

# Who should build our homes?

Six experts challenge the status quo



C A B E

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## Introduction

The housing boom was all about chasing volumes and shareholder return and, far too often, delivering poor quality. That era came to a sudden end when the financial system fell apart in 2008. Now, with the housebuilding industry tentatively beginning to find its feet once more, CABA is looking to fuel a debate about the future for housing in the next economic cycle.

In one version of the future, the big housebuilders repair their balance sheets and continue on as before, with little real change in quality or output. However, as CABA's chief executive Richard Simmons argued in *No more toxic assets*<sup>1</sup>, more of the same is simply not good enough. We already know, through CABA's housing audits, that the majority of housing built in the UK does not meet the standards required.

Now there is an opportunity to change the way housing is delivered in Britain, and explore new routes and models to achieve the quality and quantity that have been so conspicuously lacking to date.

CABA commissioned six experts with strong views and their own perspectives to tell us what they would change to deliver more housing, better designed, at affordable prices. They responded with visionary thinking, radical ideas and a series of persuasive arguments for change.

<sup>1</sup> See *No more toxic assets: fresh thinking on housing quality*, CABA, 2009, [www.cabe.org.uk](http://www.cabe.org.uk)

‘There is an opportunity to change the way housing is delivered and explore how to achieve the quality and quantity that have been so conspicuously lacking’

## Introduction

- Christine Whitehead points out that housing supply never came near to meeting demand, even during the boom, and suggests that a new tax regime can tip the balance of power from developers towards communities
- Peter Studdert draws on extensive personal experience to call for local authorities to be set free from central government and trusted to deliver quality housing for the people they serve
- Liz Peace challenges the predominant build-to-sell model and calls for both investors and consumers to reassess our attitudes to private renting, if we want more better quality housing in the future
- Stephen Hill champions the self-build movement, insisting that if we want sustainable housing delivered with vision and initiative, self-build is the place to find it
- Pooran Desai argues that we must seize the opportunity of climate change to build sustainable places where people can more easily lead healthy and happy lives.
- Dickon Robinson questions whether we can continue to live on our own, and suggests we need new forms of tenure which embrace multiple occupation and help people learn to live together again

All this thinking is a powerful catalyst for debate. CABE wants that debate to generate momentum for the creation of new – and revived – housebuilding models. Otherwise, it is hard to see how the UK can house an expanding population or fundamentally change the quality of its homes and neighbourhoods.



### **Christine Whitehead**

Christine Whitehead is professor of housing economics at the LSE and part-time director of the Cambridge Centre for Housing and Planning Research. She has been a specialist advisor to the Environment Select Committee and was awarded an OBE for services to housing in 1991.

### **Peter Studdert**

Peter Studdert is director of joint planning for Cambridge's growth areas. He advises the joint planning committees established between South Cambridgeshire District Council, Cambridge City Council and Cambridgeshire County Council on major housing sites and the new town at Northstowe. The views expressed here are his own.

### **Liz Peace**

Liz Peace is chief executive of the British Property Federation and a CABI commissioner. She is also a member of the Peabody Trust's property committee, trustee of the property charity LandAid and a non-executive director of the planning and urban design consultancy Turley Associates.

### **Stephen Hill**

Stephen Hill is director of C<sub>2</sub>O futureplanners. He is a CABI enabler, a member of CABI's Sustainable Cities advisory group, BRE's sustainability board, and RICS' sustainability and planning & development professional group boards, the EU sustainable property investment and management advisory group, and the HCA liaison panel.

### **Pooran Desai**

Pooran Desai is a founding director of the specialist sustainable property company BioRegional Quintain and a co-founder of the international environmental organisation BioRegional Development Group. He drew together the development partnership for BedZED – where he lives and works. In 2004 he was awarded an OBE for services to sustainable development.

### **Dickon Robinson**

Dickon Robinson was formerly the director of development at the Peabody Trust, chair of Building Futures at the RIBA. He is chair of Stratford City environmental review panel, a member of the CABI English Heritage urban panel and the Bath urban regeneration panel, and visiting professor of architecture at Mackintosh School of Art in Glasgow. He was formerly a CABI commissioner.

## 1 Christine Whitehead

### Land supply and the planning system

#### Summary

Production of new housing has halved since 2007 and the majority of completed units have received some form of government subsidy. House prices have fallen by 16 per cent and transactions are 60 per cent below normal. The crisis involves two distinct problems: cyclical volatility arising from short-term economic conditions and the longer term incapacity of the sector to expand supply to meet the projected growth in household numbers.

The planning system is also failing. Section 106 has produced more affordable housing, but overall the levels of delivery are still low and quality is quite poor. The result has been a policy that only benefits the few and leads to further distributional inequalities between income groups, tenures and generations.

Piecemeal policymaking has led to a centrally directed strategy that creates more problems than it solves. The focus on brownfield sites has increased costs; pro-density policies have reduced room sizes; and the system is weighted against first time buyers.

There is a need to move away from the centralised top-down approach to large-scale development, towards more local approaches. Measures such as the community infrastructure levy and changes in property taxation offer different ways to ensure that local communities see the benefits that development can bring to them and the economy more widely.

## Introduction

The financial crisis and the recession have played havoc with housing output and house prices. Housing starts in 2008/09 were less than half the level reached in 2005/06<sup>2</sup> and have now fallen to under 100,000 per year. Most needed some form of government subsidy. House prices have fallen by about 14 per cent from peak in December 2008 to trough in February 2009.<sup>3</sup> While prices have started to rise again this may be mainly the result of the extent to which the market has simply silted up – with transactions levels at least 60 per cent below normal.<sup>4</sup>

The crisis will take a long time to unwind. It involves two distinct problems:

- Cyclical volatility arising from changes in short-term economic conditions, and in confidence, which generate much larger changes in demand than in overall supply. The problem is exacerbated by the relative ease by which new supply can be reduced in response to market conditions as compared to the speed with which it can be expanded on the upturn.
- The apparent incapacity of the sector to increase supply to meet the projected growth in household numbers and increases in incomes. This has been the major cause of the longer-term trend in house prices in England which has been inexorably upward, adversely affecting wage rates, labour market flexibility and international competitiveness.<sup>5</sup>

<sup>2</sup> *Live tables no. 208*, CLG, November 2009, [www.communities.gov.uk](http://www.communities.gov.uk)

<sup>3</sup> *Table HP8*, Council of Mortgage Lenders, 2009, [www.cml.org.uk](http://www.cml.org.uk)

<sup>4</sup> *Table PT2*, Council of Mortgage Lenders, 2009, [www.cml.org.uk](http://www.cml.org.uk)

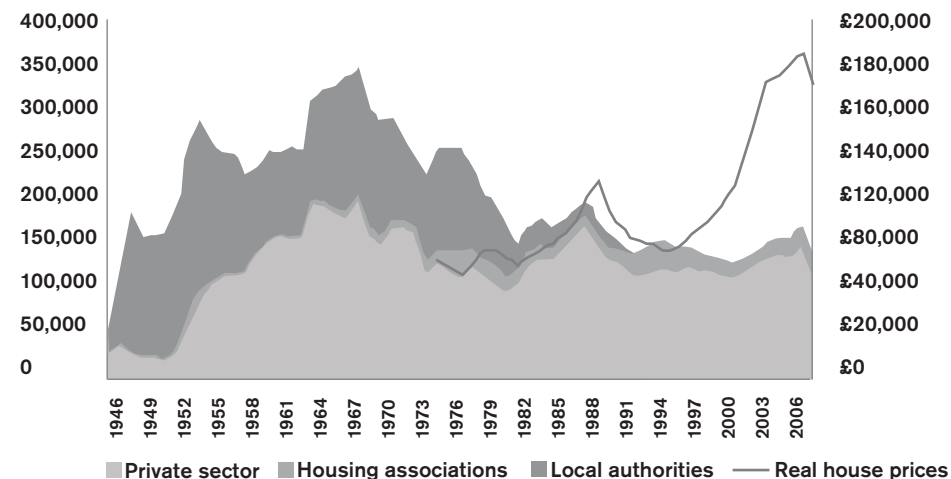
<sup>5</sup> *Review of housing supply: securing future housing needs – interim report*, Barker, 2003, London, HM Treasury

<sup>6</sup> *Homes for the future: more affordable, more sustainable – Housing green paper*, CLG, 2007, [www.communities.gov.uk](http://www.communities.gov.uk)

<sup>7</sup> *More homes for more people*, NHPAU, 2009, [www.communities.gov.uk/nhpau](http://www.communities.gov.uk/nhpau)

<sup>8</sup> *Homes for the future*, Holmans, Monk and Whitehead, 2008, [england.shelter.org.uk](http://england.shelter.org.uk)

**Figure 1 Housing supply and real house prices (adjusted for inflation) 1945-2007<sup>2</sup>**



At the moment most of the emphasis is on addressing the volatility issue and significantly denying the underlying problems. Yet during this century – unlike in earlier decades – supply has not kept pace with actual household formation, resulting in increasing pressure on house prices and volatility but also in poorer housing conditions, increased sharing and overcrowding.<sup>6</sup> Meanwhile many of the new homes that have been built have been poorly designed and planned.

Since the 1960s, private sector output levels have been around 140,000 per annum. Government intervention appears to be required to support additional housing above this level. An estimated requirement of 240,000 plus units per annum in England implies an enormous gap.<sup>7,8</sup>

### Problems with land supply and planning

Land supply and particularly land use planning have been blamed for this lack of investment in additional housing. The Barker review identified a fuller range of reasons including the structure and performance of the housebuilding industry and, to a lesser extent, the possibility of speculation in land. The review also emphasised the adverse effects of taxation policy in generating greater volatility and difficulties in funding the necessary infrastructure.<sup>9</sup>

The impacts of land supply and land use planning are also far more complex than perhaps is generally recognised. It is not simply a matter of speeding up or even making more planning permissions available. In simple terms the numbers of permissions outstanding are more than enough to support government targets for many years. Yet the numbers are difficult to interpret: many are outline permissions which may simply be there to help determine current option prices. Equally they may be substituting for earlier permissions. Whatever the reasons, tensions between developers and local authorities clearly still remain – and this fact lies at the heart of the problem of over constraint.

However, the problems associated with the lack of longer-term supply responsiveness are far more fundamental. The evidence on land and house prices shows an increasing upward trajectory, particularly since the 1990 Town and Country Planning Act shifted policy towards a plan-based system and section 106 brought in affordable

<sup>9</sup> Review of housing supply: securing future housing needs – final report, Barker, 2004, London, HM Treasury

**‘The government has implemented separate policies that interact with one another to increase the complexity, risk and cost of development’**

housing requirements and other aspects of planning gain (figure 2). Since then the government has implemented a large number of separate policies that interact with one another to increase the complexity, risk and cost of development. Equally the lack of a coherent policy towards funding necessary infrastructure, and uncertainty as to when it will be provided, has made it more difficult both to overcome local objections to development and to ensure stable supply.

Many commentators argue that the current model of funding is broken, particularly because planning obligations will not be able directly to support development in the next few years. However, discussion so far has been mainly in the context of short-term volatility with very little attempt to address the more fundamental issues. The system did not work well even in the boom to provide the numbers or types or quality of homes required and so it is worth taking a more detailed look at the model of provision and planning built into our current policies and asking how they might be improved.

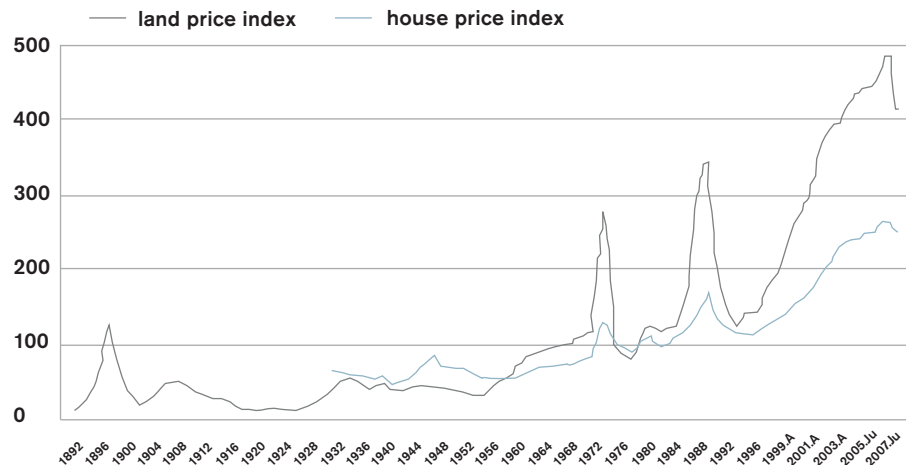
### The principles of land supply and value uplift

Housing needs land: an obvious statement but not quite as straightforward as it seems. It is not simply about the total amount of land but also about the attributes of the homes and the land itself.

