The credit crunch and housing in London

Duncan Bowie considers the impact of recession and appropriate responses in the planning system.

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The impact of the credit crunch is already being felt acutely, not only in terms of significant falls in house prices but in the collapse of the development programme. Both the market slowdown and the broader economic downturn hit the ability of the housing programme in all sectors to meet housing needs and demand in our capital city. Homelessness, overcrowding, poor quality housing and the lack of affordable housing, remain serious problems for many households in London. It is essential that housing supply keeps up with demographic growth. The urgency of corrective action cannot be understated.

The problem and the lessons

It might be argued that those of us who want more affordable housing should welcome falling house prices. We are all aware that house prices have been at an unsustainable level, inflated by over generous lending policies by banks and building societies, which are only now regarded as irresponsible. With the restrictions on mortgage lending, effective demand has fallen off, so prices will fall further before they match effective purchasing power in the current lending market.

As well as there being a lesson for banks and other lenders, and a reminder for Government that some regulation of both the lending market and development might be required, there is also a serious lesson for developers – build only what is marketable – not just in terms of immediate demand but in terms of long term housing requirements. There has been a surfeit of undesirable small flats in dense and generally high-rise developments, often in not very attractive locations, for some time and I have always been puzzled by the optimism of some developers and their advisers about assumptions on sales values-perhaps persuaded by their own marketing hype. However, I also take the view that while refusal of a planning application for a development on the grounds that it is unsaleable may not be strictly valid in planning law, planners should have made more effort, through clearer development briefs and planning policies on housing mix, to ensure that the development pipeline was more appropriate to meeting London's long-term housing requirements.

What should be done now?

The main Government policy objective should be to increase the supply of affordable housing. This has two components: increasing the overall supply of housing, and ensuring that the supply of both existing and new housing in all tenures is of good quality and more affordable for households on middle and lower incomes.

We must learn from our mistakes so that they are not repeated in the future. But we must focus attention on what corrective action can be taken now.

The focus of Government policy should also be on reducing both the capital and revenue cost of housing to applicants rather than providing financial incentives to existing households to assist them to access housing, which is otherwise unaffordable. This latter strategy by increasing effective demand in an unregulated market, will serve only to increase the price of existing and new housing. Market stabilisation is not achieved by artificial boosting of sales values.

Much of the development programme under construction, but not saleable in the current market, is unsuitable for use of social rented housing for families. It is important that the Housing Corporation does not waive its normal standards to buy up flats, which are inappropriate. It should however look at funding housing associations to purchase schemes, which do include significant numbers of low rise 3 bedroom or larger properties, and be very tough on negotiating discounts from developers. Use of public money has to be cost effective and focused on output not on bailing out specific developers. Some house builders are in urgent need of cash flow and the public sector should not miss this opportunity. Some house builders would rather take 50 per cent of the assumed hypothetical market value than nothing at all.

The current market does provide some opportunities to improve the quality of the development pipeline. Where developers are mothballing projects not yet started because they are no longer profitable, there is an opportunity to redesign the scheme to provide more marketable housing and to increase the quantum of affordable housing. This will in some cases mean significant reductions in unit density, but with larger homes, could still house a similar number of people to the original assumption. It will generally mean less high rise development. If the Victoria scheme can be redesigned to meet affordable housing policy targets, so can other schemes. Redesign may need significantly higher rates of Housing Corporation grant per unit, but this will be money well spent. The GLA, boroughs and the Housing Corporation should be reviewing every unimplemented residential planning consent in London and talking to landowners, developers and housing associations about revisions required and how much subsidy is necessary to get the scheme started. We cannot afford to wait until the new Homes and Communities Agency is up and running. Government agencies have to be proactive now rather than waiting for developers to come forward with proposals. The Housing Corporation's 'market engagement' process needs to be speeded up with clear and quick investment decision criteria.

Government and local authorities should promote the provision of affordable housing through subsidised land disposal to housing associations and developers linked to the provision of affordable housing in accordance with policy targets. Government, public sector agencies and local authorities should review business management assumptions predicated on disposing of land and assets at full unconstrained market value. Local authorities in disposing of land for affordable housing should have regard to the revenue savings arising from lower homelessness and related social service and education costs.

