HOUSING THE NATION
SUMMER 2013
EXECUTIVE SUMMARY

- There is still a significant housing shortfall – we estimate that targets this year will be missed by at least 51,000. In context, this will see the UK suffer a shortage of homes the size of a town like Eastleigh.
- Local authorities in England have reduced targets by 7% from those set through the Regional Spatial Strategies.
- Completions in Q1 2013 are already 23% lower than Q1 2012, and a low level of starts last year implies this downward trend will continue.
- Around 15% of the population is currently in the private rented sector and we expect that figure to double over the next 10 years – more schemes specifically designed ‘for rent’ must be delivered.
- The fundamentals of the Private Rented Sector (PRS) are strong and the sector is beginning to be recognised as such by institutional investors – we must capitalise on this.
- The availability of mortgages remains an issue; however, Government schemes such as Help to Buy have been welcomed by some sections of the market.
- Help to Buy may help boost the regional markets over the medium term, but will not address the short term lack of housing or the issues facing London.
- The National Planning Policy Framework (NPPF) has been widely viewed with success – there has been a 21.7% increase in the number of planning approvals since its introduction. However, further planning reform could help the delivery of more new homes.
- The UK has to accept that there needs to be a relaxation of planning restrictions on Greenfield sites which reside on town centre boundaries, if we are serious about tackling the shortfall.
This is the fourth in our annual series of Housing the Nation reports, which assess the issues surrounding the UK’s well documented housing shortage. New statistics from the DCLG, which has discontinued the publication of figures at a regional level, still demonstrate how this shortage has been compounded by a steady reduction in housebuilding since the start of the economic downturn.

In April 2013, the DCLG produced new forecasts for household formation, downgrading their previous forecasts. Nonetheless, they expect an average of 221,000 new households will form in England each year over the next decade. Under the Regional Spatial Strategies, the housing target for England equated to around 185,000 new homes per year. Yet in 2012, only 115,000 new homes were completed.

Prior to 2008, annual completions averaged just over 150,000, peaking at 177,000 in 2007. Over the last five years, in which the UK’s downturn has taken hold, the average number of annual completions has fallen to just 120,000, a fall of around 20% p.a. In fact, only 610,000 new homes have been completed in the last five years, relative to nearly 800,000 in the preceding five, a drop of 23%.

This situation has marginally improved since the lowest point in the cycle in 2010, when housing completions in England were less than 107,000. This, naturally, followed the lowest level in housing starts, recorded in 2009.

In both 2011 and 2012, completions were c. 115,000 – still very low compared with the long term average, but a small improvement over 2010. However, recent figures for housing starts do show some worrying indicators for 2013.

The level of starts in England fell back again in 2012, from what was already an historically low level, indicating that completions in 2013 will show a reduction on the very slight recovery demonstrated in the last two years. Already, completions in Q1 2013 were 23% lower than in Q1 2012.

This constraint on supply has seen house prices remain relatively stable over the last three years, despite the difficulty in buyers obtaining financing. Having risen by up to 50% between 2003 and their peak in 2007, prices then fell on average across the UK by around 30%. A slight recovery then saw an increase of around 10% by mid 2010, since then they have held fairly firm. Two out of the three main house price indices (with the Land Registry being the exception) have recorded stronger price growth in more recent months. The Nationwide index recorded an increase of 1.7% since September 2012, while Halifax estimated stronger growth of 4.7% over the same period.

However, while UK house prices have on average remained fairly static in the last few years, a very different picture has formed in London. Between the start of 2011 and the end of the first quarter of 2013, all three main indices recorded virtually no change in UK pricing. For London, the same indices measured between 9% and 11% growth over the same period. Tight supply and strong demand has placed upward pressure on house prices in the capital, even during a time of relative economic uncertainty.
THE LOCAL AUTHORITY RESPONSE

The objective of our research in each of the last three years has been to examine the effects of scrapping Regional Spatial Strategies and Core Strategies on the forecast supply of housing across England. Previously, the change in policy had left local authorities with three options with regard to the housing targets they had previously set out in their strategies. They could stick with the same targets, change them, or do nothing.

However, this year the results are particularly pertinent, as the option to do nothing has been made less palatable. The NPPF has, as a central tenet, a presumption in favour of sustainable development. It allowed for a transitional period of one year, during which local authorities were expected to adopt an up-to-date development plan, but in which they could still determine applications in accordance with saved (read ‘old’) policies adopted since 2004 “even if there is a limited degree of conflict” with the NPPF. This transitional period expired in March 2013. Now any absence of an up-to-date development plan means the presumption in favour of sustainable development bites. In simple terms, local authorities without an adopted LDF in place could face losing control over development.