The total supply of land for housing will depend on the value of land in other uses: the costs of transferring land into residential use; incentives to



Figure 2 Real land &amp; house price indices 1892-2008 (1975=100)



Note: house and land data for war years are interpolated

bring land forward (or hold it off the market): and the planning regime. As the economy grows, the value of all types of land increases. This in turn makes development more costly.

Within this total, the relationship between land and housing involves at least three elements:

- **What is the cost per home?** This is determined by both size of dwelling and density.
- **Where is it?** Land is also about accessibility to employment, local services and all the other attributes involved in the concept of place.
- **What is next door?** Similar or different types of housing? Commercial or industrial? Vacant or derelict land, or greenfield land?

**'Land use and density is determined by the opportunity cost of that land'**

Each site has a different level of demand and therefore a different price that the consumer is prepared to pay. In a smoothly functioning market, with perfect foresight and no transaction costs, the activity that has the highest value will outbid other uses at that location and competition between different uses will determine how much land is made available for housing.

Where demand for particular types of land is high, the price is also high and there will be an incentive to try to increase the density at which building takes place. So flats are concentrated in high land-value areas where housing is competing against more productive activities. New family homes with gardens, on the other hand, will often be located where the only relevant non-housing activity is agriculture or open space.

So land use and density is determined by the opportunity cost of that land – which depends on the relative productivity and profitability of different uses. Commercial activities can usually outbid other uses because they benefit from networks and concentrations of complementary uses. Housing usually outbids industry and agriculture.

Finally, land remains unused when the costs of bringing it into optimal use (or reuse) are higher than the benefits of that use. This is a matter of major concern in the context of regeneration, where there may be large costs of assembly, decontamination and demolition as well as building and the provision of suitable services.

Over time, demand and production methods, and therefore optimal land uses, change. However, to the extent to which the future is known, these future opportunities will be built into current land prices even if the change of use is way off.

### The role of planning

If the world were that simple there would be no need for land use planning. The government would just need to ensure an appropriate distribution of income so that every household could compete to obtain at least a minimum level of housing.

Planning inherently changes behaviour because it changes the quantity and location of land available for different activities. But planning is only worthwhile in a basically market system if it can improve market outcomes. The traditional view, that planning reflects society's objectives and should set the framework without recourse to market values, has long been replaced with an understanding that planning and the market must work together to generate higher productivity, higher values and therefore greater welfare.<sup>10</sup>

The role of planning has to be to concentrate on areas where the administrative system can work better than the market in supporting efficient decisions. In a well-functioning system these include:

- Bringing together information and increasing understanding of future opportunities
- Helping to ensure the provision of appropriate infrastructure

**'Planning has to concentrate on areas where the administrative system can work better than the market in supporting efficient decisions'**

<sup>10</sup> *Spatial planning and value*, Monk and Whitehead, 2006, RTP1

Compact and bijou: the buy-to-let boom has produced thousands more small city-centre flats

© Ben Cribben / Agency



- Addressing large-scale externalities by the separation or agglomeration of activities
- Setting standards and allocations for public open space and other social requirements
- Ensuring land is available for 'social goods' – such as affordable housing.

However, many argue that this is an optimistic view of how the planning system affects land market prices and availability. They suggest instead that administrative decisions are likely to be inefficient because they over-constrain the supply of land and because the decisions made reduce demand – and productivity.

Inadequate provision of infrastructure is another factor that has a major effect. This can arise both through financial and planning constraints and because infrastructure is not charged for directly or by future taxation – which further increases prices. In this way the landowner benefits, but future purchasers pay the costs through land prices – and productive development may not take place. All of these issues are made worse by uncertainties and speculation about the future, which can result in prices based far more on expectations than on reality. So in periods of economic buoyancy, the prices of housing and particularly land are pushed up above fundamental levels – and when circumstances change, demand and prices again fall disproportionately.

**'Inadequate infrastructure has a major effect, arising from financial and planning constraints and because it is not charged for directly or by future taxation'**

### **The relationship between financing, equity and efficiency**

Given this analysis it is hardly surprising that government looks to land values and the increase in them when planning permission is granted as a source of tax revenue and funding for necessary infrastructure. Efficiency, funding and equity can be complementary or in tension with each other – which impacts on how effectively the planning system can do its job in good times and bad.

### **Taxation and financing through the planning system**

Taxation and its relation to planning have been fraught with difficulty for many years. In 1947 the Labour government nationalised development rights in the Town and Country Planning Act and at the same time charged 100 per cent tax on the increase in land value after granting permission. This had the effect of putting off development in the hope of lower tax rates and the post-war period saw a range of different approaches.

Governments also saw the potential for using planning obligations to fund local investment. Initially this was limited to requirements arising from the site-specific development. However, an initiative in 1989 allowed rural planning authorities exceptional powers to grant permission for low-cost homes on sites that would not otherwise be developed. From this beginning, the policy of securing new affordable housing and infrastructure through the planning system was developed.<sup>11,12</sup>

11 *Quality and choice: a decent home for all, the Housing green paper*, DETR, 2000, [www.communities.gov.uk](http://www.communities.gov.uk)

12 'Planning gain and the supply of new affordable housing in England: understanding the numbers', Crook, Monk, Rowley and Whitehead, 2006, *Town planning review*, 77(3), pp353-373

The current policy operates through section 106 of the Town and Country Planning Act 1990 as amended by the Planning and Compensation Act 1991.<sup>13</sup> The underlying objective is to allow local authorities to seek cash or contributions in kind from developers to mitigate the impact of development so that local residents are essentially no worse off.<sup>14</sup> Section 106 has three distinct housing aims: to provide the land for affordable housing; to enable more mixed communities; and to increase financial contributions from developers and other stakeholders.<sup>15</sup>

This and other important policy changes have led to quite fundamental changes in the way that new housing is provided and funded:

- More affordable housing – although overall output levels have remained well below government targets.
- Market and affordable housing have become inextricably interlinked. Most larger sites have a mix of provision but when the market is not operating well, the system makes it more difficult to re-adjust commitments to enable development to restart.
- A big shift in the location of housing towards more pressured areas. This reflects relative demand and need but has meant that average costs of provision have risen significantly.
- Leverage of developer finance, but with outcomes varying greatly between local authorities. This is partially as a result of relative bargaining powers and uncertainties about the

*13 Lessons from the past, challenges for the future for housing policy: an evaluation of English housing policy 1975-2000*, Stephens, Whitehead and Munro, 2005, [www.communities.gov.uk](http://www.communities.gov.uk)

*14 Review of land use planning*, Barker, 2006, [www.communities.gov.uk](http://www.communities.gov.uk)

*15 Lessons from the past, challenges for the future for housing policy: an evaluation of English housing policy 1975-2000*, Stephens, Whitehead and Munro, 2005, [www.communities.gov.uk](http://www.communities.gov.uk)

**‘The system includes perverse incentives to developers and local authorities, and so what happens differs from what is desired’**

available gains. Output has been lower, subsidy rates higher and uncertainties about who pays greater than could potentially have been achieved.

- Support for some types of infrastructure but with massive gaps in the funding. Partly in response to this shortfall, the government has moved to introduce a community infrastructure levy that local authorities can charge on all types of development – not just residential.

### **Perverse incentives in the planning system**

The system as it currently operates includes a range of perverse incentives to developers and local authorities, and what happens tends to be very different from what is desired. These problems have been exacerbated over the last decade by additional policies related to brownfield sites, sustainability and the environment.

The most fundamental problems in relation to expanding housing supply and providing high-quality homes and places involve:

- **Local government finance.** There is no incentive for local authorities to give planning permission. They keep no business rates and the equalisation of community charges means that government recognition of the need for additional services comes slowly and is not directly related to investment. Planning agreements are only a partial offset to this.

- **Local democracy.** Only local residents have the right to vote for the local council. Those affected by development usually live nearby, while those who benefit from section 106 are often more dispersed. In this context 'nimbyism' is completely rational – people have to be very altruistic to welcome new investment. It is therefore hardly surprising that local authorities tend to identify sites where the political fall-out will be relatively limited. Developers similarly concentrate on 'winnable' developments that meet these criteria. The quality of design and placemaking suffer.
- **Concentration on brownfield sites.** The shift in policy has to some extent offset the pressure towards larger sites but it has also generated other problems. The logistics are often far more difficult and alternative use values may also be greater – so costs are higher and prices may be lower unless the dwellings are in good neighbourhoods with adequate local services. Urban open space which is highly valued by the community has been lost, while nearby greenfield land which has far less value has been left undeveloped.<sup>16</sup>
- **Increased densities.** This has also put pressure on existing developments in suburban areas, resulting in the loss of gardens and open space and more pressure on services and a loss of quality of place.
- **Size of homes.** The mix of dwellings has moved far more towards smaller homes, to flats and to low-cost home ownership that allow section 106 requirements to be met with the

<sup>16</sup> 'Welfare economics of land use regulation', Cheshire and Sheppard, *Journal of urban economics*, 52, pp242-269

**'The tax system benefits existing owners and hampers those trying to enter the market, forcing government to provide more assistance to lower-income households'**

- least involvement of government subsidy and developer contribution. The growth of buy-to-let also impacted on dwelling type. Some of these developments have now become a drag on the market. They are often poorly designed, have high service costs that have not been fully recognised and are unlikely to meet longer-term aspirations for quality places.
- **Existing stock.** Most of the policy emphasis is on new development and to a lesser extent major renewal. There are very few instruments in the system to incentivise improvements to existing homes.
  - **Tax and home ownership.** The incentives to maintain house prices and ensure that they continue to increase are inherently high in the context of nearly 70 per cent home ownership. The tax system continues to benefit existing owners and increase the problems facing those trying to enter the market, and to force government to provide more assistance to lower-income households. Some have argued that a time of turmoil is a good time for change but it is highly unlikely that government will want to rock the boat by suggesting large-scale tax changes.

### International experience

The Barker review suggested that Britain has a uniquely constrained land use planning system.<sup>17</sup> In much of the USA and in Switzerland, Austria and to a lesser extent Germany, local government finance systems make it worthwhile for some local authorities to compete for housing development

<sup>17</sup> *Review of housing supply: securing future housing needs – interim report*, Barker, 2003, London, HM Treasury

because it provides net benefits for local services.<sup>18</sup> The result is to generate higher levels of output – and indeed some suggestion of oversupply.

There are two main models of land use planning in industrialised countries. At one extreme, the USA has a clear-cut zoning system with market provision. At the other, there is direct government intervention in the process of transferring undeveloped land to sites ready for production. Traditionally the first has been seen as being more effective in supporting production and the second as generating a better use of urban land.

However, there is increasing evidence that in higher income areas in market-oriented economies – particularly on the east coast of America and in California – supply has become as unresponsive as in the more constrained countries in Europe, where responsiveness also appears to have declined with increasing wealth and output levels have fallen fairly consistently (Table 1). The exceptions are Ireland and Spain, where output levels grew very rapidly in the face of increased immigration and second home ownership, and government support for development.

