

Rt Hon Sir Oliver Letwin MP
Build Out Review
Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London SW1P 4DF

Further to our meeting on Wednesday 7 February 2018, we are pleased to offer a response to the specific questions you put to us when we met in Portcullis House.

Having set out your preliminary assessment that the rate of build out is determined by the absorption rate, you asked if we could measure latent demand for housing comprising housing for social rent, housing for affordable rent and shared ownership. You also put it to us that if we could (by some magic) secure the land we need to build on, whether we could deliver our housing plans. We answered that we could, and attach two case studies that we hope you will find useful in demonstrating how housing associations could play a vital role in improving the rate of build out.

As set out in the attached document and case studies, we believe that housing associations can build quickly and effectively with less consideration given to sales rates for market homes than commercial housing developers. Our sales rates show that we can deliver more housing across a range of different tenures than private developers. Our financial structure and overarching purpose to house those in greatest need allows us to be more flexible and to deliver affordable housing at a build rate determined by quality, not market sale conditions.

Demand for affordable housing is high and measurable – we know we can let or sell the houses we build whereas private developers are constrained, as you know, by the rate at which the houses they build can be sold at the right price to derive the right return. Housing developers will generally plan a mix to derive the highest return whilst at the same time achieving a target sales rate, which will not be determined by demand. This can lead to delays in the planning process while the merits of design or viability are negotiated with the local planning authority.

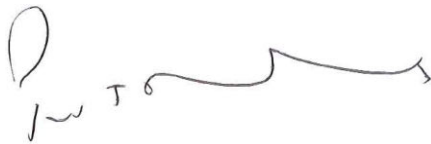
Once planning and land availability are resolved, the shortage of contractors would become a driver of build rate – although we recognise that this lies without this review's terms of reference.

We recognise that increasing the supply of land is also not within your review's terms of reference, but we will continue to advocate improving the supply of development land. For example, local authorities would be more likely to secure the land they need if they aimed for a 5-year + 30% target for every 5-year period.

As you set out when we met, open market housing is delivered at a sale rate which is dependent on market conditions, whereas affordable housing demand is measurable and build out rates are constrained only by the speed with which we can build at the right quality. We therefore contend that the higher the volume of affordable housing on a given site, the higher the rate of delivery. To that end we advocate a minimum percentage of affordable housing as part of the grant of planning permission, ring-fenced as the Community Infrastructure Levy (CIL) currently is. This would prevent diminution of the volume of affordable housing on the grounds of viability or site constraints after permission is granted and once a project is underway. For example, if developments required 25% affordable housing, it would provide more certainty around the rate of delivery. We welcome the statements on viability and transparency made by the Secretary of State for Housing, Communities and Local Government today.

We hope that his information will be useful to you, not least in shaping your preliminary recommendations to the Chancellor ahead of the Spring Statement. We would be very happy to provide further evidence to you and your team over the remaining months of this important review.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Paul Crawford', with a long, sweeping horizontal stroke extending to the right.

Paul Crawford
Chair, Homes for the South West

BRIEFING NOTE FOR SIR OLIVER LETWIN

Housing associations can increase the supply of housing

Housing associations build a range of different homes and tenures. A typical scheme includes 1-bedroom properties through to 4-5 bedroom family homes. A key difference between our schemes and conventional developers, is that while market conditions and scale will affect tenure decisions, the volume, scale and tenure we build are not solely based on open market sales.

Instead, we build based on the demand for affordable homes for market rent, as well as open market sales rates. The high demand for affordable homes means that the market does not impact on our build rate. In the event of a downturn in the market, the range of tenure types give us the flexibility to maintain, or possibly even to accelerate build rates.

Demand for affordable housing and housing for affordable rent is far higher than the supply, so we are not exposed in the same way to market forces.

For the model to work, affordable housing must be supported by subsidy. Historically, affordable housing was supported through grant subsidy: affordable housing delivered through the planning system as part of the S.106 offer for a site is subsidised by housing associations. Additional affordable housing delivered above policy-compliant levels, attracting subsidy can also be delivered by housing associations. When demand for market homes is not there, such as in a housing recession, homes which would have been built for market sale can be converted to affordable rent, with the assistance of subsidy due to the high levels of demand for affordable housing.

Latent demand for housing of different tenure is measurable, but it is not the only factor which determines the right mix.

Housing associations establish demand for affordable rented housing and shared ownership housing based on data from local authorities. Demand for market homes can be assessed from the volume and type of recent transactions. Housing associations are also well-placed to understand demand for supported and sheltered housing.

Schemes built by housing developers are usually built out at a pre-determined rate, based on assumed sales rates to maximise return on investment. Larger schemes may be built with two sales outlets, but going beyond this introduces additional risk.

The most sustainable communities should be housed in homes that are designed on a “tenure blind” basis, but there are differences

While there can be a difference of emphasis in design between homes for market sale and for social rent, all tenures should benefit from good design. There may be a greater emphasis on detached houses for private sale, for example. Affordable housing tends to be built in small clusters to facilitate the management of common areas such as parking courts.

We are focused on building communities as much as individual homes and will, where possible always look to provide community infrastructure earlier in the development programme on a given project. This creates a sense of place, a sustainable community and builds sales momentum.

Land and planning issues are critical; if they can be resolved the shortage of contractors will become more acutely felt.

If opportunities to build come sooner, the delays in the planning system are addressed and demand is sufficient to meet accelerated build rates, there would be an issue as to who would build the homes.

Local authorities should extend their land supply targets

Improving the supply of land would reduce upward pressure on land values, curtail discussions about the viability of development programmes and maintain the level of affordable housing to be delivered. Just as businesses over plan to achieve budget or to exceed it if possible, local authorities should plan on the basis they will need the necessary land supply to meet 130% of demand over the next 5 years – which will make them more likely to meet the actual need.

Affordable housing should be fixed at a specific percentage and ring-fenced

There should be a requirement on developers for a minimum percentage of affordable housing as part of the grant of planning permission, ring-fenced as the Community Infrastructure Levy (CIL) currently is. This would stop developers negotiating away affordable housing once a project is underway. For example, if developments required 25% affordable housing, it would provide more certainty around the rate of delivery.

CASE STUDY: Mulberry Hill, Bath

Curo acquired a 48-acre former MoD site in 2013 and developed a plan for 700 new homes, of which 30% (210) were to be affordable. Within 36 months of acquisition, planning permission was granted, construction began and new homeowners were welcomed. A new 210-place primary school will open in September 2018.

To date 60 new homes have been completed and 63 properties (including off-plan) have been sold. The first social rent tenants and shared-ownership customers moved in in late 2017. The overall margin will be c.£52million – or £74,000 per unit (based on c.£160m from private sales, £29m from affordable sales, £12m land sale and £0.5m to Bellway).

In the third quarter of 2017, average sales rates Mulberry Park were 5.6 units per month, compared to that of our nearest competitor at 1.7 units per month.

CASE STUDY: Pinhoe Quarry, Exeter

Liverty (the merged housing association bringing together DCH and Knightstone), is planning a development of 370 homes, to be built from August 2019. 61% are homes for market sale, 20% are homes for social rent and 7% homes for shared ownership. Excluding the cost of Section 106, the per unit cost of £157, 130. This means that Liverty makes a profit of £80,500 per market sale unit, which offsets the loss per affordable unit of £116,600.

The build out rate over the planned period for the project is 3.7 units per month.

This shows how cross-subsidy from homes for market sale delivers new housing at a faster rate than private development alone.

NB: Elements of the above information are commercially sensitive. Homes for South West would be very happy to discuss in further details any aspect of the case studies if it would assist further the review of build out.