In this context, we have spoken to just under 300 English local authorities to confirm their housing targets.

Our survey results indicate that the majority of local authorities responded to the imposed deadline and have now set a housing target for their area. Only 5% of authorities have never set a target since the scrapping of the RSS was first proposed, and it will be these authorities which are most at risk of losing control over development as the NPPF’s presumption in favour of sustainable development takes hold.

As in previous surveys, most authorities left their targets unchanged from the previous year. A more positive outcome than in our previous surveys was that, relative to the figures provided to us in 2012, of those authorities that did make changes (up or down) in the last year, on average they increased targets by 6%. Of those cutting targets, the average reduction was 26%, but this was outweighed by those who increased their target by an average of 33%. This is the first time that the balance of those making changes has been positive, rather than reflecting further cuts.

Overall then, the housing targets confirmed for England have gradually increased over the three years of our survey. In 2011, the combined annual total for England was estimated at just under 154,000 new homes per annum. In 2012, this rose to 162,000 p.a. and this year the target has risen again to 173,000 p.a.

Importantly though, each of these figures still sits some way below the original RSS annual target of 185,000 new homes in England. Of those that have confirmed targets in 2013, the current figure is 7% below the RSS target. Applying this across the remaining undecided authorities, we estimate an overall loss of over 12,000 houses per annum from English targets. And there is a further gap still to the DCLG’s new estimate of annual household formation of 221,000 new English households, which we may now fall short of by 50,000 homes each year.

Evolution of targets vs household formation forecasts

On balance then, relative to the RSS targets, just under a quarter of authorities have maintained the same figure for housing delivery. As discussed already, 5% have still not adopted a target and now may face losing control over development in their area. Positively, just over a quarter (28%) have increased targets but, worryingly, the largest proportion of 43% have opted to cut targets relative to their original RSS figures.
All other English regions show a loss however. Proportionally, the greatest losses are in the Midlands and the South East, where both targets have been cut by just under 14%. In absolute numbers though, the highest cut has been in the South East, with a reduction of just over 7,000 houses p.a. This is also the region which has the highest proportion of authorities (9%) which have never set a target to replace that of the RSS.

<table>
<thead>
<tr>
<th>Region</th>
<th>RSS housing figure pa</th>
<th>LAs yet to set target</th>
<th>Est. total housing loss</th>
<th>% change from RSS</th>
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<tbody>
<tr>
<td>Midlands</td>
<td>38,494</td>
<td>7%</td>
<td>-5,293</td>
<td>-13.7%</td>
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<tr>
<td>North East</td>
<td>31,660</td>
<td>7%</td>
<td>2,773</td>
<td>8.8%</td>
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<td>33,122</td>
<td>0%</td>
<td>801</td>
<td>2.4%</td>
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<tr>
<td>South East</td>
<td>51,403</td>
<td>9%</td>
<td>-7,004</td>
<td>-13.6%</td>
</tr>
<tr>
<td>South West</td>
<td>30,653</td>
<td>0%</td>
<td>-3,419</td>
<td>-11.2%</td>
</tr>
<tr>
<td><strong>England total</strong></td>
<td><strong>185,332</strong></td>
<td><strong>5%</strong></td>
<td><strong>-12,142</strong></td>
<td><strong>-6.6%</strong></td>
</tr>
</tbody>
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Source: BNP Paribas Real Estate

We appear to be in a contradictory position whereby those English regions where it is perhaps the most difficult to undertake viable new housing development, and which have been hardest hit by falling prices, are those that are the most encouraging of new development and have raised targets accordingly. By contrast, the region which has seen the strongest upward pressure on prices, and is arguably the most viable in development terms, is also the one which on average appears least inclined to promote new housing.

On a regional basis, relative to the RSS figures, two regions are estimated to have increased targets, with the North East showing quite a strong increase of 8.8% and the North West a more marginal 2.4% on balance.

Change in housing targets for English local authorities

- Undecided 5%
- Gone up 28%
- Gone down 43%
- Stayed same 24%

Source: BNP Paribas Real Estate
CAN PRS HELP TO HOUSE THE NATION?
In recent years, the UK’s housing market has been typified by low levels of development, low transaction volumes, affordability issues (particularly in London and the South East) and constrained mortgage finance. In April this year, the website Moneysupermarket.com garnered a great deal of publicity with figures that estimated the average age of a first time buyer had risen to an astonishing 37, and that 35% of homehunters do not think they will ever be able to buy their own home. Although these figures are disputed by other sources, they are illustrative of the growing pressures which have been placed on the UK’s rental sector.