**'The responsiveness of housing supply appears to have declined with increasing wealth'**

<sup>18</sup> *The best laid plans*, Evans and Hartwich, 2007, [www.policyexchange.org.uk](http://www.policyexchange.org.uk)

**Table 1: Dwellings completed per 1000 inhabitants**

	1980	2004
Austria	6.8	5.2 (02)
Belgium	4.9	4.4
Denmark	5.9	4.9
France	7.0	6.0
Germany	6.4	3.4
Netherlands	8.1	4.0
Sweden	6.2	2.7
Ireland	8.2	19.0
Spain	7.1	12.6
United Kingdom	4.5	3.2 (03)

*Source: Housing statistics in the European Union 2005/06, Federcasa, 2006, [www.federcasa.it/news](http://www.federcasa.it/news), Table 3.13*

In countries with planning systems based ultimately on UK legislation there has also been concern about lack of responsiveness in supply.<sup>19</sup> The most extreme example is probably Australia, which is generally highly market oriented but where supply has not kept pace with the number of households and prices have risen faster than incomes consistently over the last 20 years. As in the UK this is blamed on restrictive planning and inadequate infrastructure provision.<sup>20</sup>

The pressures appear to be towards lower responsiveness as economies grow, whatever the land use planning system. However, more market-oriented systems tend to have areas where response can occur and so overall shortages are less. This generates larger differences in prices between established, well-located and accessible areas and newer developments – but also tends to ensure a larger supply of affordable housing.

<sup>19</sup> 'Housing and urban development indicators: a good idea whose time has returned', Malpezzi and Mayo, 1997, *Real estate economics*, 25(1), pp1-11

<sup>20</sup> *Financial stability review, September 2009*, Reserve bank of Australia, 2009, [www.rba.gov.au/PublicationsAndResearch](http://www.rba.gov.au/PublicationsAndResearch)

The big difference between the UK and most countries other than Australia is that, even when incomes have been rising consistently, output levels have been below the growth in household numbers since 2000. They show no sign of being able to adjust upwards without large government subsidy.

The UK is also highly atypical in terms of the relative size of new build. In most major European countries, new completions are significantly larger than the average size in the existing stock (Table 2). Only in England, Italy and Denmark has the average size declined. The contrast may also be even more marked: the English figures are averages over a long period while the evidence shows vast relative increases in two-bed flats particularly since 2000.<sup>21</sup> One rationale for the shift in provision in England has been that the growth in immigration, students

**'In most major European countries, new completions are larger than the existing stock. Only in England, Italy and Denmark has the average size declined'**

**Table 2: Average useful floor area per dwelling (sq metres)**

	Year	Total dwelling stock (sq m/dwelling)	Year	Dwellings completed (sq m/dwelling)
Austria	2003	93.9	2002	101.0
Belgium	2001	81.3	2005	105.0
Denmark	2005	113.1	2004	107.0
Finland	2002	77.0	2003	90.2
France	2002	89.6	2004	111.0
Germany	2002	89.7	2003	113.9
Ireland	2003	104.0	2003	105.0
Italy	2001	96.0	2003	76.5
Netherlands	2000	98.0	2000	115.5
Spain	2001	90.0	2003	100.6
Sweden	2005	91.5	2005	94.0
England	2001	86.9	1981-2001	82.7

Source: Housing statistics in the European Union 2005/06, Federcasa, 2006, [www.federcasa.it/news](http://www.federcasa.it/news), Table 2.1

and single-person households points to a shortage of smaller units. However, given capacity to adjust the existing stock, the more usual approach is to build with an eye to the future – when, assuming long-term income growth, households will require more space. Market pressures are clearly towards houses rather than flats and larger rather than smaller units.

The specifics of the UK system are clearly more constraining than in most other countries. In particular, the planning process appears to reinforce the cyclical nature of development and its potential asymmetry. The mix of policies on density, brownfield and section 106 has also helped to generate smaller, and probably poorer-quality, new development. However, if there are no local incentives to develop, it is hardly surprising that local authorities try to minimise costs to their established communities.

The credit crunch has brought demand factors and credit constraints to the forefront of debate. Only when confidence improves will market supply start to increase again.

On the supply side there are big issues associated with both finance and planning. Most developers are stretched for cash or building land banks. This strategy makes sense when there are continuing underlying shortages and prices can be expected to rise in time. This means that most development depends on government subsidy – and too often the only support is for 'shovel ready' developments rather than those that are most appropriate for the longer term.

<sup>21</sup> *The density debate: a personal view*, Whitehead, 2007, [www.lse.ac.uk](http://www.lse.ac.uk)

Many of the short-term issues on the planning side relate to earlier contracts which are too demanding in current conditions but make sense in the longer term. Often what will be better in the long term will not be exactly what was negotiated in the boom times. This is particularly true for apartment developments, where far more care needs to be taken to ensure better design, improved space standards and low maintenance requirements.

A more fundamental issue is what is going to happen to owner-occupation. Problems of access are not going to be solved rapidly. In many ways this seems to be the ideal environment for shared equity arrangements, perhaps with some element of government guarantee. However, there appears to be little immediate appetite for this type of approach. If this remains the case, then demand for private renting will expand but landlords will require higher returns to invest – adversely affecting affordability.

The fundamental problem remains the lack of responsiveness of supply. Yet, for all the rhetoric, there is almost certainly no political appetite for change at least in the short term – and actually the reverse, as local government sees a slow take-up of new housing output.

One important but difficult area of potential change is to shift the mix between brownfield and urban extension development. Economic, sustainability and design considerations all point to greater emphasis on developing extensions near good

**‘The current government has chosen a top-down approach, with increasing use of publicly owned land’**

public transport and accessibility to jobs. But this means changing political attitudes to development on greenfield and particularly greenbelt land in appropriate locations – a blanket approach will encounter massive opposition.

More generally, incentives are needed to make the system more pro-development where this supports the national and local economy and provides for more sustainable communities. The planning system cannot play that role at the moment. The current government has fundamentally chosen a top-down approach, with increasing use of publicly owned land and an increasing role for the Homes and Communities Agency agreeing larger-scale development on a site-by-site basis. This cannot win hearts and minds in local communities and it is likely to prove too costly to government over the next few years.

The alternative is to develop more local approaches that can also bring in private finance more effectively. Local communities must benefit. Labour proposals to enable local authorities to borrow have some traction, but are too limited in terms of tenure and location. The Conservatives are looking at a number of suggestions that would allow local authorities to keep some community charge specific to new building but the incentives will have to be more persuasive. A modified community infrastructure levy and some change in property tax would both be necessary before there could be a long-term sustainable approach to ensuring higher levels of housing output through a mix of planning



and funding. In particular, it would be important to maintain concentration on extension developments and growth points where innovative forms of infrastructure funding can be tested.

### Conclusion

Any effective change must depend on continued taxation of development gains to help pay for infrastructure and reduce capital gains from untaxed benefits. At the moment all the emphasis is on declining prices and the lack of gains because of downward adjustment in land values arising from past speculation. However, development gain is about the fact that granting planning permission improves outcomes and increases land values. Planning gain will therefore re-emerge as an issue and it remains the most appropriate source of funding for community infrastructure. Now is the time to be more straightforward about taxation of these gains to benefit both local communities and the broader economy.

Output levels will inevitably rise from current levels, in response first to government subsidy and then to market pressure. However, prices and output levels are likely to be just as volatile in the future unless the basic planning framework moves towards one which incentivises the right sort of development at the local level. Central government cannot do it all – people must see that they or their children or others they care about will benefit from building more, better designed and more sustainable housing.

**'Any effective change depends on continued taxation of development gains'**

## 2 Peter Studdert

### Building new communities through local partnerships

#### Summary

Even during a boom, the current model of housebuilding has failed to deliver either the quantity or the quality of housing required to meet need.

Over the last 10 years, government policy has been driven by the need for greater numbers. Local authorities have played a regulatory role through the planning system, rather than a leadership role. The rising housing market up to 2007 encouraged an increasing reliance on section 106 agreements with developers to fund the social and physical infrastructure to support new communities. Local authorities have become marginalised in this system.

The system also means that housebuilders, which operate with tight margins based on short-term financing models, are reluctant or unable to respond to design and quality standards. Uncertain timescales, insecure policy contexts and the up-front costs of section 106 agreements all mean that developers include high profit margins to reflect risk. This in turn affects house prices.

This essay focuses particularly on the difficult challenge of building large-scale new communities in the designated growth areas – a key government priority. It suggests that a new relationship is needed between the public and private sectors and that local authorities have a crucial role to play in forging this new relationship. Drawing on recent northern European experience, possible new forms of partnership working are examined that could be adapted to the UK context.

## Introduction

Although much lip service has been paid to the concept of partnership working between the public and private sectors in the challenge of building new communities, the reality on the ground has become an increasingly fraught relationship between the regulator and the regulated. True partnership based on shared interests and objectives has been hard to find, and as a result delivery has been slow and the quality of the final product has often been poor.

The collapse of the housing market provides an opportunity to reflect on whether a more productive relationship between the public and private sectors could be forged, particularly at the local level, as the market begins its slow recovery. This new relationship could be based on learning from other countries and political cultures where a more genuine local partnership approach has been shown to produce better results.

## The policy context

A major objective of government policy over the last decade has been to meet pressing housing needs, particularly in the growth areas in southern and central England identified in the sustainable communities plan. Spatial planning policies have rightly focused development principally on the regeneration of urban brownfield sites and on the creation of large compact new communities on greenfield sites – either urban extensions or freestanding new settlements connected to nearby towns by public transport. These forms of

**‘Local authorities are often reduced to the role of onlookers, with their regulatory role tightly proscribed by planning policy statements’**

development are a rational response to the need to locate new homes close to existing centres of employment, as well as respecting the principles of sustainable development by giving them enough critical mass to support investment in new infrastructure and local facilities.

Much of this agenda has been driven by central government and the larger private sector housebuilders/developers, local authorities often reduced to the role of onlookers with their regulatory role tightly proscribed by planning policy statements. New sustainable communities can only ultimately succeed with strong local leadership and constructive engagement with local communities because of their complex interaction with local services and infrastructure. The four shortlisted ecotown proposals<sup>22</sup> all seem to have at least tacit support from their local authorities, but it is surprising that this support was not made an explicit condition for success from the start.

The boom in the housing market up to 2007 also made the job more complicated. It encouraged central and local government to assume that an ever greater proportion of the social and physical infrastructure necessary to support new communities, including the provision of affordable housing, could be secured through section 106 agreements with the developers rather than being funded by the public purse through general taxation. The UK already has the most centralised system of local government finance in Europe,<sup>23</sup> and local authorities have very limited control over

<sup>22</sup> *Eco-towns: location decision statement*, CLG, July 2009, [www.communities.gov.uk](http://www.communities.gov.uk)

<sup>23</sup> See *The balance of power: central and local government. Sixth report of the communities and local government committee*, HMSO, May 2009, [www.publications.parliament.uk](http://www.publications.parliament.uk)



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## Building new communities through local partnerships

### 'Negotiations between local planning authorities and housebuilders have become complex and protracted'

any revenues that would enable them to invest in infrastructure. Meanwhile central government grant funding in growth areas has progressively been adjusted downwards in anticipation of a significant contribution of capital funding for infrastructure from developers.

The design and quality standards set by central and local government to combat climate change and meet the increasing expectations of local communities have also added to the demands placed on housebuilders. They have been reluctant or unable to respond because of the tight margins and short-term financing model that they have traditionally operated.

It therefore comes as little surprise that the negotiations between local planning authorities and housebuilders have become increasingly complex and protracted or that the quality of the final product has often been poor because of the conflicting objectives and motivations of the parties involved. The rare examples of good practice that do exist have tended to result from situations where an enlightened private landowner and developer has worked in closer partnership with the local authority and the local community, such as at New Hall in Harlow or at Poundbury in Dorchester, or where the development is being promoted by a public agency working in partnership with the private sector, such as at Upton in Northampton.

