way that offers a fair deal for first-time entrants into the housing market and is consistent with a strong and prosperous Southern economy and more balanced regional economic development.

It wants a mixed economy in housing, with more effective choices for individuals - but in ways that are consistent with strong and sustainable mixed-tenure communities where employment can grow and economic enterprise flourish, where design quality is prioritised and where poverty is addressed. This is the way to build sustainable, enterprising and fair communities where people want to live and work.

So, as the Sustainable Communities plan and the Homes for All five-year plan are taken forward, and as work progresses on implementing the detailed recommendations of the Barker and Miles reviews, Labour is clear that housing policy must play a central role in delivering its economic and social ambitions for Britain.

The goals are clear: to lock in macroeconomic stability over the long term, and to deliver strong and sustainable communities where housing needs are met, employment is high, enterprise flourishes and poverty is tackled. With the Barker review recommendations and the ODPM's five-year plan, Labour has a rich and ambitious housing reform agenda for a third term.



## Chapter 4

# Promoting quality, choice and affordability – the ODPM approach

Rt Hon Keith Hill MP, Minister for Housing and Planning  
at the ODPM

*The challenge for government is not just to provide enough homes but to ensure that a real choice is available between renting and ownership at affordable prices. The government's response has comprised a range of programmes, designed to assist a variety of groups such as first-time buyers and key workers, which together form a framework to tackle the affordability problem.*

## Promoting quality, choice and affordability – the ODPM approach

Rt Hon Keith Hill, MP

Since 1997, this country has experienced an unprecedented period of economic success. With low interest rates, sustained economic growth and low unemployment, people have been able to afford to invest in home ownership more than ever before. Since 1997, 1 million more people have bought their own homes. And yet this very success has brought with it new problems, as the supply of homes has failed to keep pace with growing demand.

The scale of the challenge is clear: the total number of households in England is expected to increase by nearly 190,000 a year to 2021. Many of these will be single-person households, reflecting wider trends in society such as changing family relationships, longer lives and greater personal wealth. Since the 1960s we have failed as a country to build enough homes to meet these needs, which has meant that a decent home has become less affordable for many people.

As a result, affordability has become a real problem, with sharp increases in house prices experienced in some areas of the country. Between 1999 and 2004 the average price of a house in the South East rose from £126,527 to £233,838 – more than eight times average earnings.

Such rises are putting home ownership out of reach for a growing number of working families. House prices have escalated and purchases by first-time buyers have fallen. In high-demand areas the shortage of affordable homes has made it difficult to recruit and retain key public-service workers and provide homes for the children of local people. In extreme circumstances, affordability problems can contribute to homelessness. Despite success in reducing the numbers of rough sleepers, figures for homeless acceptances (the number of households accepted as homeless by local authorities) are still rising: in 2003/04 they reached 137,000. And as we have recently recognised, housing is playing an increasing role in asset inequality, which has been shown to have effects on life chances and opportunity.

The challenge for government is to address the underlying long-term causes of these problems, while providing immediate solutions for people in housing need and first-time buyers, who have been particularly badly affected. We also need to give those on low or moderate incomes a real chance to achieve their aspirations to own a home – while ensuring that we protect precious affordable homes and provide a valuable safety net

for the vulnerable. I believe that our five-year strategy for housing – Homes for All – strikes the right balance between these priorities.

### **Homes where they are needed most**

Our fundamental approach to affordability problems recognises that we need to build more homes within sustainable communities. Two years ago the Deputy Prime Minister set out his vision for a step change in housing supply and quality in *Sustainable Communities: Building for the Future*. This plan made it clear that we needed to meet existing planning targets and identified potential for 200,000 more homes by 2016 in the wider South East, focusing the additional growth in four growth areas.

We have made great progress since publication. Efforts to increase house building have been concentrated on the high housing-demand areas of London, the South East and the Eastern region. Working with our partners in local authorities and the government offices, activity has focused on those districts where significantly less housing was being delivered than envisaged in existing plans.

In addition, over 100 major housing and regeneration projects are now under way across the Thames Gateway, attracting more than £2 billion of additional private investment – including up to 20,000 homes in Lower Lea Valley, 10,000 homes in the Greenwich Peninsula, 10,700 homes in Barking Reach, and 20,000 homes in Ebbsfleet and North Kent Thameside. We are investing heavily in infrastructure across other growth areas, with some £164 million of spending already committed to support projects as diverse as a road/rail bridge in Wellingborough and an extension to the Forest of Marston Vale between Bedford and Milton Keynes. We are committed to providing the services, infrastructure and high-quality local environments that are needed to make these areas places where people want to live and work, now and in the future.

This investment in unlocking additional housing sites within sustainable communities is now paying dividends – housing supply (both private and social) is rising again. Levels of house building in London and the wider South East of England rose from 44,800 new homes built in the year to September 2001, to 57,900 built in the year to September 2004.

The Chancellor and the Deputy Prime Minister continued this new focus on supply and affordability by commissioning Kate Barker's review of housing supply, the final report of which was published in March last year. This endorsed the approach set out in the Sustainable Communities plan and went further in saying that, for long-term trends in

house prices and affordability to change, significantly more growth would be needed.

The government has accepted Kate Barker's central recommendation for a step change in housing supply. We intend to set a national market affordability goal, as part of a package of measures to achieve this by the end of 2005. In support of this, a stronger evidence base will help to ensure that supply better reflects demand in all parts of the country and will provide better information about the impact of development on neighbouring communities and the environment.

The aim of these long-term initiatives is to reduce the volatility of the housing market. Increasing the overall level of housing supply should stabilise the housing market, helping to avoid the boom and bust economy experienced in the late 1980s and the early 1990s.

### **Putting home ownership within reach**

Identifying and addressing the long-term causes of unaffordability is important. However, in the short term we need to offer creative solutions to those priced out of the market now. We also need to recognise that for the vast majority of households, home ownership is the preferred tenure.