In 2010, it was estimated that 17% of the nation’s housing was privately rented, up from 9% in the early 1990s. In the same year, the DCLG released its Private Landlords Survey which found that 89% of landlords were private individuals and 71% of rented properties were owned by such landlords. Some 78% of landlords owned only a single rental dwelling, and only 8% were full-time landlords. Unlike many other countries in Europe and North America, the UK does not have an established institutional private rented sector (PRS) market, in which larger scale buildings are developed specifically for the private rental market and are managed on site by professional full-time landlords.

Many successive UK governments have acknowledged this issue. In 2009, under the last government, the Homes & Communities Agency (HCA) identified that large scale institutional investment in private rental housing could provide a source of new funding for the housing sector and could provide greater choice for consumers. The HCA launched its Private Rental Sector Initiative (PRSI) in order to encourage more institutional investors to take an interest in the residential housing market, with a specific focus on encouraging those investors who would commission and purchase new-build housing. This initiative was ended but, under the current government, in September 2012, Sir Adrian Montague published his review of the barriers to investment in private rented homes. In response to this, in April 2013, the DCLG announced the establishment of a Private Rented Sector Taskforce “with the objective to support the expansion of the sector.” Evidently, as with the economy, the housing market is progressing on different paths within the capital and without. The solution outside of London and the South East, where pricing has been weak and development has been difficult in terms of viability, may be different to that which suits London where the drivers are markedly different. In the rest of this report, we examine some of the options, such as Government initiatives like the new Help to Buy scheme, but also the development of the private rented sector in the UK.

THE INDUSTRY PERSPECTIVE
How do we address the shortfall?

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- Harry Downes, Managing Director, FizzyLiving
- Nick Cuff, Chair of Planning, London Borough of Wandsworth
- Lucy Thornycroft, Head of Construction, CBI
- Tom Copley, Labour London Assembly Member, Deputy Chair of the Housing Committee
- Ian Fletcher, Director of Real Estate Policy, British Property Federation
- Adrian Owen, National Head of Residential, BNP Paribas Real Estate
- Mark Brown, Founding Partner, Local Dialogue

As in previous years, this publication aspires to be a blueprint for how we as an industry can help speed up house building in the UK. Over the last 24 months we have seen the Government implement a number of positive, progressive steps to tackle the issue of housing delivery. Since Housing the Nation 2012, our research has shown that more local authorities are pushing ahead with their core strategies and, it can be argued, that this has boosted housing deliveries to a certain extent. However, we are still some way off meeting the shortfall. As Lucy Thornycroft, Head of Construction at the Confederation of British Industry (CBI) puts it: “the UK is falling woefully short of building the homes we need.”

Solving this shortfall is still clearly at the forefront of the Government’s plans. The recent budget announcement of the Help to Buy scheme alongside the £1bn Build to Rent Fund and the £10bn Housing Guarantee Scheme cements this position.

In the following pages we outline an industry perspective on housing delivery and how we can address the shortfall in units being delivered to the market – whether these units should be delivered through PRS or not remains to be seen. What is clear is that there will not be an immediate quick fix and it is still a challenging time for the industry.
IS PRS THE ANSWER? WHAT NEEDS TO HAPPEN?

A solution to the UK’s housing shortage that has long been mooted is PRS. In the UK it is still an immature market, however it seems that is set to change. The last 18 months or so has seen some major steps forward with serious players beginning to emerge - such as FizzyLiving, who plan to grow their portfolio to over 1,000 homes in the next two years, and Essential Living, the UK’s first institutionally backed platform created to deliver and manage rented homes. Increasing interest from institutions in residential property should come as no surprise, because whether looking over the short, medium or long-term, residential has delivered far better returns than the more traditional investments. Over the past ten years the performance of UK residential property has far surpassed commercial property, with a total annualised return of 9.6%, versus 6.9% according to IPD data.

Most growth in housing over the past decade has been from households seeking private rented sector accommodation and subsequently we have seen the private rented sector grow significantly. This is predicted to continue and it is anticipated that one-in-five households will be private renters by 2020.

While recent housing surveys suggest that owner occupation remains the most common type of tenure with 14.4m households, there are a similar number of private rented households at 3.8m (doubling since 1999) as there are Social Housing households in England. “15% of the population currently live in the private rented sector and this is set to double over the next decade. We need more quality homes for private rent and to attract further institutional investors into the market” says Lucy Thornycroft. “We need to capitalise on early movers in this area by increasing the supply of build-to-let homes and reviewing measures to incentivise institutional investment into the private rented sector” she added.