New model housing: Vathorst in the Netherlands offers us lessons in public/private partnership. The local authority is a 50% shareholder in the development company

So even before the recent collapse of the housing market the UK model of building large-scale new communities had major problems. From a local government perspective these include:

- **Accountability.** Even where a local authority is in sympathy with central government's objectives for promoting growth, the top-down approach often means that it is seen as being solely an agent of central government policy. This is the case both in plan-making, through the 'numbers game' played in the preparation of regional spatial strategies, and in the development control mechanisms on specific sites. This approach also allows opponents of growth to dismiss it purely as a central government imposition rather than a local responsibility to meet local needs.
- **Staff.** The limitation of the local authority's planning role mainly to that of a regulator rather than a community leader makes it difficult for it to attract and retain creative and forward-looking professional staff, many of whom have been poached by the private sector or non-departmental government bodies over the last 10 years.
- **Finance.** Tight central control over local government finance, particularly the nationalisation of the business rate and the absence of any real tax benefits to local authorities from delivering housing growth, gives little opportunity for local authorities to promote the benefits of growth to their local communities.
- **Maintenance.** Local authorities take a long-term view of development because they take on the responsibility of managing and maintaining local

**'Central government restrictions make it difficult to co-ordinate the funding and delivery of infrastructure'**

- infrastructure and the public realm. This is at odds with the normal private sector priority of minimising short-term capital costs.
- **Infrastructure.** Central government restrictions on local government borrowing and a lack of locally controlled revenue streams to support any borrowing make it difficult to co-ordinate the funding and delivery of major pieces of infrastructure at the local or sub-regional level.
  - **Delivery.** Even after all the complex planning processes have been concluded, the actual rate of delivery is in the hands of the housebuilder. Even in a strong market, build rates are often deliberately constrained so as to restrict supply into the market and optimise sales prices rather than to meet pressing local needs.

The delivery model creates different problems for developers and housebuilders:

- **Costs.** They face a heavy burden of up-front costs for promoting a major development through complex and convoluted plan-making and development control processes, often over very many years.
- **Risk.** The protracted timescales create uncertainties about changing government policy priorities at both national and local levels that may add to costs and therefore increase risk.<sup>24</sup>
- **Financing.** Land and infrastructure costs, including those required by section 106 agreements, have to be funded early in the development process with associated high financing costs.

24 See *Understanding builder to builder residential land transactions*, CLG, March 2009, [www.communities.gov.uk](http://www.communities.gov.uk)

- **Margins.** As a result of all these factors, a high profit margin has to be built in to reflect the high level of risk, and this has a knock-on effect on house prices. Recent experience of 'open book' viability testing in Cambridgeshire has shown that profit margins in excess of 20 per cent are often assumed for market housing, as opposed to the 6 per cent margin that private housebuilders assume when building affordable housing.

The centrally driven, market-led model struggled to produce high-quality new communities during the housing market boom. The recent collapse of the market has now thrown the very basis of this model into question. Where can we turn to find a better way of doing things?

### Alternative approaches from Europe

Problems with UK delivery have led to much interest in mainland European models of building new communities, particularly in the Netherlands, Scandinavia and Germany. A recent report by a working group of the Housing Forum<sup>25</sup> summarised the main reasons why their models appear to deliver higher-quality places more quickly than the UK model. Some of its key points were:

- Local authorities had greater local autonomy and financial independence and worked within more flexible regional planning frameworks
- Local authorities were often the landowners in strategic housing developments (or at least had some stake in the land) and were therefore in a

**'Problems with UK delivery have led to much interest in European models of building new communities'**

25 *Land for homes – creating value through community leadership and co-investment – working group report*, The Housing Forum, 2009, [www.housingforum.org.uk](http://www.housingforum.org.uk)

## Building new communities through local partnerships

position to demonstrate greater leadership and vision

- Local authorities were able to borrow money, often from municipal banks at low rates of interest, to forward-fund social and physical infrastructure and pay back the loans over a longer period backed by land and property sales
- A much wider range of housebuilders, self-procurement groups, private and social landlords created a wider choice of types and tenures of housing and greater competition and aspiration for higher standards of design and environmental performance *and*
- There was greater local support for developments because of sustained engagement with the local community.

In the Cambridgeshire growth area, representatives of the local authorities have over the past two years visited a number of European developments including:

- Hammerby Sjöstad in Stockholm, Sweden
- Vauban and Rieselfeld in Freiburg, Germany
- Vathorst and Kattenbroek in Amersfoort, the Netherlands.

Through Cambridgeshire's local delivery company, Cambridgeshire Horizons, the authorities have established an ongoing dialogue with some of the European local authorities responsible for overseeing these developments.

The development that appears to offer the most interesting lessons for Cambridgeshire is Vathorst, an urban extension to the city of Amersfoort to provide 11,000 new homes between 2002 and 2014. Vathorst is being built around a new railway station that gives the community easy access to Amersfoort city centre as well as to Amsterdam and Utrecht. Over 3,000 houses have already been completed and the development also plans to include 100,000 square metres of office space, an industrial area and a large local centre.

Several features of the delivery mechanism seem to borrow the best features of a conventional UK development corporation while retaining the democratic control of the local authority and complying with European environmental assessment regulations:

- The City of Amersfoort played the leading role in identifying the location of the urban extension as the plan-making body. But it is also a 50 per cent owner of Development Company Vathorst (OBV) together with four private developer/builders and one social housing association.
- The local authority is therefore a shareholder in the developer, a 'conventional' planning authority for development control and building control, a service provider and a client for and developer of the public infrastructure.
- OBV has responsibility for land assembly, public realm, quality control, sports and cultural projects, managing public space during the build-out period, information/communications and financial and risk management.

**'Variety is achieved by ensuring that individual architects are responsible for designing development areas no larger than 80 homes'**

- OBV's quality control role includes commissioning the masterplan, retaining a quality control panel of experts who oversee all levels of detail of the design, and carrying out regular customer reviews to gather feedback as the development progresses.<sup>26</sup>
- The joint approach between the public and private sectors engenders trust and a shared vision because risks and benefits are shared and the local authority is empowered to engage on this basis.
- The 772 million euros (£700 million) cost of acquiring the land and building all the necessary infrastructure will be paid for by the sale of serviced sites, with the cash flow supported by several short-term and long-term loans from the Dutch Municipal Bank totalling 250 million euros.<sup>27</sup> The interest rate is significantly lower than the rate that private developers would expect to pay on the open market.

<sup>26</sup> See *Design quality in new housing: learning from the Netherlands*, Cousins, 2009, Taylor and Francis, for more detail on quality control in new Dutch housing including Vathorst.

<sup>27</sup> Presentation by Wim van Veelen, joint chief executive of the Vathorst Development Company, to Cambridgeshire authorities, May 2009. See also *Beyond eco-towns: the economic issues*, Falk, 2008, URBED

The aims and objectives are more ambitious than recent developments of a similar scale in the UK. OBV took the bold step of appointing an international masterplanner to set high standards of design from the start. The masterplan makes imaginative use of water as a way of making distinctive places in the otherwise dull and flat landscape and has proposed three neighbourhoods on the themes of woods, water and local history. Variety within these themes is achieved by ensuring that individual architects are responsible for designing development areas no larger than 80 homes.

Movement within Vathorst is principally by bicycle or walking. The plans include solar energy, district heating through waste incineration, sustainable building materials, high insulation standards and excellent water management practice. Communal recycling facilities are provided in underground storage containers that reduce the environmental impact of individual waste and recycling bins.

Many of these features were incorporated into the aspirations for ecotowns.<sup>28</sup> However, the Vathorst model makes delivery much more likely because of the involvement of the local authority as an equal partner with the private sector. The key lessons seem to be that:

- Amersfoort had much more opportunity to set the vision for Vathorst through its participation in OBV. It was able to embed high environmental and design standards into the vision because it had the political backing of its local community and it had the power and ability to do it.
- Private sector partners share the vision and there are regular opportunities for feedback to be given from the community. This gives individual housebuilders much clearer guidance through a swifter approvals process than is the case in the more confrontational UK development control system.
- Funding and development of the infrastructure combines the benefits of access to relatively cheap long-term public finance with a business-like approach to delivery and procurement. Flexibility can easily be built into the system as

<sup>28</sup> See the various ecotowns worksheets prepared by the Town and Country Planning Association, 2008/9.

**‘The partnership approach seems to encourage a competitive spirit to achieve ever-higher quality standards’**

opportunities and issues arise during the build-out period, whereas in the UK the local authority only has one chance of getting it right through the section 106 agreement at outline planning stage at the very beginning of the process.

- The public/private partnership approach seems to encourage innovation and a competitive spirit to achieve ever-higher quality standards in the new neighbourhoods. There is much more use of independent architectural practices whereas the norm for volume housebuilders in the UK is to rely on standard house types produced by in-house design teams.

The Vathorst approach has, of course, emerged from the Dutch system of government and public finance, but it also seems to have benefited from the UK experience of new towns and development corporations.<sup>29</sup> It moves the development corporation model on to a more democratic footing and at the same time ensures that European environmental assessment regulations are respected.

However, it was also a striking feature of the other European case studies visited by Cambridgeshire authorities that the local authorities played a leading role in setting the vision and working in a productive partnership with a wide range of housebuilders and service providers. They were also able to maintain high standards of design and place-making and this was as much because of their role as landowner and development partner as their role as planning authority.

<sup>29</sup> See *Britain's new towns: garden cities to sustainable communities*, Alexander, 2009, Routledge, for a timely retrospective on the new towns movement.



So what are the lessons that could be applied in the UK context, particularly with a housing market that in many places will only recover slowly, and with public finances likely to be under more pressure than in the past decade?

### Creating productive local partnerships

Housing need will, if anything, increase over the next few years. We will still need to meet ambitious targets for housebuilding, especially in southern and central England, and the government will still have a duty to take the lead in setting these targets.

However, there is a danger that past difficulties in delivering large-scale new communities will lead to a change to distributing growth to a larger number of smaller sites that are more widely dispersed and easier to bring forward. Although smaller and medium-sized sites will of course continue to play a role, larger strategic sites will still be necessary to enable the physical and social infrastructure to be concentrated in an efficient and sustainable manner, and to begin to address the huge undersupply that has built up over the last 30 years.

My contention is that we need to start a process of restoring power and financial freedom to local authorities to enable them to rebuild their capacity to lead the new forms of partnership that will be required to meet our housing needs in the future. This will be a long process but all the main political parties now seem to agree on this. The communities and local government committee

**‘We need to start a process of restoring power and financial freedom to local authorities, to enable them to rebuild their capacity’**

## Building new communities through local partnerships

recommended in its May 2009 report that ‘the government should consider options to increase local government’s revenue raising powers, in order to promote local accountability and to encourage local government autonomy’.<sup>30</sup>

The foundation for future partnership working between the various sectors should be recognition of their complementary strengths:

- The public sector – local authorities backed by central government and its national and regional agencies – should take the main responsibility for community leadership and local engagement, setting the vision for the place, assembling the land for strategic sites and funding and procuring the strategic infrastructure.
- The private sector should principally work within the framework set by the local authorities and focus on the efficient and effective delivery of the types of housing that people want.
- The third sector – social landlords, co-operatives, co-ownership and self-build groups – should be given an increased role in delivering a much wider variety of types and tenures of housing than has been the case in the past.

This clearer recognition of roles should mean a less risky economic environment for the private sector and therefore less need to assume such high profit margins. At the same time, the more proactive role of local authorities in land assembly would lead to a more realistic view about land values, with greater opportunities to invest value uplift in the quality

30 See *The balance of power: central and local government. Sixth report of the communities and local government committee*, HMSO, May 2009, [www.publications.parliament.uk](http://www.publications.parliament.uk)

of the final product. A wide variety of public-private partnership models could then be used depending on local circumstances.

However, there are three particular areas that need to be reviewed before we can move towards this more productive model:

- The strategic sites allocation process
- The funding and delivery of the physical and social infrastructure necessary to support a large-scale new community
- Setting the vision for quality and carrying it through on the ground.

### Allocating strategic sites

There is a strong argument in favour of introducing a much more simple and flexible regional planning framework to enable more resources to be put into the more critical level of sub-regional planning and strategic sites allocation. With the merging of regional spatial and economic strategies into single regional strategies, the opportunity exists to refine the spatial planning element down to broad principles and minimum targets to ensure that spatial, social and economic policies are aligned at the regional level. This process should be led by regional groupings of local authorities within the framework set by central government and should be a high-level and proactive sustainability appraisal of options rather than the developer-led 'beauty parade' that has so often been the case in recent years.