The Homes for All strategy, which was launched on 24 January, lays out the government's new proposals to promote sustainable home ownership over the next five years. The strategy announced that we will be helping 80,000 households into low-cost home ownership through a range of initiatives.

First-time buyers have been especially badly affected by recent price inflation. Our first-time buyers initiative will help 15,000 purchase their first home. Homes built on land from a variety of sources – many of them unused sites from the public sector – will be offered minus the cost of the land. This will deliver major savings and allow people to take the first step on the housing ladder. Half the homes provided will be for key public-service workers. The other half will be for individuals and families who could not own a home without extra help.

We remain committed to the right to buy and the right to acquire, which have helped 1.7 million people buy their homes since 1980. But we now want to go further – to help those who can sustain home ownership, but cannot afford the right to buy.

We will therefore be extending the Homebuy scheme, enabling up to 300,000 social tenants to buy a share in their home. The sales proceeds will be reinvested in housing, so that Homebuy will help social landlords deliver new social homes for homeless households and others in priority need for housing. Homebuy offers both council and housing association tenants the chance to buy. Tenants will be able to buy as little as half their home at a discount, with the chance to increase their share and become full owners over time.

Following the starter home initiative – which helped more than 10,000 key workers – is Key Worker Living, a £690 million programme of support launched in March 2004. We expect this programme to provide up to 16,000 homes for key workers over the next three years. Within 2004/05 the minimum target is 3,700 completions, and by the end of December, 2,900 key workers had already bought homes through the programme.

Key Worker Living provides help for those at different life stages – home ownership for first-time buyers, larger properties to meet the needs (such as family-sized homes) of existing homeowners, shared ownership schemes and properties for rent at affordable prices. All these people are critical to our success in improving public services.

### **Quality and choice for those who rent**

These schemes will help into home ownership a large number of people who, in the present market, would not be able to afford their own home. However, home ownership does not suit everyone, and is not always the most appropriate form of tenure. We need to ensure that all those who rent have access to quality and choice in meeting their housing needs.

The private rented sector has an important role to play in the market – and is particularly suitable for people at certain times of their lives. However, the quality and the management of many privately rented homes will need to be improved if this tenure is to play its vital role in the market effectively.

We will deliver improved standards in private rented stock, not only through the new provisions in the Housing Act 2004 for health and safety and for licensing houses of multiple occupation and certain landlords, but also by our support for good practice.

Our proposals recognise that matters affecting both the welfare of tenants and the wider community, cannot simply be left to self-regulation. The private rented sector has an

image problem. It is associated, unfairly in large part, with poor standards. The measures in the new draft housing bill are about tackling that image problem.

This range of housing available in the market will be suitable for most people. However, for some people it is not possible, in their present situation, to afford housing in the open market, whether it be privately rented or owned. We want to give these people quality choices in the social rented sector.

In many parts of Britain there are not enough social homes. As a result, around 100,000 households are living in temporary accommodation, and at least as many are living in overcrowded conditions. The government is committed to tackling this shortage, increasing the annual supply of new social homes by 50% and bringing empty homes back into use.

To pay for this we will more than double investment in the Housing Corporation's affordable housing programme from 1997 levels, providing £2 billion in 2007/08. The 2004 spending review provided an extra £500 million for the housing private-finance initiative, and we will also make efficiency savings worth a further £160 million each year by 2007/08. This will enable us to deliver an extra 10,000 social rented homes in 2007/08.

### **Opportunity, quality, choice, fairness – our housing offer**

Providing a good range of affordable housing is vital for this country's continued economic success. That is why this government is providing a range of initiatives to tackle the problems, both for today and in the longer term. Our policies give greater opportunities to own or part-own a home, deliver more choice to people in their housing, drive up quality in all sectors of the market and help forge a fairer society, by allowing people chances to build up assets. We are offering a comprehensive framework to tackle the problem of housing affordability that affects so many people today.

## Chapter 5

# Bold moves to rebalance the London market

Ken Livingstone, Mayor of London

*Nowhere is the present housing crisis more keenly felt than in the UK's capital, where key workers and others are finding themselves driven out of the city by escalating prices. This chapter looks at how the pressures on London's housing supply have grown, and explains the mayor's ambitious plans to address the problem.*

## **Bold moves to rebalance the London market**

Ken Livingstone

The economic relationship between London and the rest of the UK is one of mutual and positive interdependency. The UK will not prosper without a prosperous London and London will not prosper if the rest of the country is not strong. London continues to generate more tax revenues than it receives in public spending; in 2002/03 London's tax export to the rest of the UK was between £2 billion and £9 billion, despite overall UK public-sector borrowing of £25 billion.

But, for all London's success, it is in a housing crisis. Homelessness is at record levels, overcrowding is rising dramatically after half a century of decline, and the affordability problem is now so acute that London is losing the key workers that keep the economy running and the middle-income households that are the glue keeping communities together. Failure to take action to address London's housing crisis will undermine the social and economic well-being of the capital and, ultimately, of the whole country.

My London Plan sets out ambitious targets to tackle this crisis: to deliver a minimum of 23,000 homes a year of which half are affordable. But we need to go further. Recent studies of London's housing need and capacity to develop demonstrate that being more ambitious is both necessary and achievable.

The government also recognises this need. The Barker review marked a significant shift in thinking about the need for more housing. The five-year plan goes further, particularly on a new approach to helping those on low-to-middle incomes gain a stake in the housing market. And, in London, bringing together housing and planning in the office of the mayor – although the powers still do not go far enough – marks an opportunity to translate this change in thinking into delivery.

It is not just about numbers; it is also about thinking anew about whose needs we meet and how we meet them. It is not just about building more social housing: this must remain our priority, but we also need to meet the aspirations of those who are priced out of the housing market.

This chapter sets out some background on affordability in London and poses four questions:

- Why does the housing market not balance itself?
- Why does this matter?
- What is being done about it?
- What are the potential barriers?

### House prices

The past eight years have seen strong and escalating house price growth in the UK, and London in particular – a price boom stronger than in any other major economy. Annual growth rates did not quite reach those experienced in the house price boom in the late 1980s, but were not far behind.