Local authorities are central to the process. They should be empowered and enabled to guarantee the mortgages of households whom they have nominated to both shared ownership and outright ownership homes. There is a case for councils re-establishing their own mortgage programmes. There is also a case for local authorities to undertake development directly, especially where land is in their ownership. The Wandsworth 'hidden homes' scheme has been a positive initiative and could be followed by other boroughs with surplus land, so long as there are strict criteria on location and quality of output.

New shared ownership schemes should be discouraged, especially where they involve small units and/or small initial equity stakes. There is a strong case for converting shared ownership schemes into some form of sub-market rent. There are possibilities for developing affordable unsubsidised rental programmes in new housing based on long term investment funding sources such as pension funds. Some house builders are moving away from their historic short term approach to negotiate such arrangements, even if just on a medium term basis pending anticipated market revival. Government and Housing Corporation have floated the idea of medium term rental, which can be converted into equity share or outright purchase later. The British Property Federation is promoting the idea of a new build private rented sector. Now is the time for this continental approach – a managed and regulated form of Buy to Let, but with institutional investors having long term perspectives and responsibilities rather than individual speculators interested in short term gains. There is also a strong case for the Homes and Communities Agency to provide funding to a regulated private rented sector for existing stock and new provision. This would enable rents at levels significantly below market levels and would supplement existing social rented provision. Regulation would relate to standards, quality of management, rent and service charges. Such a regime would increase supply by generating additional private sector investment and good quality housing and would be available to middle income households at a cost significantly below the revenue cost of home ownership.

There is another immediate problem. Most estate regeneration schemes will be no longer viable as they depend on private finance or cross-subsidy, which is no longer available. Government must re-establish the direct regeneration subsidy schemes that previously existed in the Estate Renewal Challenge Fund and Single Regeneration Budget programmes.

The longer term policy issues

Returning to the longer term issues, Government should consider re-establishing the previous total cost indicator grant based regime. This will relate subsidy to the need to fund reasonable costs not met by rent income within the target rent framework. This will remove the reliance of the affordable housing programme on cross subsidy from private development, shared ownership receipts and housing association property disposal. This will re-establish a sound business management regime in the affordable housing sector.

The Government should not introduce any more stamp duty holidays, as the effect is to increase effective demand without necessarily increasing supply. The Government should consider the replacement of stamp duty, which is a tax on purchase, with taxes on capital gain on disposal and/or an annual tax on value increment.

Implementation of the Community Infrastructure Levy should be dependent on demonstrating that its introduction will neither delay appropriate development, nor reduce the quantum and quality of affordable housing output. Local authorities should consider as an alternative to levying CIL or planning contributions at commencement, the possibility of taking an equity stake in any future value appreciation. While this can be achieved through land disposal covenants or through the establishment of joint venture vehicles, the Government should amend planning powers to allow local authorities to take an equity stake in a private development as a condition of planning permission. This will ensure that a development is not delayed by onerous initial obligations. It will protect the public sector interest in terms of benefiting from any long-term value appreciation.

Planners and those in related professions need new skills. Planners need to be fully aware of all the factors that impact on the delivery of housing and deliverability of planning applications. This includes knowledge of housing market factors, funding arrangements and development viability. Government and academic institutions should focus on supporting relevant higher education courses and Continuous Professional Development (CPD) provision.

Government also needs to promote the positive role of planning and the importance of collaboration with other professions. There is also a need to shift the focus from development control to plan making, monitoring and developing appropriate mechanisms for plan implementation.

The Government should establish minimum qualitative and space standards applicable to all residential development. This would ensure that the next time the private market collapses, the homes under construction are fit for use as social housing.

On a final note, Government must ensure that planning policy and guidance is realistic. The plan making system needs to be speedier with the ability for plans to be reviewed quickly in response to changing external factors. Requirements for housing trajectories and site identification for 15 year housing targets are unrealistic in the current context.