The following pages seek to get to grips with this challenging sector and identify how it can and should be taken forward if we are serious about PRS. We also seek to discuss how, more generally, we can boost housing delivery across the industry as a whole.
DOES THE HOUSING INDUSTRY NEED TO ADOPT A NEW MODEL FOR DELIVERING HOMES SPECIFICALLY FOR RENT?

“I don’t believe that house builders can or should change their structure. There is a new breed of professional landlord emerging, established to provide long term rental portfolios at a scale not seen before in the UK market” explains Harry Downes, Managing Director of FizzyLiving and winner of the RESI Awards ‘Newcomer of the Year’ accolade for 2013.

Andrew Cunningham, Chief Executive of leading residential landlord Grainger, agrees that a new type of house builder is emerging, driven by market demand. He suggests that “over the next few years, the Build-To-Rent delivery and investment model will gain further traction and recognition among institutional investors. This emergence of Build-To-Rent is a reflection of the growing demand for renting and it will lead to greater integration between development, ownership and management of assets.”

Nick Cuff, Chair of Planning at the London Borough of Wandsworth – a property professional himself - agrees that the industry in the UK has already begun to do this and that the models are “following on from the very successful experiences within the States.” He believes that having an owner manager structure is essential for success, “the developer needs to have a long term interest within the stock and therefore take a longer term view on the design, build and presence in the communities it invests within.”

Adrian Owen, National Head of Residential at BNP Paribas Real Estate believes that PRS is here to stay. He believes that as the market continues to grow the key players will begin to adapt their delivery models to capitalise on this: “The current house builders and developers will adapt to demand and may retain some development for PRS as well as ‘sell’ to the new PRS landlords.”

“We’re still a nation of house owners and we need a shift in perceptions to move private rented up the pecking order” argues Mark Brown, Founding Partner of leading stakeholder engagement consultancy Local Dialogue. “Without this I can imagine local community focused objections to private rented schemes, work needs to be done to persuade communities that long term private sector renters will put down roots and contribute positively to an area.” He suggests that this support will be important in persuading further new entrants into the private rented sector. It seems that there is a split view in terms of how house builders will adapt to the rise of PRS and although the more traditional developers are beginning to recognise the sector it remains to be seen whether they will fully enter the market or leave it to the new breed of specialists we are seeing emerge.

THE PRIVATE RENTED SECTOR IS STILL AN IMMATURE MARKET IN THE UK WITH LOW YIELDS AND LIMITED RENTAL GROWTH – WHAT ARE THE ATTRACTIONS TO INVESTORS?

“PRS is already gaining the attraction of major institutional investors (domestic and international), such as Prudential, APG and Qatari Diar” enthused Andrew Cunningham, Grainger’s CEO. “The fundamentals behind investment in PRS are strong and are set to remain strong with a continued imbalance between supply and demand. The right PRS portfolio can offer attractive risk-adjusted returns to investors and the Build-To-Rent sector will help drive higher yields.”

Harry Downes of FizzyLiving agrees that the future for PRS in the UK is bright: “there is substantial demand for rental accommodation, and large scale portfolios will deliver efficiencies which will drive up yields. PRS is a strong investment in North America, Europe and Scandinavia and it will soon be the same in the UK.”

Private rental models work best when the stock is designed, built and held for rent, argues Nick Cuff, Chair of Planning at the London Borough of Wandsworth: “that means developers buying land raw and taking it through the entire property life cycle to achieve an appropriate, institutionally acceptable yield. This is a strategy which has been rarely tested in the UK, however, there is no reason why it cannot be achieved over the coming years given the significant interest in this sector” he adds.

LOOKING ABROAD, ARE THERE ANY LESSONS WE CAN LEARN?

In France, the PRS investment market is mature, with 6.6m households and total renting spend standing at around €41bn. The residential investment market in France has been historically strong as a result of tax breaks implemented by Government that attracted institutional investment. Rents in 2012 rose by 2.2% and kept pace with inflation but the annual increase is less than last year and there is a falling trend since 2009. Between 2010 and 2012 the residential new homes sales market comprised 50% of investor purchases. Of this, 20% of those investors were institutional while the remainder were small private investors. However, as a result of French Government austerity cuts late last year, the market began to slow as the ‘tax breaks’ disappeared.

The German PRS market is particularly strong and continues to grow, investment in sizeable portfolios of residential properties in the first quarter of 2013 totalled €1.83bn. Three types of
investors played a particularly active role and together accounted for almost 80% of the transaction volume. Clear-cut leaders, with a share of 37%, were special-purpose funds. A considerable way behind in second place came equity/real estate funds (24%). Third place was taken by listed real estate companies, which contributed nearly 18% of the total. Pension funds and insurances, which last year were strongly represented, have up to now been quite reticent. All the signs point to sustained strong demand during the rest of 2013 and the market likely to produce another above-average transaction volume.