According to Nationwide, London house prices rose by 149% from 1995 to 2002, compared with 87% for the UK. Since 2002, house prices have grown, but at a lower rate, with house price inflation in London at 11.8% in June 2004, compared with 13.1% for England. Historically there has been a tendency for movements in London house prices, up or down, to exceed those of the UK as a whole, and the size of the London market amplifies UK trends. London trends in house prices tend to anticipate those across the rest of the UK. London creates ripple effects on house prices throughout the country, and the present situation appears to be that growth in prices is slowing in London ahead of the rest of the country. It also remains to be seen whether the buy-to-let market adds to or reduces this volatility and ripple effect.

The capital has by far the highest average house prices of any region. In November 2004, the ODPM index shows an average house price of £262,825 in London, against £193,825 for England. There are also large variations in house prices between boroughs, but nevertheless only five boroughs in London had average prices below £200,000 in June 2004.

The ratio of house prices to earnings for first-time buyers in particular is increasing, putting home ownership beyond the means of many Londoners. The ratio of lower-quartile house prices to lower-quartile earnings has risen by 50% nationally over the last 10 years. But in London it has more than doubled. In the ODPM's new index of affordability, five out of the 10 most "unaffordable" boroughs in the country are in London.

Rents have also increased dramatically over recent years. The private rented sector is an essential part of the London housing market – providing the most flexible tenure option for young skilled workers migrating from the rest of the UK and abroad. However,

average private-sector rents in London have consistently been around double the national average and are especially high in central London and areas with good transport links to central London. Private-sector rents are on average some four times higher than social rents. Even then, social rents in the capital are about 20% higher than the national average and rent restructuring is likely to increase this gap, driven by high property valuations in London.

### **Why does the market not balance itself?**

The population of London rose to a historic peak in the 1940s, after which it declined almost continuously until the 1990s. However, because average household size declined, the number of households increased consistently during this period. Thus, even as the population was falling, the need for new homes was increasing. The increase in the population since the early 1990s is driven by growth in the relatively young indigenous population, helped by net increases from international migration along with inward migration of younger people to London from the rest of the UK that is offset by outward migration to the rest of the UK of older, more established households. This growth is expected to continue, with 800,000 more people living in London by 2016.

Growth in the demand for housing has also been fed by low interest rates, a sustained increase in average earnings, growing employment rates and renewed confidence in housing as a long-term investment. This latter, taken with concerns over the security of pensions and other investments, has fuelled an unprecedented growth in the buy-to-let market, with over 80,000 properties bought in London for this market in 2002. Nationally, buy-to-let purchases overtook first-time buys in 2002, and the former continue to rise while the latter decline.

The supply of housing in London has not kept up with this increased demand. House building rose significantly after the Second World War, peaking in the late 1960s, since when it has been declining. In the social housing sector it has fallen dramatically, from nearly 30,000 social house completions a year in 1970 to just over 5,000 by the end of the century. The supply of social housing has been further reduced significantly by the right to buy, with over 250,000 sales in London since 1980.

Against this decline in new building, new supply in the market sector has been supplemented by conversion of existing properties and bringing empty properties back into use. Although there are still nearly 100,000 empty properties in London, of which over 80,000 are in the private sector, this figure is the lowest since the 1970s. But these additions do

little to offset the overall decline in new supply.

The London Plan sets a minimum target of 23,000 homes a year from all sources, and total net supply is now running at about 24,000 a year. This is a significant increase from just over 17,000 in the year before I was elected. However, although this output meets the existing London Plan target, the London Plan's examination in public identified, and I accepted, that the plan should work towards an aspirational target of 30,000 homes a year.

The conclusions of the examination in public have been backed up by the Greater London Authority's 2004 London housing requirements study, which identifies a need for 35,000 new homes a year. It also shows that, on a purely needs basis, there is a requirement for over 60% of these to be social housing. While this needs to be balanced against the desire to create mixed and sustainable communities and to take account of development economics, it does show that the London Plan is absolutely right in requiring at least 50% of all new housing to be affordable.

The Greater London Authority's housing capacity study, now being finalised, also supports this aim. This is the most rigorous study of the capacity to develop new housing ever undertaken in the UK, and probably in Europe as a whole. Early indications suggest there is capacity to deliver 30,000 homes. Of course, delivering on this target has implications not only for funding and land resources, but also for the capacity of the construction industry – both in housing and in the supporting infrastructure development.

So, is the London housing market not balancing, or has it reached a low-level equilibrium, which is just about acceptable to the majority of Londoners? Landowners, developers and house builders can make substantial profits, face little competition and have few incentives to innovate; meanwhile, local authorities contain demand on their already hard-pressed services, knowing that new developments are rarely electorally attractive. But most of the population are either already property owners or hope to purchase and/or inherit homes in the near future. For these people, ever increasing house prices fuel their sense of economic well-being and they are prepared to accept, or are insulated from, the costs of this disequilibrium.

### **Why does this matter?**

It matters because the symptoms of London's housing crisis – first-time buyers unable to get on to the housing ladder and record growth in overcrowding and homelessness – are direct results of this housing market.

The affordability problem is driving growing economic and social polarisation in the capital, with a larger percentage of very rich and very poor, while those on middle incomes are forced to leave if they wish to move into home ownership. It undermines recruitment and retention of workers in the private and public sectors and, in particular, those key workers who provide the essential services that keep the city running. Lack of affordable housing is the most commonly cited reason for people wanting to leave London.

Shelter's recent report *Know Your Place* showed that this housing market is fuelling levels of inequality unseen since Victorian times. Ownership of housing, more than any other factor, is at the heart of this inequality. And, as significantly fewer people in London own their own home than in the rest of the country, and as homes are more expensive in London, it is in London that this inequality is at its most stark.