### 'Masterplanning and developing the vision for a major site is best done when the local community has a stake in the ownership of the land'

At the sub-regional level, more flexibility is beginning to emerge following the publication of the revised PPS12 in 2008, which encourages the allocation of strategic housing sites in the core strategies of local development frameworks. Methodologies in support of this approach are being developed by the ATLAS team in the Homes and Communities Agency<sup>31</sup> and by CABE through the strategic urban design project. A particularly positive development is the increasing use of joint core strategies by groups of local authorities within an economic sub-region, such as North Northamptonshire.<sup>32</sup>

### Funding and delivering infrastructure

From the northern European experience, it seems clear that masterplanning and developing the vision for a major site is best done when the local community, through their local authority, has a stake in the ownership of the land. This enables it to work in partnership with the private sector to deliver a shared vision for the place over time. This is particularly critical in the provision of the physical and social infrastructure necessary to make the development truly sustainable.

There will always be a need for extra public funding for 'higher order' infrastructure not related to any specific development site. This would be identified through regional and sub-regional spatial plans and the investment frameworks drawn up by regional and sub-regional agencies. However, the introduction of the community infrastructure levy may help to lever in some additional private sector funds for

31 *Strategic site allocations within core strategies: draft guidance note*, HCA, January 2009

32 For more information see [www.nnjpu.org.uk](http://www.nnjpu.org.uk)

strategic infrastructure from the small and medium-sized developments that currently contribute little or nothing via section 106 agreements. Another approach being explored is the use of tax increment financing, or accelerated development zones, mentioned in the 2009 budget. These would allow a local authority to borrow capital for a key piece of infrastructure and then keep the business rate increments that the investment has created to repay the debt over a period of time.

However, the greatest sticking point in the delivery of larger developments is providing the site-specific infrastructure – the schools, surgeries, community centres, local transport schemes, open spaces and other facilities that make the difference between a sustainable community and just another housing estate. When the local authority has no land ownership stake in the development, this has to be negotiated through a section 106 agreement at outline planning stage and all requirements for a site which may have a 20-year build-out period have to be anticipated, costed and agreed between the parties. It is these requirements that are proving so contentious in the currently depressed market conditions. What mechanisms can be found to overcome, or at least smooth, this obstacle to progress?

The easiest way would be in cases where the local authority is able to take a substantial equity share in the development and can therefore borrow funds (or issue bonds<sup>33</sup>) to provide the infrastructure against the potential for increased land values

**‘The sticking point for larger development is providing the infrastructure – schools, surgeries, open spaces – that make it sustainable’**

33 See ‘Reinventing the building society’, Dunmore, 17 July 2009, *Building*

and the disposal of serviced plots in the future. This is what happened in the Vathorst case study earlier and it has been used to an extent by English Partnerships in the past. This would be particularly effective if local authorities were given powers to acquire land allocated through the strategic sites allocation process at existing use values, rather than see windfalls go to landowners who just happened to be in the right place at the right time.

Even where the development is being promoted by a private developer/landowner, a variation of this model could still help so long as the local authority is able to borrow funds to pay for significant items of site and community infrastructure. If local authorities were given enlarged facilities for prudential borrowing, the loan could be backed by a ‘mini-tariff’ levied on the development for repayment over the build-out period at the time when housebuilders were in a better position to pay in terms of their cashflow. This would avoid the need for section 106 trigger mechanisms for the payment of large sums early in the build-out period, which developers currently find so hard to fund. However, central government would have to allow local authorities much greater on balance-sheet debt levels to enable these major housing schemes to move forward.

There is also an important role here for the Homes and Communities Agency through its 'single conversation' business model, where additional land and access to long-term finance can be brought into the local partnerships established by the local authorities.

### Partnerships for quality

The final area for review is the process for setting the vision for a place and ensuring that it is delivered. So often the 'visions' presented by developers through design and access statements are a superficial and seductive 'hard sell' which is eroded once land is sold off to the volume housebuilders and reserved matters and public realm design and management schemes are submitted.

Under a joint public/private development company, the vision for the development can be more effectively shared and developed in close consultation with the local community. It can then be rigorously enforced through the control and disposal of land rather than through the cruder instrument of development control powers. For example, requirements for housebuilders to use competent and imaginative architects and run architectural competitions for significant buildings could be written into the terms of land disposal.

**'Good progress has been made in defining good practice in design and placemaking'**

Good progress has been made in the past few years in developing methodologies for defining good practice in design and placemaking, including *Building for Life*, the *Manual for Streets* and the emerging work on design coding. These are helping to provide a framework for local planning authorities to work with developers and housebuilders on individual sites. In addition, the use of design panels at national, regional and local level is becoming more widespread and more weight is being given to their views by planning committees and inspectors. All of these approaches need to be fully deployed in the new partnerships.

However, what is also needed is some additional input from the wider public to ensure that the design and management approaches being sought align with the qualities that people really want for their neighbourhoods. Regular feedback from customer surveys, as established at Vathorst, should be built into the new processes.

### Conclusion

Housing delivery in the UK has suffered by comparison with that in northern European countries because of the weak and constrained state of our local authorities. This has prevented them from entering into meaningful and productive partnerships with the private sector.

The delivery of the large strategic housing sites that will continue to be required to meet our pressing housing needs will be much more effectively promoted and delivered through local public/private partnerships.

Local authorities need to be able to take a leading role, not only in identifying strategic sites through their core strategies, but also in acquiring or negotiating an equity stake in the development itself. They also need greater freedom to use innovative financial instruments to forward-fund crucial strategic infrastructure.

Only then will local authorities have a real chance of delivering both the quantity and quality of housing we need, and be able to work as equal and productive partners with the private and third sectors in building new communities that will continue to grow and prosper.

### 3 Liz Peace

## Financing and changing business models for housing

### Summary

One of the shortcomings of the predominant build-for-sale housing model is that the developer does not retain long-term interest in the site. There is therefore no incentive to produce a design better than the minimum needed to make a sale, and issues such as the design of the public realm and long-term maintenance can be sidelined without any impact on profit.

The downturn offers a golden opportunity to promote long-term quality through attracting long-term investment. This means rental models, for either the whole properties or the land on which they sit.

There are very few large-scale providers of rented residential accommodation in the UK, beyond social landlords. Large-scale investors continue to shun the residential market because income returns (rather than capital returns) are higher for commercial than for residential property.

However, the success in recent years of large-scale mixed-use developments points to a new opportunity. Companies that have traditionally been wary of residential should now be seeing how their skills and experience could open up fresh areas for expansion.

Experience in the commercial property market indicates that one way of improving residential returns would be to improve quality. This would start to change attitudes towards renting. We need developers and investors prepared to respond to the demand that this would create. We need a different planning and tax regime to make investment a viable commercial proposition. And above all we need a clear political commitment to look for different and innovative ways to provide high quality housing.

## Introduction

There is a lot wrong with the way housing in this country is provided.

Even before the recession there were not enough homes to meet demand, and this situation has been massively exacerbated by the economic crisis. People who need housing simply cannot afford it. In January 2000, the average cost of a house was £98,000; by January 2007 it had risen to £216,000<sup>34</sup>. Even those who could afford a mortgage can now no longer obtain one because of the caution of banks concentrating on re-building their balance sheets. And the National House-Building Council has recorded an 11 per cent drop in the number of applications for social housing since 2007/08.

The type of housing provided is not what people want and quality is very often poor, with small space allocations and inadequate public space<sup>35</sup>.

Neither existing nor new homes meet the increasingly stringent requirements for environmental sustainability and particularly energy efficiency, which is significant because homes are responsible for around 27 per cent of the UK's carbon emissions.

**'With build-for-sale, the developer does not retain an interest. There is no incentive to design to any higher quality than needed to achieve the sale'**

34 FTHPI national monthly growth series from 1971, Acadametrics, 2009, [www.acadametrics.co.uk](http://www.acadametrics.co.uk)

35 What home buyers want: attitudes and decision making among consumers, CABA, 2005

And finally, the environment around housing is often not well maintained and housing developments frequently lack the facilities and other facets of a sustainable community, particularly employment, social and leisure opportunities.

How many of these problems can be attributed to the fact that the main providers have only a short-term interest in the homes they build?

The most accepted model of housing provision is build for sale, where a developer using either debt or equity, or a mixture of both, acquires land, builds, sells to an owner-occupier, takes the profit and then moves on to the next development. While this model may not be completely broken, the downturn offers an opportunity to explore other models.

One of the shortcomings of the build for sale model is that the developer does not retain any interest once the sale is complete and the site is built out. There is therefore no particular incentive to design to any higher quality than that needed to achieve the initial sale: aspects such as public realm and long-term maintainability assume less importance than features such as a double garage.

But if the housing providers retained a financial interest in the development, they would have a direct interest in seeing design quality enhanced and maintained as a means of preserving and increasing value.

## Renting – past, present and future

The most obvious way of achieving this is through some form of renting. At one end of the spectrum, this involves housing provided by social landlords at a subsidised rent to those who cannot afford to buy or rent at full market rates. At the other end is market renting, which can encompass anything from luxury penthouses to basic one-bedroom flats that serve the young professional market. In between is a whole range of shared ownership and shared equity models that involve a mixture of mortgage and rental payments, usually providing to increase the proportion owned through ‘staircasing’. In some instances, such as the original London estate model, the developer retains an interest in the land and charges ground rent and the occupier effectively buys the property through a long lease.

Renting is not new. At the end of the First World War, some 76 per cent of homes in the UK were rented from private landlords. Successive waves of legislation and regulation intended to protect the tenant from unscrupulous landlords, coupled with the rise in home ownership, drove many landlords out of business.

Renting remains a popular form of tenure in other countries. In the Netherlands, some 43 per cent of total housing stock comprises rented homes and in the USA, it is around 28 per cent.

**‘Compared to the £144 billion secured against buy-to-let property, professional corporate landlords make up a very small proportion of the market’**

There are very few large-scale providers of private rented accommodation, beyond social landlords, in the UK. Indeed, Grainger is the only one listed company that with 16,000 units comes anywhere near the size of the large investors in multi-family housing in the US. Dorrington has a large portfolio, mainly in central London, and Residential Land has 1,400 units. But compared to the £144 billion secured against buy-to-let property<sup>36</sup>, professional ‘corporate’ landlords make up a very small proportion of the total market.

The downturn in the market has led to speculation about commercial property companies moving into the residential sphere, both as builders of homes for sale and long-term investors in residential property for rent. This has been fuelled partly by the growth of the mixed use model of development, with many planning authorities requiring commercial development to have an element of residential, or vice versa; and fuelled partly by the likelihood of good returns and the desire for both a capital upside and an ongoing relatively secure income return.

It has been remarked that the dukes of Westminster didn’t get rich by selling the freehold. Companies such as Quintain, Argent and Land Securities have all expressed interest over the last few years in market renting. And since the onset of the recession, other developers such as Urban Splash have become residential landlords. For many, however, this is a temporary expedient to address a glut of unsold houses.

36 Buy-to-let market grows for first time in two years, Council of Mortgage Lenders, November 2009, [www.cml.org.uk](http://www.cml.org.uk)



## The new estates

There is a widely held view that, if some of the larger commercial property companies entered the private rented sector, this would enhance the quality of both the homes and the space around them. This partly stems from the perception that over the last couple of decades commercial property development has become more creative, employing leading architects and championing good design, while in contrast, housebuilders have basically just continued to use 30-year-old designs.

Sir Stuart Lipton, the first chair of CABE, used to muse that as a nation we built elegant office blocks but as soon as we added kitchens and bathrooms, the design went to pot.

It must also surely be the case that building for rent, as opposed to sale, means that developers must take a long-term interest. They are responsible for maintaining the estate and for ensuring that it holds its value and generates income, but neither are possible if the development is badly designed or falls into disrepair and fails to attract tenants willing to pay adequate rents.

Maintenance of the public realm is normally the responsibility of the local authority. Ensuring that it is carried out to the standard that the long-term investor requires can be a problem, especially where councils are suffering from lack of funds. The solution in some areas has been for councils to seek ongoing contributions to the running costs.