It’s clear that while the UK is some way behind continental Europe there are certainly signs that the market could follow its example as more and more institutional investors enter the UK PRS market.

**TO MAKE THE PRIVATE RENTED SECTOR MORE ATTRACTIVE, SHOULD THE GOVERNMENT CONSIDER RESTRUCTURING RESIDENTIAL TENANCY STRUCTURES?**

The feeling within the market is that there is no problem with the current UK tenancy structures and this issue should be left with the market to decide. “The best way of changing the system is through a market-led approach which is happening with the emerging institutional involvement in PRS. Institutions can create their own tenancy terms without the reliance on mortgages and therefore have more flexibility over the lengths of tenancies” argues Nick Cuff.

Harry Downes suggests that there is no problem with residential tenancy structures and that “the problem lies with the landlords. A professional landlord is in business to provide long term housing for rent. The majority of PRS landlords are ‘Buy to Let’ operators with fewer than 10 units. They are much more likely to sell or churn their investment as market conditions fluctuate. FizzyLiving offers tenants flexible lease terms, but not one tenant has taken us up on this offer. They are confident that we will not kick them out, and they prefer to retain the flexibility of being able to move out when it suits them. So they stick with a standard 12 months Assured Shorthold Tenancy (ASTs) with a six month break clause.”

Andrew Cunningham at Grainger agrees that Government intervention in tenancy structures is not required, “Longer tenancies are often not offered because of a lack of demand among tenants or because of the negative impact that a longer tenancy would likely have on an asset which is valued based on its vacant possession value. As PRS expands, and assets begin to be valued on their net operating income rather than vacancy, longer term tenancies will naturally be made more available by landlords. Legislation is not required.”

“Residential tenancies should be left alone. They are robust and are fit for purpose” comments Adrian Owen, adding weight to the argument for no Government intervention. “There is flexibility for both landlord and tenant to react to market changes” he added.

**COULD CHANGES TO THE PLANNING SYSTEM BE IMPLEMENTED TO ENSURE THE GROWTH OF THE PRIVATE RENTED SECTOR?**

Harry Downes strongly believes changes should be made. “The planning system could and should be used to level the playing field, so that more specifically designed ‘for rent’ buildings can be delivered” he stated.

“A ‘rental covenant’, which uses existing planning law (Section 106 arrangements), where local authorities could place conditions on Build-To-Rent schemes so that the new units must be rented for a specific period of time in return for reductions in other Section 106 requirements, could be a very positive step toward encouraging new supply of PRS” argues Andrew Cunningham. “This is the one outstanding recommendation from the Montague Review, which we strongly believe should be taken up and supported by Government.”
Nick Cuff believes that major changes, such as planning conditions on the length of time a scheme had to remain in PRS use would be unviable, “A planning condition which restricted a scheme to 10 years of PRS would be rendered unviable. This is because a senior debt provider could not be assured an exit existed.” He feels that there is a more suitable option available, “a much better way is to look at Community Infrastructure Levy (CIL) and affordable housing and review how this can be eased when developing PRS schemes. For instance, requesting social rented tenancies which, by their very nature, are fixed and life-long are not appropriate in a block which will be focused on short term private rental occupants. It’s far better to offer a discounted market rental alternative.”

“What clearly there is the obvious solution of offsetting Section 106 and Affordable Housing on PRS blocks” comments Adrian Owen. Perhaps more controversially, he suggests that “PRS should become a User Class in its own right in planning terms and local policy amended to require ‘a mix of uses’ to include PRS.”

Tom Copley, Deputy Chair of London’s Housing Committee at City Hall, supports the suggestion of a new User Class being introduced for PRS: “such distinctions between private rented and other accommodation exists in other countries, and this appears to have delivered better results for tenants and landlords and has created larger and better functioning sectors than we have in the UK.”

The British Property Federation’s Director of Real Estate Policy, Ian Fletcher, believes significant strides have been made to support growth in the sector. However, he feels the one major area which is outstanding and critical to creating sustained investment in PRS is planning.

“Without clarity on its planning treatment, local authorities and investors will be cautious about build-to-let. The Government will have the opportunity to clarify this over the summer as the Taylor Review requires new guidance to be drafted on viability and that provides the ideal opportunity to provide the clarity and certainty that local councils and developers both want.”

WHAT MEASURES SHOULD BE IMPLEMENTED TO INCREASE THE SUPPLY OF HOUSING NATIONALLY?

When we asked this question in 2012 the clear message was the availability of mortgages. Liz Peace, Chief Executive of the British Property Federation, put it simply last year: “house builders won’t build unless they know they can sell.” While the availability of mortgages is still an issue across the housing industry, the view from the market this year is fairly uniform: further planning reforms are needed.