The decline in new social housing has resulted in a dramatic reversal of the previous long-term decline of overcrowding, which has risen by 20% in London since 1991. Over 150,000 households are now overcrowded, 61,000 are severely overcrowded and almost half-a-million London children now live in overcrowded conditions. Overcrowding has almost doubled in the council sector – with severe overcrowding rising by almost 50% – and is now higher, probably for the first time ever, among London's council tenants than among private tenants. Overcrowding is also three times more common among minority ethnic households than white British households, with Bangladeshi and black African households around five times more likely to live in overcrowded conditions than white British households.

There are also record numbers of people living in temporary accommodation. At the end of July 2004, there were nearly 67,000 households in temporary accommodation in London, an increase of 145% over the past seven years, representing more than two-thirds of total such households in the whole country. The average length of stay in temporary accommodation is increasing and now stands at around two-and-a-half years, because the number of new lettings to social housing has declined every year since 1995.

The lack of social housing is having devastating effects on these overcrowded and homeless families, significantly reducing the long-term opportunities for their children – their health, their education and their future employment.

The London Plan aims to develop London as an exemplary, sustainable world city. This crisis in housing is a challenge to this aim and it is unacceptable that the success of the city

and of so many who live in it is bought at such a cost to those who are homeless, overcrowded, or wish to remain living and working in London but are unable to afford to do so.

### **What is being done in London?**

The key mechanism to deliver more housing is the London Plan and the mayor's planning powers. I will seek to achieve an output of 30,000 additional homes a year, with provision monitored against a minimum target of 23,000 homes. Half of these new homes should be affordable and, within that half, 70% should be social housing and 30% intermediate. As borough planning policies are reviewed, these must be brought in line with the London Plan and we must robustly enforce these targets.

On individual large developments the mayor has powers of refusal, and I require developers and boroughs to use our financial appraisal toolkit to determine the maximum amount of affordable housing that can be required without compromising the financial viability of the scheme. This has had clear results and by 2003/04 we produced 24,608 homes, with affordable housing provision, including Homebuy, totalling 11,358.

However, there has been a huge structural shift in the shape of the housing market in the UK, and it is one that a regional housing and planning strategy has to address. In 1919, some 90% of homes in this country were privately rented. The squalor of much of this housing was one of the five giants of social evil that Beveridge identified and that all postwar governments set themselves to tackle. This postwar consensus held for the next 30 years, and by 1981 over a third of all homes nationally were social housing, with private rented housing reduced to around 10% – a level at which it has stayed. Social housing provided the main form of housing for ordinary, working families.

But, as we start the 21st century, over 70% of households nationally live in owner-occupation and social housing is in long-term decline, at under a fifth of all homes. Owner-occupation – the tenure of choice – has become the predominant form of housing. There will obviously be no going back to 1919 and the domination of private renting, although there is a continued need for a private rented sector, particularly in London, to provide for the flexibility and mobility that drives the economy. It is equally unlikely that we will be going back to the 1970s, with social housing dominating the scene.

This does not mean that we should fetishise owner-occupation, as happened in the 1980s. Or that the right to buy should be extended, with all its inherent problems – a failure to replace stock, the selling off of the best homes and overly generous discounts.

It does mean that we should find ways to help working families on to the housing ladder, but in a way whereby, if the state puts money in, it gets a return. It should also mean finding ways to enable council and housing association tenants to take a stake in their home, but in a way that does not imply the disastrous loss of social housing seen in the right to buy. And it means finding ways for families to move between tenures over their lifetime in a flexible manner, not expecting people to stay locked in one tenure for life.

In this context it is interesting that the balance of housing subsidy has changed significantly over recent years. Whereas in 1990 subsidy to owner-occupation (mainly through mortgage interest relief at source – MIRAS) was 50% higher than subsidies for social housing, by 2002 owner-occupation subsidies had fallen to under a 10th of subsidies to social housing. If there is to be a shift back towards subsidies to promote owner-occupation, it should be targeted at those who need a hand up to take a stake in their home, not to those who least need assistance, which was the case with MIRAS.

### **Delivering homes for Londoners**

To deliver affordable homes for first-time buyers in the capital, I am putting together a unique package for London agreed by my office, English Partnerships and the ODPM. This will help deliver the first-time buyers initiative, launched by the Deputy Prime Minister, of building starter homes on public-sector land.

The package will extend the existing London-Wide Initiative operated by English Partnerships, which is designed to fast-track affordable homes in the capital. It provides a mix of market and social housing, with about half of the homes being intermediate housing, affordable to those on low-to-middle incomes. It can deliver affordable homes because the public sector retains ultimate ownership of the land, with the purchaser paying the equivalent of the cost of building the house. And this cost will be significantly reduced through efficiencies and economies of scale.

I am committed to using the land holdings of the Greater London Authority to support this initiative. My office has already been in discussions with Transport for London and the London Development Agency, the agency for business and jobs. The London Development Agency has significant land holdings, particularly in the Thames Gateway, and has already agreed a first site – at Gallions Reach in Docklands – where 300 homes will be developed as part of this initiative. Transport for London has land holdings on or near public transport, enabling affordable – including key-worker – housing to be integrated with transport connections and developed across the capital.

The London-Wide Initiative will provide 4,000 homes in the capital in mixed-tenure developments, half of which are for key workers. This is intended to increase to up to 15,000 homes. The scope could be wider still if other public-sector landholders in London worked with us.

In addition, my office is undertaking, with the London Development Agency, a feasibility study of the Community Land Trust mutual home ownership model, with boroughs already coming forward to express an interest in developing it locally. In this model, land is gifted to a community-led body, which develops housing for sale on a mutual basis: that is, occupiers purchase a share in the whole development rather than the individual property, which can be adjusted up and down as incomes change. This model could be a vehicle for part of the first-time buyers initiative, but could also work on new developments or estate renewal initiatives.

### **What are the barriers to further progress?**

The most obvious barrier is the reluctance of some boroughs to see the required levels of housing delivered in their area. We are now achieving around 24,000 homes a year, which is an excellent increase on four years ago and, importantly, many boroughs are now meeting not just this overall aim, but the affordability targets too.