**'Building for rent means that developers are responsible for maintaining the estate and for ensuring that it holds its value'**

Long-term investment: the immaculate gardens of London's Bedford Square are paid for through residents' service charges, giving the landlord an extra return

© Adam Clark (Flickr: adamcl)



This is not always popular with developers, who are themselves cash strapped and who do not like the concept of paying out funds and then having no control over how they are used.

The alternative option is for the developer or investor to take over maintenance and management. Commercial developers have shown that they can build and then maintain attractive environments as well as the buildings within them. Canary Wharf has been designed with as much emphasis on the public space as the buildings. Argent's mixed-use development at Brindley Place in Birmingham, Grosvenor's Liverpool One, Broadgate Centre and More London are among many examples.

In all these cases, the developers intend to continue to be involved in the maintenance and management of the estate since that is how they will be able to maintain value for their investment. This should translate for a residential model, with large-scale development of either mixed-use or predominantly residential development for rent, with the developer/investor maintaining its interest in the site and looking after the public realm as well as the homes.

Some people are nervous about what they see as the privatisation of public space and the takeover of community facilities by the private sector investor. In her recent book, *Ground control*, Anna Minton warns of the dangers of creating sterile gated communities where behaviour is rigorously

**'Elsewhere in the world it is already the norm for the public realm around housing to be privately controlled and maintained to very high standards of cleanliness and safety'**

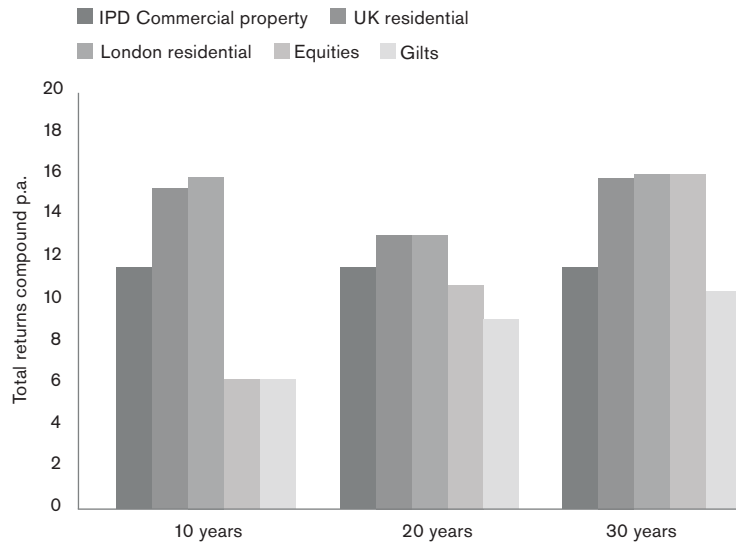
controlled and, by implication, community creativity stifled or even destroyed. However, elsewhere in the world it is already the norm for the public realm around housing developments to be privately controlled and maintained to very high standards of cleanliness and safety.

### The problem of returns

The one element of renting that has grown substantially over recent years is the buy-to-let market, rising from just 28,000 mortgages in 1998 to well over 1.1 million in 2008. While this adds to the numbers of homes available for renting, it does not deal with the qualitative issues discussed above. Individual investors are not going to invest substantially in the public realm or social infrastructure, and they will have had little influence on the overall design of the estate into which they have bought.

What has not expanded in any appreciable way is the large-scale investment in homes for rent by large property companies or the traditional investing institutions. This category has, if anything, shrunk and some well-known names, such as British Land, have divested themselves of their residential portfolios. There has been much analysis of the reasons why, especially given the impressive performance of total returns compared with other asset classes, as the graph shows overleaf:

Comparative annualised total returns over 10, 20 and 30 years



Source: Savills Research, IPD

One possible reason for the neglect of such a high performing asset class is that investors tend to focus on the income return because it is predictable and allows them to match their liabilities with more certainty. Even when total commercial returns are low or negative, as was the case in 2007 and 2008, the income return is still higher for commercial than residential property, as the table opposite shows.

Commercial and residential average total % returns split by income and capital growth

	Commercial real estate (IPD)			UK residential real estate (Savills)			London residential real estate (Savills)		
	Total returns	Income return	Capital return	Total returns	Income return	Capital return	Total returns	Income return	Capital return
1 year	-4.4	4.6	-8.6	10.2	3.2	7.0	10.0	3.0	7.0
3 year	10.9	5.1	5.6	9.4	3.3	6.1	8.0	3.1	4.9
5 year	12.4	5.7	6.4	11.6	3.5	8.1	10.5	3.2	7.3
10 year	11.7	6.3	5.0	15.5	4.5	11.0	16.1	4.5	11.6
20 year	10.4	6.9	3.5	13.4	5.5	8.0	13.8	5.6	8.2
30 year	11.9	6.7	5.2	16.2	6.2	10.0	16.5	6.3	10.2

Source: Savills Research, IPD

**‘Investors with a long-term interest in a property will design quality and sustainability into the development’**

One way of improving returns might be to improve quality. This could create a virtuous circle where long-term investors in residential property would have an incentive to commission or acquire better stock and manage it better so that they can ensure higher returns. The higher returns would in turn lead to more investment in a sector with the potential to contribute significantly to easing the housing crisis. This is supported by the presumption, outlined above and supported by experience in the commercial market, that investors with a long-term interest in a property will inevitably wish to preserve its long-term value by ensuring that quality and sustainability are designed into the development from the beginning, and enhanced and maintained by good management.

On this basis, encouraging larger scale development of, and investment in, homes for rent should be regarded as a positive move towards improving the quality of homes and the environment in which they sit. In addition, encouraging commercial developers to use their skills to create the overall structure of a place even if they then sell on plots of land to house builders, could also improve the quality of that place, especially if they retain some interest in the site through a ground rent arrangement.

### The barriers to large-scale investment

Increasing the level of commercial developer and investor interest in residential property would therefore seem to be a no-brainer. The key question, however, is how to attract interest and translate it into financial investment.

One of the first challenges is the general reputation of renting as a form of home occupation. We seem to be a nation obsessed with home ownership – even Labour ministers view it as the single most significant route towards upward social mobility. The result is that renting is regarded as second best. This is an attitude that both central and local government needs to change.

We need a positive approach to alternative forms of housing provision and active encouragement of a professional private rented sector that focuses on large scale provision of quality homes for rent – in the same way that companies in the United States

**‘We need active encouragement of a professional private rented sector that focuses on large scale provision of quality homes for rent’**

provide ‘multi-family housing’ in a highly competitive market that drives up quality and service.

The second challenge is that the financial returns are simply not high enough when compared with commercial property to attract large institutional investors. Moreover, meeting the increasingly stringent requirements for energy and other aspects of resource efficiency is likely to add to build costs. Some relatively modest financial incentives from the government are therefore going to be necessary. Options include:

- **Stamp duty:** stamp duty land tax is currently charged on the total cost of the purchase rather than at the lower rate that applies to individual properties. This puts large scale investors at a disadvantage compared with buy-to-let investors. It would be a relatively straightforward and low cost concession to simplify tax on bulk purchases and properties.
- **VAT:** removing VAT on management costs for residential landlords.
- **Planning:** reducing the cost of assembling a portfolio of properties by using the planning system to impose a designated use of ‘renting’ as opposed to sale. This would impact on the underlying price of the land and so bring down overall development costs.
- **Affordable housing obligation:** the current system effectively acts as a tax on residential development. One possibility would be to allow the provision of homes for rent to stand in lieu of at least part of the affordable housing obligation,

on the grounds that rented homes are more affordable than outright purchase and that in any case the developers make less of an immediate return on renting than they would on sale.

The third challenge is that companies considering large-scale investment in renting frequently complain that there is inadequate suitable stock available.

The recession and accompanying fall in demand for the product of the traditional volume housebuilder has led to unsold units and sites where construction has been suspended. This could offer a solution to the problem of supply, especially if the price was suitably discounted. However, there are concerns that the quality of some of these stalled schemes is poor and this would deter those who require a long-term investment in quality as a means to sustained returns.

Planning authorities could play a key role by designating sites for rented development. Public bodies with a supply of surplus land could also be encouraged or even mandated to put sites forward for rental schemes.

The Homes and Communities Agency (HCA) is encouraging the large-scale provision of rented homes with the launch of its private rented sector initiative. Potential investors have been invited to register their interest in creating a vehicle able to acquire and manage a rented portfolio, with the potential carrot of some form of initial rental

**‘Planning authorities could play a key role by designating sites for rented development. Public bodies could even be mandated to put sites forward for rental schemes’**

guarantee and possibly even government subsidy. The extent of these incentives may now be limited, although the HCA has intimated that stock from Kickstart could be made available. But initial interest was high, and while it would appear that only a handful of proposals are being pursued, if even a couple of schemes can get going that could show the market that renting can be made to work.

### Conclusion

Creating large, commercially based and high quality alternatives to the traditional housing provision model still feels a long way off. New models involving continuing ownership of land, and probably also the building, would lead to better designed and managed environments.

However, new and creative policies will be required to secure anything more than marginal involvement by those who understand how to create and manage large estates. Introducing such policies will demand imagination and courage from both public and private sector.

## 4 Stephen Hill

### Time for a citizens' housing revolution

#### Summary

Self-build has an untapped potential to create high-quality places. Just over 10 per cent of all new private homes are delivered by individual or community self-builders. This share could be expanded, given the right enabling and encouragement.

One of the main barriers faced by the sector is lack of awareness and trust among public sector organisations. Organisations like community land trusts challenge the established understanding between public bodies and existing housing providers. Policymakers and service providers need to rethink their approach and recognise that self-provided housing is not necessarily a more expensive way to provide affordable housing, but a desirable one that offers new opportunities.

Self-providers have a unique opportunity to demonstrate their value to public bodies as co-investors who choose higher environmental and quality standards with the long-term view in mind. They bring significant amounts of individual and collective commitment to invest in new homes, as well as financial capital.

Attitudes and policies need to change at all levels to allow this approach to achieve its full potential. Public landowners could ensure that every site disposal contains a requirement to sell serviced or readily serviceable plots to self-builders. Self-build could be integrated as a spatial planning requirement. The Homes and Communities Agency could integrate self-provision into its standard single conversation protocols and as part of local investment agreements.

Developments currently too often fail to reflect the needs and contexts of the local community. Housing is a fundamental need and one that individuals should be encouraged to group together to fulfill for themselves.

## Introduction – from DIY to Grand Designs

On July 4 1845, history's most celebrated self-builder began to build his home by the side of Walden Pond in the woods outside Concord, Massachusetts. The bill of quantities included 1,000 old bricks at \$4, two casks of lime at \$2.40 and nails at \$3.90.

The builder was Henry David Thoreau. His account of two years living in the woods, Walden, became the first of a torrent of self-promoting publications about sustainable living and ideal homes. He was as irritating as many of his present-day imitators. 'I love Henry,' wrote a friend, 'but I cannot like him.' Thoreau was insufferably right about almost everything. His views on buildings still resonate today: 'What of architectural beauty I now see, I know has gradually grown from within outward, out of the necessities and character of the indweller, who is the only builder... Shall we forever resign the pleasure of construction to the carpenter?' For 'carpenter', we should read everyone involved in the now heavily regulated business of building a sustainable home today – everyone except the person for whom it is being built.

He was describing that most potent of ideas, the 'dream home': the one we would all like to build, but probably never will.

Ask a colleague, ask a casual acquaintance, ask the taxi driver if they dream of building their own home. How many say no? But if we are so many, why do politicians persistently do nothing to help us realise

**'Could the places that we make become those elusive sustainable communities that politicians try so hard to create for us?'**

our dream? Why do they continue to rely instead on a way of building houses that they constantly criticise for being slow, inefficient, unaffordable and of doubtful quality?

If we, the dreamers, had more control over the way in which our homes were produced, would they be better quality, more sustainable, more affordable? Could the places that we might make through our own home-building become those elusive sustainable communities that politicians try so hard to create for us?

They just might. Indeed, Thoreau was not really writing about building a house for its own sake, for its qualities of functionality, durability and delight. He wanted to understand the *process* of designing and making a home, as a necessary part of what a good life in the backwoods of Concord could be like. Thoreau was less a designer, more a placemaker.<sup>37</sup>

This essay therefore focuses on the quality places that citizens could make for themselves as much as on the objective design characteristics of individual homes. It assumes a more generous view of what citizens can contribute as investors and placemakers.