John Howell, MP for Henley and co-author of Open Source Planning - described as ‘the architect of the Government’s planning reforms’ - suggests that “measures that further slash red tape across the planning system” should be implemented to speed up the sometimes arduous UK planning system to help with the delivery of new homes. The CBI echoes Mr Howell’s comments by agreeing that in some cases delays and red tape in the planning system can lead to the hold up of important housing projects: “too often shovel-ready projects are unnecessarily delayed by planning red tape” Lucy Thornycroft, Head of Construction told us.

Mr Howell goes on to explain that these changes should only be made “around the edges of the planning system and there is merit in allowing the current system, the National Planning Policy Framework, to settle down and find its own feet, especially as organisations such as the House Builders Federation are saying that the changes are working.”

Taking a different perspective, Tom Copley, London Assembly Member and Labour’s spokesperson on housing in the Capital, suggests the problem is the speed that sites are brought forward after planning has been granted: “developers currently sit on planning permissions for around 210,000 new homes in London, a large number of which could be started immediately.” His argument is that the Government needs to create a planning system that brings homes to the market quicker and prevents landbanking.

Nick Cuff, current Chair of Planning at Wandsworth Council, a key area of London which is seeing significant housing growth and residential investment, agrees that planning is central to increasing housing delivery, “if we are going to properly manage a growing population then we need to accept that we will require more land. There needs to be a relaxation on Greenfield sites which reside on town centre boundaries. As a chair of planning in a very dense urban London Borough, we are experiencing more and more development pressure. Eventually, land opportunities will simply dry up or become too marginal.” Mr Cuff also points out the need for robust infrastructure investment plans, led by Government and backed by the private sector, in opening up new areas to
development, citing development in Nine Elms as an example: "Crossrail 2 and High Speed 2 should all assist in providing new opportunities for housing development just as the extension of the Northern Line has done in Nine Elms, Wandsworth."

Andrew Cunningham, Chief Executive of leading residential landlord Grainger goes further, suggesting a specific “reduction in Section 106 requirements for Build-To-Rent schemes” arguing that not only will this boost house building in general but specifically deliver homes in the private rented sector - the area in which the Government is hoping to see significant growth. At the same time he believes that local authorities should make greater use of ‘rental covenants’ to guarantee new supplies of rental accommodation. Adrian Owen, National Head of Residential at BNP Paribas Real Estate supports a reduction in Section 106 requirements, and more widely, all other levies that impact a scheme’s viability: “Section 106, Community Infrastructure Levy and Stamp Duty Land Tax should all be reviewed. Combined, they impact hugely on the viability of getting schemes out of the ground” he argues.

In February 2013, Grainger made its debut in the Build-to-Rent sector, buying 100 units as part of a regeneration scheme in Barking town centre that will be held and managed rather than sold to owner-occupiers or buy-to-let investors. This is a sign of changing views towards PRS and something we expect to see more of in the future. At the time, Nick Jopling, Executive Director for Property at Grainger, commented “This is a sector that desperately needs to grow in order to meet the demands of the UK population and is supported at the highest levels of Government, and we believe that this style of residential development has huge potential to grow in the coming years.”

PRS is certainly a sector where planning reforms could help to stimulate the still immature market for larger PRS schemes. Harry Downes, in particular, believes that several changes could be made and cites three in particular:

“Planning regulations should be freed up to allow Shared Ownership allocation to be bought and run by PRS Landlords as Private Rental for a minimum of 10 years. Stamp Duty Land Tax should be removed for new buildings of 40+ units going into PRS portfolios for a 10 year period and planning approvals should include a long stop delivery date rather than a building start date. "The challenge the industry is facing is not only delivering more units but making sure these units are affordable and accessible.

**SINCE ITS INTRODUCTION, HOW EFFECTIVE HAS THE NATIONAL PLANNING POLICY FRAMEWORK BEEN IN BOOSTING HOUSING DELIVERY?**

Not very according to Harry Downes of FizzyLiving. He explains: “as a driver, it has been fairly ineffective because despite its many policies and proposals, there has not been any noticeable increase in planning approvals for the stock which is needed. The average age of first time buyers continues to grow and the ‘presumption in favour’ policy appears to have made no impact at all.”

Adrian Owen agrees that it has not been hugely effective: “whilst Planning Officers follow policy, including the NPPF, and make recommendations for approval; Planning Committees are often too political and ignore these recommendations resulting in too many schemes having to be Appealed and go to Inquiry.”