It has been argued, by those with a vested interest in doing so, that the London Plan's affordable housing requirements are holding back housing delivery. However, the facts demonstrate that the opposite is true. Since the introduction of the London Plan's 50% affordable housing target, overall delivery for new homes in London is above the London Plan targets – running at 104% overall. Boroughs that delivered the biggest increases in supply are also those most committed to affordable housing. Boroughs with a 50% affordable housing target, taken together, delivered 115% of their London Plan homes target. Those with a 30% target achieved only 93%.

It is also argued that setting targets for all developments is a block on development. This is a misrepresentation. The significant amount of social housing provided on the large number of small infill developments, developed at 100%, enables us to be flexible on the larger, mixed-tenure developments. However, while some boroughs are meeting the targets, all 33 London boroughs need to up their game. The government must continue to support the aims of the London Plan, and the recent decision to require Westminster to increase its affordable housing targets sent a message to all boroughs and confirmed a shared stance on the crucial issue of the balance between market and affordable housing.

But there is a lack of incentives for boroughs to promote new development, whereas there is no shortage of reasons for them not to do so. The Barker review echoed my own call for boroughs to be able to retain a greater share of the new council tax take to offset some of the costs of new development.

Sir Sandy Bruce-Lockhart, in a previous Smith Institute paper, also argued that such an approach could be extended to stamp duty, which at £900 million in London in 2002/03 was far in excess of the Housing Corporation's investment in London that year. He also argued in favour of business growth incentive schemes and the harnessing of additional business-rate revenues locally. These could all provide the incentives that boroughs need.

The other key issue is infrastructure. Whereas the need for massive sums to support the growth areas is clear, it is the need for increased investment in hard and soft infrastructure to support smaller developments across London – always the bulk of new housing – that is most problematic for boroughs.

A final barrier is the capacity of the house-building industry. Only four house builders listed on the stock exchange regularly work in central London, and this lack of competition is a block on development: not just a block on capacity, but a block on new thinking. Whereas the commercial-property building sector has embraced innovative designs and methods of construction – clearly visible on the new London skyline – the house-building industry still builds in the way it always has, with construction costs continually rising above inflation. The rest of Europe, in contrast, is dominated by house builders using new methods of construction, which have driven down build costs. But they have made no attempt to enter the market in London. We need to find ways to encourage them to do so, for example by opening up programmes such as the first-time buyers initiative and the Design for Manufacture competition to international developers.

Finally, of course, there is the issue of resources. For affordable housing, and social housing in particular, this is primarily the amount of money available in the single capital pot for London. I warmly welcomed the substantial increase in resources available for housing development over recent years, which has seen the approved development programme more than double since I became mayor. But we have to recognise that, efficiencies, innovations and potential new players aside, there is still a need for more funding if we are to meet the targets in the London Plan.

## Chapter 6

# Achieving a step change in supply

Jon Rouse, Chief Executive of the Housing Corporation

*As the government's housing agency, the Housing Corporation is at the forefront of the battle to assist people at the start of their housing careers. This chapter describes the elements of the corporation's strategy – including land supply, financing, and ownership models – and how these are being employed to drive sustainable housing growth.*

## Achieving a step change in supply

Jon Rouse

There are no magic wands. The fundamental feature of the housing market in London and the South, as well as of hotspots in the rest of the country, is the gap between demand and supply for housing. Rising demand is not just a matter of the demographics of migration and household size. Higher levels of employment and real wage increases have given households more buying power and raised their expectations in terms of the standard of living that their homes and neighbourhoods will provide. The response must be to increase the supply of housing goods, failing which a continuing rise in prices is inevitable.

The use of the term “housing goods” is deliberate. The solution is not only to increase the number of homes. It is also to increase the quality of these homes and the environment around them. House buyers will respond to a choice between space and convenience of location, or between density of development and the careful management and variety of amenities provided in the local area. Rising demand for housing can be met by providing better-quality housing and local environments, at the same time as providing more homes.

In most areas of the economy, increasing household income and wealth have provided greater choice, and created rising expectations that are then met through the market. The housing sector is perhaps unique in failing to deliver this choice. In the social sector, policy change is increasing the element of choice that people have, even in areas of scarcity, and insisting on consumer-focused management even when a resident has little immediate option to choose a different landlord.

In the private sector, sustained real house-price rises mean that many younger people are now unable to enter the market. The response of agencies such as the Housing Corporation must be to offer these people and households an option at the start of their housing careers, with products that are attractive to them, that offer high-quality design and management within a vibrant neighbourhood, and that enable them to move into unassisted home ownership when they are able to do so.

### **The corporation's role**

The Housing Corporation is the government's affordable housing agency. Under this heading we play three roles:

- We channel public subsidy into affordable housing schemes developed by housing associations. During 2005 we will implement new powers to give subsidy to other housing providers, including developers and house builders.
- We regulate the activities of the organisations to which we have given subsidy. We ensure that they remain well managed and financially viable, that they provide a high-quality service to their residents, and that they help deliver other policy priorities such as area regeneration or a reduction in antisocial behaviour.
- We use our expertise and our research capacity to test the effectiveness of existing policies and programmes, to contribute to the development of new models of provision, and to anticipate demographic and economic changes and their impact on the housing market.

The Housing Corporation is a nondepartmental public body, governed by a board appointed by the housing minister. We operate within the powers conferred upon us by statute and by a management statement issued by the ODPM. We have a regional structure that matches the government offices for the regions, and a head office in London.

Through this regional structure, we are members of all the regional housing boards, which are responsible for preparing the regional housing strategies that guide investment decisions in both the local authority and housing association sectors. (Following a recommendation of the Barker review, these boards are to be merged with regional planning bodies.)

We also sponsor or directly participate in a wide range of other housing and related initiatives. For example, we are represented in all the housing market renewal Pathfinder areas; we have set a lead in tackling the disadvantages that minority communities face in the housing market; and we have provided core funding for work to promote a sustainable approach to housing design and construction.