37 References in this essay to 'placemakers' and 'placemaking' follow the naming used by CABE, but also include the statutory 'placeshaping' activities and responsibilities of local authorities and local strategic partnerships in England which arise from spatial plans and sustainable communities strategies.

## The policy context

So what is the potential for self-provided housing? Three academic studies have concluded that self-provided housing:

- Helps create more efficient and fairer housing markets

Duncan and Rowe's<sup>38</sup> study looked at the performance of housing markets in countries with a significant self-provided sector. They concluded that self-provided homes are most accessible to middle-income families, but help the less well-off, too. Housing market cycles are less acute. There is greater price competition with mass housing, with lower house prices generally. There is greater ability to match outgoings to income, with consequently greater social and economic security, and polarisation by tenure is less marked.

On their evidence, individual and collective self-providers are less likely to be constrained by the inflexibility of capital tied up in the land holdings and production systems that disable large housebuilders, and have been more adaptable as counter-cyclical housing providers.

- Already has a strong market share and potential for growth

Self-provided housing is not a small market. Barlow, Jackson and Meikle<sup>39</sup> estimated that the market in 1999 was about 15,000 homes per year and that output is sustained even during market downturns. Some claim the market is now between 16,000

<sup>38</sup> *Self-provided housing - the first world's hidden arm*, Centre for Urban and Regional Research, 1992, *University of Sussex* (also 1993, *Urban Studies*, volume 30, issue 8, Sage)

<sup>39</sup> *Homes to DIY for - the UK's self-build housing market in the 21st century*, Joseph Rowntree Foundation and YPS, 2001, [cabeurl.com/98](http://cabeurl.com/98)

**'The study found that securing land with a reasonable prospect of planning permission was the main obstacle'**

and 20,000 a year. The study concluded that the UK self-provided market was underexploited. They pinpointed the difficulty of securing land with a reasonable prospect of planning permission as the main obstacle to market growth, and called for public land to be sold and planning permissions granted with specific conditions.

- Suffers from a lack of awareness in the public sector

Hill, Mason and Whittenham<sup>40</sup> concluded that the most significant barrier for community self-builders was a lack of awareness among public sector bodies of the significance of their role as enablers. This was true of central government departments in England (not in Scotland), local authorities, and housing associations, with a few brave exceptions. Although public policy has been based on a consumer-based approach to 'choice' in all public services, the report concluded that the greatest single barrier to expanding community (grant-assisted) self-build was the disabling culture of government and the enabling agencies: essentially a deep-rooted fear of letting go and giving up control.

Although these three studies were all related to self-built or self-commissioned housing, they illustrate both the broadly similar policy context and the practical and cultural barriers that apply to all forms of citizen-led housing. Progress will depend on challenging some of the deep-rooted assumptions about the way that we should design, produce and finance our new homes.

<sup>40</sup> *The future of community self-build*, Joseph Rowntree Foundation and Capital Action, 2000



## The role of design

'We haven't done enough on the design...that's a major area for improvement,' said former deputy prime minister John Prescott, in response to the reassembled Urban Task Force.<sup>41</sup> More recent ministers have echoed this faith in design to deliver high-quality, mixed, sustainable communities.

But 'design' seems to have become confused with quality controls for the production of beautiful objects and finished places that can be measured against targets and standards, and therefore compliant with government policy. There is not much idea of design as a complex and sometimes messy process that extends in both directions, both long before - and even longer after - the development is complete.

We are very far from realising the benefits of co-production of space and place through learning and adaptation, while we are relentless in our pursuit of the tick for 'good design'. There are no public awards for learning from our mistakes.

So, if not professional urban designers and architects, then who are the real co-producers of space? One former minister, Hilary Armstrong, thought she had found the answer in her award citation<sup>42</sup> for The Diggers self-build housing in Brighton, designed by community architect Architype: 'A microcosm of what could be achieved on other sites all over the country by harnessing the imagination and skills of ordinary people...(it) displays that indefinable quality which marks out the outstanding from the excellent.'

<sup>41</sup> *Towards a strong urban renaissance*, Rogers et al., 2005 [cabeurl.com/99](http://cabeurl.com/99)

<sup>42</sup> See forthcoming publications (Winter 2009) by RIBA *Building Futures on Professionalism*

**'Community land trusts represent a challenge to traditional ways of doing things and the understandings between public bodies and housing providers'**

## Resistance to change

What do mainstream institutions do when faced with truly active and autonomous citizens who do not fit their experience and expectation of normal?

Community land trusts represent a challenge to traditional ways of doing things and established understandings between public bodies and existing housing providers. Their development in the UK since the late 1980s is a textbook example of the difficulties that new ideas have in becoming part of an evolving mainstream.

Those who feel most threatened by change adopt the tried and trusted technique of branding the aims and actions of newcomers as difficult, or special. Special, in this context means that community land trusts should be treated by reasonable people as inherently risky, more expensive and sufficiently unique and different to require additional rigour in assessing their public policy worth and value for money, as compared to a less than critical assessment of those already accepted as normal.

The trusts are primarily mechanisms for spatially focused investment in placemaking and the delivery of the spatial planning and sustainable development outcomes in sustainable communities' strategies, core strategies and local/multi-area agreements. Their emphasis, particularly in rural areas, has been on permanently affordable housing in high-value areas. Many aspiring rural and urban trusts also have ambitions for employment, food production and local

energy generation. These are completely mainstream activities that councils, local strategic partnerships and the Homes and Communities Agency are in business to promote. Arguably, community land trusts are more focused and potentially better able than most other bodies to deliver these outcomes over extended timescales. They have the means to be sustainably embedded from the start, through their provenance in and governance by the community and its citizens.

Central government, in its consultation on a national enabling framework for community land trusts,<sup>43</sup> proposed a special value for money test for them, as they have been characterised by government and its agencies as being more expensive than other ways of providing affordable housing. Recent market conditions have exposed this view as ill-founded.

A more sensible and proportionate approach should be that community land trusts (the biggest so far being 12 homes) are judged by criteria no more onerous than those for any other housing provider. Indeed, if all alternative ways of delivery were evaluated more rigorously against their capacity to deliver placemaking outcomes, they would quickly be recognised as powerful co-investors in placemaking.

Value for money tests should be designed explicitly to stimulate innovation and new efficiencies in the use of financial, environmental and social capital. Conventional understandings of 'weak' and 'strong' investors and developers are of limited use in dysfunctional housing markets.

43 The housing that Gabrielle built', Niesewand, *The Independent*, 18 July 1997

**'Self-providers meet higher environmental and quality standards. They do this because they want to and because they can afford to'**

### Value uplift... fool's gold

Self-providers make specification choices that often enable them to meet higher environmental and quality standards. They do this because they want to and because they can afford to. They offset extra costs through their own time, foregone developer's profit and on-costs and the ability to adapt over time.

Whether this should give rise to so-called 'value uplift' is a critical issue. The Millennium Communities programme was launched in 1997 to challenge mainstream housebuilders to design and build better-quality places and houses, with higher environmental performance standards. The code for sustainable homes introduced mandatory environmental standards for publicly supported projects in 2006 that were higher than those in the building regulations. In each case, it was assumed that higher-quality homes would be likely to cost more.

Various surveys of homebuyers' intentions have suggested that people would be prepared to pay a limited amount above market levels.<sup>44</sup> There is evidence of actual sales of Millennium Community homes that either sold more quickly or commanded a marginal premium. There has been plenty of countervailing evidence and anecdote in the wider market that some environmentally advanced houses have had to be heavily discounted. More compelling was evidence that better-quality places in New Urbanism developments in the USA,<sup>45</sup> and similar schemes in the UK,<sup>46</sup> sold more quickly at higher prices, and sustained their resale value. This suggests

44 *Community Land Trusts: A consultation*, CLG, October 2008, [cabeurl.com/9a](http://cabeurl.com/9a)

45 *The Department for Communities and Local Government's consultation on Community Land Trusts: a response from the National CLT Network, Community Finance Solutions*, November 2008, [cabeurl.com/9j](http://cabeurl.com/9j)

46 *Land for housing: creating value through community leadership and co-investment*, Housing Forum, April 2009, [cabeurl.com/9c](http://cabeurl.com/9c)

that behavioural economics can be harnessed to underpin land and development economics.

There are some fundamental problems with this approach. The reality is that if there is no incentive to drive down cost or otherwise be efficient, then 'value uplift' should be more accurately described as:

- a subsidy for inefficiency and lack of innovation
- a large macro-economic opportunity cost through the inefficient use of land value foregone that could be used for public goods that cannot be paid for any other way
- a socially and fiscally regressive tax on the less well-off, making an already unaffordable essential good even more unaffordable.

These are examples of cost displacement that have nothing to do with creating or adding value, and perversely cast sustainability as a cause of social inequality.

Recent thinking about valuing the impact of sustainability on commercial property<sup>47</sup> marks a significant shift away from the cost plus/value uplift approach. In future, and in the context of the Climate Change Act 2008, value will be determined in future by the increasing obsolescence of less sustainable buildings that will become less easy to sell or let and to manage and maintain at a reasonable cost. The emphasis will shift to investing in quality and enhanced environmental performance to create and sustain value.

**'Value will be determined in future by the increasing obsolescence of less sustainable buildings that will become less easy to sell or let'**

47 Unpublished consultation responses to draft valuation information paper 13, RICS 2009

Both mainstream housebuilders and self-providers would benefit from other more productive approaches:

- rigorous sustainability appraisal to ensure that new homes are built in the right place
- strategic commissioning of sustainable infrastructures, driven by spatial planning objectives that enable more cost-effective solutions than are possible through prescriptive site-based standards
- re-engineering the production of new homes, rather than retro-fitting existing house types with cost-inefficient technologies
- lease financing by utility providers taking the cost of basic house service packages, leveraging match loan finance to achieve the higher performance, and covering borrowing via user charges, with no extra charge to the purchaser for the capital cost of the home.

'Value uplift' came from the lazy vocabulary of house and land price inflation over the last 15 years. It promised benefits, but masked the absence of real innovation and risk-taking.

### Prospects for action and policy

Examples of self-provided housing in the UK and mainland Europe illustrate the power of citizens acting together to bring greater energy, imagination and creativity into housing construction, design, and the long-term sustainability of places. There is inbuilt potential for further adaptation, change and

incremental improvements, either because there has been thoughtful future-proofing in the design process and solutions, or because the determination of the citizens will find a way. There are good examples of just about everything that we associate with well-designed and sustainable homes and communities. What's needed now is a willingness to listen and tap into that energy and creativity, and engage citizens as co-investors in their communities.

Self-providers bring individual and collective social and environmental capital to invest in new homes, new places and commitments to behaviour change, in addition to the financial capital they bring through savings, mortgages, rent and sweat equity. Self-providers offer significant capital efficiencies over conventional housing producers. The forthcoming decade will be marked by acute shortages of public and private capital, and hitherto unknown levels of fossil fuel price unpredictability. These capital efficiencies are valuable resources that policy makers cannot afford to ignore.

Indeed, in the current economic climate, self-providers may be more willing and able to maintain production levels when mainstream housebuilders cannot or will not take the risk. Central and local government policy interventions should therefore provide a more supportive environment.

We have also seen that regulatory processes and official attitudes can both help and hinder. However, the public policy framework to support placemaking is now well defined, if not yet well implemented. With

**'Self-providers may be more willing and able to maintain production levels when mainstream housebuilders cannot or will not take the risk'**

48 Further development of the proposed investment models in *Housing Forum evidence to all-party urban development group*, Hill and Byrne, May 2009

growing political support for localism, we now have a unique opportunity to unlock the underused capital of the self-provided market, with these suggested prospects for action:

### Placemaking and culture change

The Housing Forum's report *Land for housing: creating value through community leadership and co-investment* described a new model of placeshaping co-investment partnership.<sup>48</sup> This was an important attempt to design an approach to investment to achieve that desirable mix of social, economic and environmental outcomes required for successful placemaking.