This is certainly not a view reflected within Government. “The National Planning Policy Framework has been very effective” John Howell states. “There has been a 21.7% increase in planning permissions on the previous 12 months. The signs are that the Framework is helping to provide the homes that we need. It reflects the positive planning principles of the NPPF and the robust appeals system being applied,” he added. The success of the NPPF is also shared by Andrew Cunningham at Grainger, who is cautious at the same time “the NPPF has been an important step in simplifying the planning system, but it will undoubtedly require further improvement and tweaks as it embeds and is tested through market activity” he says.

Supporting John Howell’s suggestion, Nick Cuff argues that it is too early and would be premature to judge the impact of the NPPF so soon, “Planning policy can take several years to have an effect due to the nature of property cycles. The NPPF has simplified the system and so should be welcomed, but it’s probably still too early to make a fundamental assessment.
What is clear is that London is currently experiencing a rise in development activity. There will be a significant uplift in schemes being brought forward and being delivered over the next two years and the NPPF is likely to influence and shape the nature of the schemes.”

Lucy Thornycroft, Head of Construction at the CBI, believes that, on the whole, planning reforms have been welcomed by the industry however she says there is still work to be done on the implementation of these changes. “We support the National Planning Policy Framework but in some areas it has yet to translate into local actions on improving the planning process” she explains. “ Whilst most local authorities take a proactive approach to planning reform some are failing to uphold the pro-growth principles of NPPF”.

Given the comments above, it is clear that there is a contrasting view on the success of the NPPF between those in Government and the property professionals.

HOW SUCCESSFUL DO YOU THINK THE NEW HELP TO BUY SCHEME WILL BE IN INCREASING HOUSING DELIVERY?

Clearly the availability of mortgages, a recurring theme from Housing the Nation 2012, has not gone away. Using the Budget Speech in March 2013, Chancellor George Osborne announced the launch of the Help to Buy scheme. Help to Buy will enable purchasers to put down a 5% deposit on a newly built home, much less than that demanded by most banks, with up to 20% of the cost of the home funded by a shared equity loan through the Government, which will be interest-free for the first five years. Furthermore, from 1 January 2014, the Help to Buy mortgage guarantee scheme comes in on both newly built and second-hand homes.

The CBI has welcomed the new Help to Buy scheme as a bold intervention in the housing market. “The Help to Buy shared equity scheme is already up and running and having a positive effect on the housing market with house builders increasing supply as a result” comments Lucy Thornycroft. “The mortgage guarantee scheme will not be operational until next year but has the potential to be a game changer. It will need careful design as a short-term targeted intervention in the housing market.”

“Help to Buy has provided an additional certainty factor for developers and this has helped spark the significant rise in activity recently,” said Nick Cuff from Wandsworth Council. “However, an unwelcome side effect is further house price inflation. The Government should focus more on supply side measures rather than demand stimulus if it wants to create a sustainable property market.” Andrew Cunningham of Grainger shared the concerns on the supply side: “Help to Buy should be seen as a positive measure for the housing market. However it is unclear to what extent it will support supply of new housing. The Government should ensure that there is support for the supply side of the housing market as well as the demand side.”

Labour London Assembly Member Tom Copley is pretty clear in his stance on the new scheme: “what is clear is that by adding demand to a market where there is already excessive demand over supply, we will only see further inflation” he suggests. “There is a danger that the Government is intervening at the point where house prices are already recovering and that they are consequently injecting a stimulus to the mortgages market at the wrong moment.”

Supporting the general consensus, Adrian Owen agrees that its success in increasing delivery will be significantly limited: “Help to Buy will increase demand and not supply - it allows more people on to the housing ladder who naturally struggle to raise the deposits. All it is doing is filling the void left by the lack of mortgage lending and fuelling price rises.”

Adrian continued by adding that “we’ve heard many comments, some more extreme than others - one commentator described it as a ‘truly moronic policy’ - while even Mervyn King says it needs to be temporary.” He stated that “The scheme is a little too close for comfort to a general scheme to guarantee mortgages. We had a very healthy mortgage market with competing lenders attracting borrowers before the crisis, and we need to get back to that healthy market. We do not want what the US has, which is a Government-guaranteed mortgage market, and they are desperately trying to find a way out of that position”.

The British Property Federation agrees with the criticism around the new policy: “Critics are right to be concerned about creating a bubble in the absence of supply side reforms,” comments Director of Real Estate Policy, Ian Fletcher. He feels that the Government recognises the need to increase supply “but to be fair to Government, hardly a week passes without some initiative to free up planning, and the Government is not just pursuing a demand-side policy” he added.
1 - DON'T TAKE A ONE SIZE FITS ALL APPROACH - LOOK AT THE LOCAL DEMOGRAPHICS AND BE FLEXIBLE WITH APPROACHES BASED ON THAT.