### **Affordable homes**

The Housing Corporation channels huge sums of money into the provision of homes that people can afford. During the period 2004–06 alone, we will invest £3.3 billion of public subsidy in housing schemes built or acquired by housing associations. This investment will provide 67,600 additional affordable homes, as well as a small amount of refurbishment of existing stock and targeted intervention to address the problems of areas of low demand for housing.

This public subsidy will be boosted by an estimated £2 billion of private investment in this two-year period alone. Since our present funding regime started in 1989, over £30 billion of private funding has been invested alongside our public subsidy. This programme therefore represents one of the most significant public-private partnerships in the UK economy, and one that has been delivered without a single resident losing their home as a result of financial difficulties experienced by their landlord.

Our main investment tool is social housing grant. It fills the funding gap between what a housing association is able to invest in an affordable home (from borrowing or from surpluses on its activities), and the actual cost of building or acquiring and then managing the property. The amount of grant required varies according to the kind of housing we are providing (for instance, rented or low-cost home ownership), and in line with construction costs and the price of land for housing.

Social housing grant is a flexible mechanism. The phrases “social housing” and “affordable housing” are often taken to imply housing for rent, let to the poorest groups in society or those otherwise in housing need. In fact the Housing Corporation has been promoting low-cost home ownership programmes ever since we were first set up over 40 years ago, when we funded co-ownership schemes under which a group of tenant/purchasers took collective ownership of a residential development, and shared in any long-term increase in equity value. While even now the majority of our spending is on housing for rent, home ownership has grown in importance since the mid 1990s.

### Figure 1: Housing Corporation programme: Low-cost home ownership outputs

(Includes the starter home initiative programme but not right to acquire/voluntary purchase grant)

	Low-cost home ownership units provided
1999/2000	4,032
2000/01	4,038
2001/02	3,571
2002/03	6,207
2003/04	11,564

### Home ownership programmes

The low-cost home ownership “products” that we fund are on the basis of either shared equity or shared ownership. The shared equity scheme (called Homebuy) offers a zero-

interest loan, usually for 25% of the value of the property. Because this is an equity loan, when the property is sold the repayment of the loan is fixed at 25% of the sale price. Most purchasers take out a mortgage to finance the balance of the value of the property, and will often also invest some modest savings into the purchase.

Under shared ownership, the purchaser buys between 25% and 75% of the property from a housing association (the average initial share is just under 50%), and pays a subsidised rent on the balance. Because the household can buy a smaller share of the property and hence has to borrow less from a mortgage lender, the shared ownership scheme tends to help lower-income households than those who purchase under Homebuy. Another distinction is that under Homebuy the purchaser can choose to buy any property in the market, while shared ownership is generally available on specific properties built or refurbished by a housing association.

Both schemes allow the purchaser to increase their share at any time, usually up to outright ownership. Under shared ownership this can happen in 10% tranches, while under Homebuy the purchaser has to redeem the whole of their 25% equity loan in one transaction.

The scope of these programmes has gradually been expanding. Until a few years ago, they were generally aimed at existing tenants of council or housing association homes who were able to afford home ownership and who would release a valuable affordable rented property when they moved on. People on council waiting lists were also eligible. More recently, low-cost home ownership models have been targeted especially at public-sector staff, first under the heading of the starter home initiative and the Challenge fund, and more recently under arrangements for Key Worker Living.

The government's recent five-year plan for housing announced a continuation of these key-worker programmes, as well as a broadening into a wider programme aimed at first-time buyers. Allied to this are proposals to extend the possibility of home ownership to more housing association and council tenants under an expanded Homebuy scheme, as set out in the ODPM's five-year plan *Homes for All* (2005).

These proposals should also be seen against the background of the government's home ownership task force, and the recommendations that it made to make the existing range of low-cost home ownership products easier to understand and fairer (for example, in respect of the costs to the purchaser of different options).

From their early 1990s origins as tools to encourage social-sector tenants to move out and release their homes for others in need, low-cost home ownership is becoming a mainstream product, available on an intermediate or longer-term basis to people on modest incomes. Opinion survey results tell us that most people aspire to home ownership, and it follows that affordable housing programmes should seek, where possible, to offer this tenure to those who can take on its financial commitments.

### **Housing tenure and affordability**

In terms of a relationship between the purchaser and a housing provider/landlord, the Housing Corporation's models of shared ownership and shared equity form the basis from which complementary approaches can be developed. As policy evolves, and our understanding of the interactions between land, finance and ownership becomes more sophisticated, there will be ways in which these basic models can be adapted and modernised.

### **Land supply**

The problem of high land prices means that the government's expectation that all new housing developments should contribute towards a community's need for affordable housing makes a significant contribution to our programme. Carefully implemented, these policies can also ensure a mix of incomes and tenures within a single scheme, as well as a form of subsidy for the provision of affordable housing.

### **Finance**

There may be scope for developing products for investors interested in participating in the long-term equity growth in residential property. At present there is relatively little equity investment in the affordable housing sector. Its absence may be simply because no one has recognised the potential; however, it is probably also due to the lack of a mechanism that translates equity growth in residential property into something that investors can put their money into.

A different approach to funding would represent an evolution of present practice, rather than a fundamental departure from it. Equity growth takes place within existing Homebuy and shared ownership models, but this may not at present be given explicit recognition in the mechanism that is used to fund their provision. Put another way, the competitiveness of present models, in terms of value for money for the purchaser as well as for public subsidy, may in future be tested by comparison with alternative approaches.

## Ownership

A third modernisation option may emerge over time in the form of property investment funds. Until more details are known about the structure and rules for these funds, we cannot be definite about the role they could play in the private rented sector. However, they will provide tax equivalence between investing directly in residential property, and investing in residential property through a property company. This should help to bring corporate investment and management disciplines to the private rented sector. At present, the sector is dominated by many individual landlords whose interest in the sector is often driven by the prospect of returns on investment and equity growth, rather than a commitment to professional landlordism.

In turn, property investment funds may encourage property companies to exploit opportunities in the private rented sector, including the offer of good-quality, well-managed homes for rent aimed at households who cannot afford home ownership or who want to delay their first purchase.

## Implementation

The Housing Corporation is working with the ODPM and partners such as English Partnerships and the Council of Mortgage Lenders to tackle a range of questions of policy implementation.

Among these is the question of how low-cost home ownership schemes can be designed on the one hand for people who need assistance at a particular stage of their housing careers, and on the other as a permanent housing solution for households living on low or modest incomes in areas of high house prices. Some models may be better suited to some client groups; also important are the incentives that each model includes to encourage purchasers who no longer need help to exit the scheme and find their own way in the open market.

This has a fundamental impact on a range of issues, from the interest charges attached to any equity loan (which can be designed to encourage first-time buyer purchasers to move on into the open market after a few years), to the size and the external and internal design of the housing that is provided.

## Sustainable solutions

Carefully designed tenure and funding arrangements will make a vital contribution to the step change in supply that the government's housing and planning policy is seeking to

achieve. There are other initiatives that will also contribute to this agenda.

Like the rest of the public sector, the Housing Corporation is reviewing its spending programme in the light of the Gershon review's recommendations for achieving cost savings. During the course of the present spending review, we will achieve significant savings, which will be ploughed back into additional homes.

We are also insisting on improvements in the quality of what is provided for our investment. We have applied a system of housing quality indicators to new housing schemes, which allow us to measure their quality across a range of indicators – from interior space and amenity to the design of the scheme and its relationship to its local environment. This system complements our use of the Building Research Establishment's eco-homes standard to assess the environmental impact of new developments. This standard covers impact on the landscape and the energy used in construction materials, as well as costs in use.

Our investment policies also aim to deliver mixed-income developments. We will normally not fund any single-tenure scheme of more than 25 homes. Above that, development proposals must offer a mix of housing for rent and for home ownership. The objective is to avoid problems of concentrations of poverty and social exclusion that have been associated with large, single-tenure social housing estates.

Other challenges to be addressed include the creative design and management of higher-density developments. These can offer solutions to issues such as mixing families with young children on a housing development with couples and older people. Taken together, design and management of the use of public space, as well as clear expectations in terms of the conduct of tenancies, can create and then sustain the liveability of a housing scheme.

## Chapter 7

# Template for a sustainable community

John Callcutt, Chief Executive of house builder Crest Nicholson

*The drive to deliver sustainable communities has seen the expectations on house builders escalate in terms of design, quality, cost efficiency and more. Integration and accessibility of neighbourhood services have become part of the design brief. An examination of one such project, part of the Millennium Communities programme, shows how cutting-edge technology has enabled a new form of community governance.*

## Template for a sustainable community

John Callcutt

Even though the Sustainable Communities plan is now into its third year, it is still hard to point to good models of what our new urban and suburban neighbourhoods should look like. I do not just mean the architecture – that was always the easy part of the problem to fix, if we all had a mind to. But can we describe what it might feel like to live in a new place that will probably be built out in its entirety in less than a decade, when we are used to and revere places that have grown gradually and organically over many decades? How will these new places accommodate multiple identities, cultures and diversity in ways that emphasise what the many peoples of this country have in common, rather than accentuate their differences? Is there a magical mix of affordable and full market housing that feels right?

The Millennium Communities programme, launched as a very personal crusade by John Prescott in 1997, was initially an attempt to challenge the house-building industry to change its conservative and unimaginative ways. He wanted us to be more ambitious in adopting better-quality and more exciting designs of homes and places, to build more efficiently, more speedily and more cheaply, and to produce homes that consume less energy to build and to use. English Partnerships was given the task of finding partners to turn this aspiration into reality.

After the early rush to put Greenwich Millennium Village on the map in time for the millennial celebrations, it has sometimes seemed that very little else has been happening. However, it would be a mistake to assume that the programme is a one project wonder, no matter how many awards Greenwich has deservedly won – over 30 at the last count. Aside from English Partnerships' extensive investment in land reclamation, masterplanning, and working with local people who live around the project sites, something else has been happening too. Ideas about what a sustainable community might actually be have been slowly maturing. As each site has come forward for competition to select development partners, the briefs have become progressively more demanding. There are new expectations of what house builders and housing associations should be capable of delivering.

The sixth and most recent competition was for the Oakgrove millennium community in Milton Keynes. The brief that confronted us was probably the most challenging we had yet experienced. The competitors – no less than 23 consortiums were willing to expose themselves to the challenge – were expected to go way beyond the traditional patterns

of development that were the norm for Milton Keynes. This would mean increasing densities and land utilisation, changing the grid road system, creating a walkable neighbourhood, and using high-speed information technology networks as the social glue for a more cohesive community, linking homes to a new, all-age school complex with community arts, sport and leisure resources, and to a neighbourhood centre with retail and commercial activity.

Not only that, we were expected to show how all these resources would be owned and managed in the future. Familiar ideas about local stewardship were being extended considerably to new concepts of community governance: at least, that was how we saw it.

### **The template for a sustainable community at Oakgrove**

In September 2004, at the end of an exhaustive second-stage run-off against Countryside Properties, English Partnerships selected Crest Nicholson with the Hyde Housing Group to work together with it to develop Oakgrove. We are now working up our vision for full exposure to public consultation and a planning application during 2005.

The Oakgrove millennium community will be a residential, mixed-use neighbourhood, a mile and a half from Milton Keynes town centre. The development will provide about 2,000 new homes: more than double the number originally earmarked for this site. Over 600 of these (30%) will be affordable homes. The community will also have a day nursery, a doctor's surgery, neighbourhood stores and other business uses to occupy a neighbourhood square. New, full-service primary and secondary schools are being built along the eastern edge of the neighbourhood, well ahead of the arrival of the new population.

Beyond the basic Millennium Communities standards for more efficient construction and energy performance, Oakgrove will have its own unique additional standards and objectives. At the heart of these is the creation of an integrated broadband-enabled community network, linking homes, jobs, services, schools and government. Renewable energy must make up at least 10% of total energy output for the development. The development will have to be defect-free on handover to new occupiers. Most significantly, there will be an administrative structure able to undertake the long-term management of the development, and to create and nurture a sense of community.