While we recognise that the Government’s Help to Buy scheme is acknowledged as a positive step in supporting growth in the regional housing market, it may not be the best solution for the market as a whole. In the medium term we anticipate that Help to Buy will increase sales rates and delivery numbers; however, in the short term, the concern is that it may only serve to increase prices.

The demand for housing in London and the South East already exists, Government policy here should focus more on the supply side rather than demand. Solutions such as encouraging PRS may suit London and the South East while Help to Buy is working more in the regional markets.

2 - THE PRIVATE RENTED SECTOR IS NOT THE ANSWER FOR ALL MARKETS – THE FOCUS SHOULD BE ON ENCOURAGING THIS IN OUR URBAN CENTRES OR WHERE DEMAND IS APPROPRIATE.

Most growth in housing over the past decade has been from households seeking private rented sector accommodation and the private rented sector has grown significantly in the last decade. This is predicted to continue and it is anticipated that one-in-five households will be private renters by 2020. However, much of this demand is likely to be focused on urban centres where the population tends to be younger and more fluid. Developing PRS in the UK should be matched to this demand, while stimulating more traditional housebuilding should be the focus in the rest of the country.
3 - LOOK AT CHANGES/RELAXATION TO AFFORDABLE HOUSING, S106, CIL, SDLT AND PLANNING REGULATIONS SPECIFIC TO PRS TO BRING FORWARD MORE VIABLE SCHEMES TO PROVIDE MUCH NEEDED HOUSING.

For London and the South East in particular encouraging PRS is certainly a way for us to secure the delivery of more homes. The Government could investigate a number of potential solutions for this such as the relaxation of Section 106 agreements, CIL payments and SDLT for schemes specifically designed for PRS. Rental covenants could be put in place and a new planning user class specifically for PRS could be introduced.

4 - RELAX PLANNING REGULATIONS ON GREENFIELD SITES, PARTICULARLY THOSE ON TOWN BOUNDARIES. WE SAY THIS EVERY YEAR BUT IT IS YET TO ACTUALLY HAPPEN.

We still believe the Government needs to do more in respect of relaxing rules for development on Greenfield sites. If we are going to properly tackle the shortfall in housing delivery the UK needs to accept that more land is needed, particularly in the South East where pressure for new development is particularly high. There needs to be a relaxation on Greenfield sites which reside on town centre boundaries - if not, land opportunities will continue to dry up or become too marginal to encourage development.

5 - RELEASE MORE LAND FROM THE PUBLIC SECTOR AND POTENTIALLY LOOK AT RECLAIMING/CPO OF LANDBANKERS.

In response to the launch of the Help to Buy scheme, the IMF has already proposed that to “engineer a supply response, the Government should consider fiscal disincentives for holding land without development”. Deliberate long term landbanking is a drag on supply and consideration should be given to providing local authorities with powers to counter this. Many public sector bodies are already capitalising on releasing their own land for development, and this should be encouraged further.
6 - IT IS ENCOURAGING TO SEE THE GOVERNMENT PUTTING PRESSURE ON LOCAL AUTHORITIES TO IMPLEMENT THE PRO-DEVELOPMENT PRINCIPLES OF THE NPPF, BUT IT SHOULD CONSIDER TAKING AWAY PLANNING POWERS FROM LOCALLY ELECTED MEMBERS ALTOGETHER.

Local authorities are being put under pressure from central Government and through the planning inspectorate to allocate more sites for housing. It is encouraging to see the recent rise in planning inspectors challenging local authorities on their allocations and the Government should keep up the pressure in this key area. However, locally elected officials have the final say at authority level, and are perhaps more subject to the pressure of local influences when it comes to making decisions on development. While the current system does now allow applications to be made directly to the Secretary of State, should these then fail, there is no recourse to appeal. Therefore, we recommend that planning decisions be made by permanently employed local officials, rather than those whose positions are dependent on maintaining local popularity.

7 - TARGETS ARE STILL TOO SMALL IN COMPARISON TO DEMAND. THE GOVERNMENT NEEDS TO PUT IN PLACE AN OBLIGATION THAT IF TARGETS ARE HIT AHEAD OF TIME, THE NEXT PHASE OF DEVELOPMENT MUST BE BROUGHT FORWARD.

We anticipate that many local authorities will hit their housing targets ahead of their five year plans and it is vital that they begin looking at resetting their targets to ensure that development and momentum within the housing market does not stall. The Government needs to implement regulation across local authorities to ensure they are revising their targets upwards once that demand for sites from house builders is evident.