### **Sustainable management organisations and information technology**

Together, Crest Nicholson, Hyde and English Partnerships' Oakgrove team are developing a long-term management vehicle for the community, to be known as the Oakgrove

Sustainable Management Organisation. The OSMO will assume responsibility for affordable housing management, including the collection of rent, ground rents and a neighbourhood precept, and will manage the interplay between statutory public services and locally provided services. It will also manage the community interface using community development staff, operate the community intranet and provide a welcome to new residents and neighbours to the site.

The OSMO will play a significant role in the implementation and management of the information technology theme for Oakgrove. The IT provision will include services for all residents and business occupiers. The basic offer to the community will provide a community intranet site to host:

- key contacts and information;
- the development plan, related masterplans and phasing schemes;
- sales and resale information;
- a range of services provided in and for the community; and
- links to all stakeholders involved in the project, such as Milton Keynes District Council, the parish council and local voluntary organisations.

The intranet is an important new arena for the social and economic transactions that make places tick. We envisage that creating these strong community ties and links to all stakeholders will help foster local democracy, and provide people from every part of the community with greater opportunities for active participation in the management and the future growth of their neighbourhood.

As lead developer, Crest Nicholson will be responsible for managing the implementation of the IT network on behalf of a subcontracted technology partner, which will be appointed jointly by English Partnerships and us. We will work with this partner to develop and implement the intranet and the basic service offer. The OSMO will then work in parallel with the technology partner and the developers to take on the future development of the community intranet site, and other services that can be offered over the broadband system for Oakgrove. The technology partner will be contracted for the first 10 years of the IT system's operation at Oakgrove, after which it will hand over responsibility to the OSMO.

To enable the OSMO to operate, a range of charges for various services will be required. This presents several issues about how much can be charged for services under present

legislation, how the charges can be secured to create a viable income stream for the OSMO, and what is a reasonable and marketable cost to be charged to the wide variety of occupiers with different income levels in the community.

The OSMO will oversee the provision of all the IT services to all residents, providing broadband internet access, television, video on demand, telephony and, subject to arrangement for access, protocol links to the community learning resources such as the Oakgrove Secondary School, and possibly to the Open University, which is on the community's doorstep. The Open University will be researching the practical, social and economic effects of living in such an IT-enabled environment.

What we hope is that the relationship of the management body for Oakgrove to the use of IT will create the opportunity for producing a model management structure that could help to sustain the vitality of the community over the long term. We believe it could help to foster the rebirth of civic society and a renewed interest in local democratic activity. In time, this could build a sense of common purpose and ownership in the community, promoting social inclusion across the neighbourhood through the involvement of active citizens in the management of Oakgrove: a way of helping people to feel, as well as to say, "We belong here".

### **Community governance**

To address the issue of securing a levy and an appropriate income stream to meet the costs of the OSMO, innovative structures are being examined. This includes the possibility of using the commonhold legislation to create a community management trust for the housing at Oakgrove. This would be a pioneering use of the legislation on a grand scale. Through the commonhold arrangements, the requirement to pay a levy and receive a service in return would be put into the title of each of the individual properties transferred to purchasers and occupiers. There would be a security of tenure as well as security of income supply to the OSMO in return for services.

The use of commonhold would reinforce the relationship between the OSMO, the technology partner and the delivery of services to the community. The commonholders would have a representative stake in the provision of services available through the OSMO.

### **Managing change ... and leaving space for the unexpected**

One of our first actions will be to build and operate the Oakgrove Centre, a prominent new building at the southern entrance to the site. From day one, the OSMO will be in

occupation so that this exciting new building will serve not just as a sales centre, but as a showcase for the quality of life that Oakgrove will offer, and which could be adopted more widely across Milton Keynes as it expands and matures into one of the country's major conurbations.

We are unrepentant about acting as champions for a rather different kind of urban living in Milton Keynes, which should become increasingly less dependent on car access to the city centre. It is already predicted that car journeys to the centre that now take 15 minutes will take 45 minutes in a few years. So Milton Keynesians will soon be facing a very different lifestyle from the one that they have become used to. We are therefore in the business of planning for a change that has not yet arrived (and which some may be hoping never comes), and creating a special identity for an attractive but nonetheless new kind of place that will meet the changing circumstances in which we will all have to live. We hope to make real changes to the roads going through this neighbourhood, and to the way they are used. Our model will favour community efficiency over car efficiency, and the outcome should be places that we enjoy and value more.

Finally, can we actually plan all this? Haven't we been here before, thinking that "our" generation has all the answers, and that with good masterplanning and urban design we can make sure there will be no mistakes this time? But what is it that makes places special? I suspect it is often that little piece of leftover land – nobody is quite sure who owns it – that has been colonised as a community garden or a wildlife sanctuary, or an old shopping parade that suddenly supports a cluster of craft businesses, a faith centre and unusual places to eat.

Corrective action was needed to remind us how important good design is to the creation of both extraordinary and more everyday liveable places. But design is a servant and not a master; it should only ever provide us with the stage on which we have the freedom to act out our very distinctive, diverse and sometimes downright quirky lives and identities. With the resources and presence of a creative and supportive OSMO, we should be able to take more risks, and provide some slack in the system and in the plan, to celebrate the unexpected, and to provide the opportunities for the unplanned events and activities of city street life that could and should spring up of their own accord in this new millennium community.

To my mind, the fact that we find ourselves in this position, wondering how to build new communities, and not just more energy efficient homes, shows how far policy stretch has

been quietly taking the millennium communities programme to the boundaries of what our industry can provide. However, we still need strong and sustained political leadership to ensure that everyone – house builders and house buyers alike – understands that the trajectory of standards, in the quality of housing and urban management, has to be in upward-only reviews. For the industry, there must be a clear road map of the future stages in improvements that are expected of us, so that they can be properly factored into our business plans and land-buying activity. We simply cannot afford for a few exceptional places to remain exceptional.