When drawing up their spatial plans, strategies and agreements, local authorities and local strategic partnerships should be systematically evaluating the capacity of all their prospective partners to invest and deliver the outcomes required.

Citizens want to be treated with respect and recognised as part of the solution. Culture change is easy to say, much harder to do. However, by grounding the role of the citizen in the investment structures that local authorities will have to establish to satisfy the rigour of comprehensive area assessment inspections, there is a real chance that more equal, respectful and effective partnerships will emerge. The presence or absence of such partnerships should be a high-scoring key line of inquiry for the Audit Commission in assessing the effectiveness of councils' placemaking responsibilities.

### Community builders and creating value

Self-providers can be the pioneers and early adopters needed to build the social foundations and environmental lifestyle character of new places. They are the entrepreneurs of social space, able to create the character and identity of place, and establish the values and norms for the production and use of space. In promoting new developments in a weak housing market, they can be important sources of start-up capital to begin the process of development that will ultimately attract others, having reduced marketing risks and filled the period until capital markets improve.

They also have a commercial economic value for mainstream housebuilders. They should consider the value of self-providers enabling early stage development with what are effectively pre-sales, while adapting their production systems and customer care services to individual purchasers, as Callcutt optimistically proposed in his housebuilding review.<sup>49</sup>

### Access to land and wellbeing

Local authorities and local strategic partnerships are now required to evaluate the potential of all their property assets to deliver wellbeing outcomes. If supported by its evidence base and resulting policies, public landowners could therefore ensure that every site disposal contains a requirement to sell serviced or readily serviceable plots to individual or group self-providers.

**‘Public landowners could ensure that every site disposal contains a requirement to sell serviced or readily serviceable plots to individual or group self-providers’**

49 *The Callcutt review of housebuilding delivery*, Callcutt, 2007. [cabeurl.com/9k](http://cabeurl.com/9k)

Planning authorities could require the same as a planning condition to support the delivery of the wellbeing and placemaking outcomes in their core strategy. ‘Affordable housing’ is a spatial planning, not a land use outcome. Self-provided housing would be an equally legitimate spatial planning requirement, informed by the local application of PPS3 housing requirements. Strategic housing land availability assessments and strategic housing market assessments should specifically research the market demand for self-provided solutions.

### Enabling mechanisms

Most public bodies are still learning placemaking skills and processes. Further adaptation will be required as localism gathers political momentum. Resource and capacity implications will be significant, and no longer an optional extra.

Dealing with mainstream housebuilders can be difficult and time consuming. Behind every commercial deal, planning application and section 106 negotiation lurks the suspicion that the relationship will be a long drawn out battle of attrition to erode or safeguard public goods, outcomes and values. Public bodies should therefore be actively seeking out and supporting potential investors willing and able to cooperate in capital efficient placemaking that creates value.

There is already a need for investment in new mainstream development efficiencies, in land sales, quality standards, procurement practice, definition

of wellbeing outcomes, and more effective and universal 'value for money' appraisals of alternative approaches. Specific changes for self-providers could be integrated within this process, with benefits to the improvement and diversification of mainstream practice for:

- serviced land release
- procurement strategies to attract a wider range of appropriate providers
- revolving funds and/or commercial loans for group schemes linked to guaranteed standardised retail mortgage packages
- standardised conveyancing and land registration procedures
- panel consultants, project managers, site managers and constructors
- training for purchasers and professionals about constraints/benefits of masterplan/design codes
- support for research and development in design, construction, community governance, placeshaping responsibilities, alternative lifestyles, occupier feedback.

The HCA could integrate self-provision into the standard 'single conversation' protocols and the local investment agreements. A small national enabling team could provide best practice resources and connections to mortgage providers and other investors and projects, for HCA regional teams and partners, with strong links to local planning authorities and the regional improvement and efficiency partnerships.

**'The HCA could integrate self-provision into the 'single conversation' protocols'**

Self-sufficient: self-providers bring individual and collective commitment to invest in new homes, along with inventive and sustainable solutions

Headshot self build Brighton © Anshya



### Statutory processes

An effective way of grounding self-provision in mainstream planning and regeneration practice would be to explore the potential for the process to be embedded in new style local development orders<sup>50</sup> to simplify the planning process with the extension of permitted development rights to designated areas. This could be reinforced by the additional designation of local development order-affected sites or areas under the provisions of the Sustainable Communities Act 2007.

This could create a powerful framework in which self-provided housing became the dominant form of housing, with explicit objectives to deliver placemaking outcomes contained in the local area agreement. The Act provides for local spending reports of all public and private capital and revenue spending proposals, and for appropriate accountability arrangements to ensure that all investment is effectively focused on delivering the desired outcomes.

### Conclusion

Self-provided housing goes to the heart of the debate about the need for a new relationship between the citizen, the state and the market. For example, the Conservative housing green paper<sup>51</sup> proposed a range of new measures to give citizens more local control of housing solutions.

**'You could mainstream self-provision in planning and regeneration by embedding the process local development orders'**

50 Chapter 5, *Planning and Compulsory Purchase Act 2004*, OPSI, 2004. [cabeurl.com/9f](http://cabeurl.com/9f)

51 *Strong foundations: building homes and communities*, Conservative Party, 2009. [cabeurl.com/9g](http://cabeurl.com/9g)

The local housing trust will enable local communities to give themselves planning permission for affordable housing provided it is owned by a local trust, approved by a community referendum. This would represent a step change in the transfer of power from public authorities and mainstream housing providers, who will have to learn to become enablers to their citizens.

This reflects many of the ideas of the progressive conservatism project, hosted by Demos,<sup>52</sup> and the theme of the 2009 Reith Lectures, *The New Citizenship*, given by Professor Michael Sandel:<sup>53</sup> 'It's a time to rethink the role of markets in achieving the public good. There's now a widespread sense that markets have become detached from fundamental values... that we need to reconnect markets and values.'

Let's start by changing the vocabulary for the relative positions of power in providing new homes. Housing is a fundamental need of all citizens. It should be a right and duty of all citizens to provide shelter for themselves, either directly or enabled by the state. It's time for a citizens' housing revolution in which all citizens have the right to build.

Does Thoreau have a view on the power and autonomy of the citizen housing provider, as well? 'No doubt another may think for me; but it is not desirable that he should do so to the exclusion of my thinking for myself.' Silly question: how incredibly annoying of him.

52 *Progressive conservatism project*, Demos. [cabeurl.com/9h](http://cabeurl.com/9h)

53 'Markets and Morals', Sandel, *Reith Lecture* [1/4], BBC, 2009, [cabeurl.com/9i](http://cabeurl.com/9i)

## 5 Pooran Desai

### Sustainable design and new models of sustainable living

#### Summary

Companies such as BioRegional Quintain are at the forefront of the shift from green buildings to green masterplans and the recognition that climate change must be tackled at the community scale. Meeting the target of an 80 per cent reduction in CO<sub>2</sub> emissions by 2050 means that it is not just our homes that must be designed to be carbon efficient, but also our neighbourhoods. These challenges have widespread implications for the way we design and plan our towns and cities.

Sustainable lifestyles must be underpinned by the development of sustainable infrastructure. That will mean:

- Reducing car dependency by creating walkable and cyclable places with local services and amenities serviced by public transport
- Using solar orientation to use green spaces for passive cooling
- Developing district heating as opposed to building specific renewable energy systems
- Integrating recycling facilities into masterplans
- Promoting local food production, for example by incorporating allotment plots into new developments.

Sustainability will increasingly form part of a business brand for developers, as consumers and clients at all levels demand higher quality in sustainable design. Developers will be called upon to create a coherent proposition for consumers based on offering a high-quality way of life underpinned by principles such as zero carbon and zero waste.

A genuine commitment to community management and governance will be crucial. Estate management needs to move beyond building and grounds maintenance. Residents and tenants can oversee the work of a private community management company responsible for supporting sustainable lifestyles through services such as community facilities, recycling and energy provision.

The ideal future for housebuilding – neighbourhoods that create the potential for happier, healthier, sustainable living – is already within the grasp of developers with vision, and will soon be the only approach that makes sense.



## Introduction

Tackling climate change means we must start reinventing not just our homes but also our food, waste and transport systems.<sup>54</sup> It is not just about carbon emissions but our whole ecological footprint.<sup>55</sup> We have to create whole sustainable ways of living with implications for architecture, design, masterplanning and tenure.

We aim to create places where people can lead healthy and happy lives. Yet thanks to the consumerist society we have developed in the UK in the post-war period, our ecological footprint has increased 70 per cent<sup>56</sup> and the evidence suggests that if anything we have become less happy.<sup>57</sup> Meanwhile diseases of overconsumption and lack of exercise created by our sedentary and car-dependent lifestyles are damaging our health at the same time as causing environmental damage.

## Beyond green architecture

The concept of green architecture emerged in response to these issues. It can trace its roots to ideas such as the autonomous house<sup>58</sup> in the 1970s, which strove to collect all its energy and water from natural sources and to treat and recycle all its waste on site. However, some of the assumptions underpinning the autonomous house are starting to be challenged. For example, analysis shows that south-facing conservatories do not always save energy but can increase demand<sup>59</sup> as well as risking overheating homes,<sup>60</sup>

54 *One planet living in the Thames Gateway*, Desai and James, 2003, BioRegional Development Group,

55 *Living planet report 2008*, Global Footprint Network, WWF and ZSL, 2008, [cabeurl.com/9k](http://cabeurl.com/9k)

56 *United Kingdom's Footprint 1961-2003*, Global Footprint Network, 2008, [www.globalfootprintnetwork.org](http://www.globalfootprintnetwork.org)

57 *Happiness: lessons from a new science*, Layard, 2005

58 *The autonomous house*, Vale and Vale, 1975

59 *Trends in conservatory use*, Pathan et al., 2007, Bartlett School of Graduate Studies, University College, London. Report commissioned by the Building Research Establishment

60 *BedZED Seven years on*, Hodge and Haltrect, 2009, BioRegional Development Group

## 'An approach led by lifestyles and infrastructure is now emerging as the best solution to create sustainable communities'

## Sustainable design and new models of sustainable living

and that treating grey water on a small scale is not necessarily a good environmental option but sometimes the reverse.<sup>61</sup> The capital and maintenance costs of small-scale technologies are also concerns. Yet it is these sorts of ideas that permeate the building of greener homes and leave housebuilders struggling to cope with the implications of the very large costs of achieving levels five and six of the code for sustainable homes.

An approach led by lifestyles and infrastructure is now emerging as the best solution to create sustainable communities. It is based on creating a community with a sustainable metabolism,<sup>62</sup> articulated in reports such as Z-squared<sup>63</sup> and underpinning the aims of a new generation of projects. Examples around the world include One Brighton in the UK, Sonoma Mountain Village in California and Masdar City in Abu Dhabi.

Buildings are *then* designed with sensible attention to energy efficiency. That means good insulation, daylighting, healthy materials, natural ventilation and energy- and water-efficient appliances but none of this need add great cost to buildings and can sometimes even save capital costs, for example by eliminating the need for central heating. Level four of the code for sustainable homes is a good benchmark. By forgoing traditional 'green' ideologies such as passive solar design and on-site generation of electricity, a good green home can be built within or close to conventional build cost, particularly as more effective green supply chains have emerged.

61 *Reusing rainwater and grey water*, Centre for Alternative Technology, 2008

62 *Creating sustainable cities*, Girardet, 1999

63 *Z-squared zero carbon zero waste*, Desai and Durney, 2005

Sustainable design is then driven by the creation of sustainable lifestyles and underpinned by sustainable infrastructure. This means that architectural expression relating to the buildings can be freed and green buildings can be constructed in almost any architectural language one may choose.

Key issues for creating sustainable lifestyles are:

- reducing car dependence
- making recycling easy
- encouraging sustainable food production
- sustainable energy delivery
- community management.

Of these, rethinking community management, including the management of sustainable energy delivery, has the potential to build on the first four tenets to create a distinct and sustainable new model for housebuilding.

### Reducing car dependence

Reducing car dependence is primarily about creating places that make walking and cycling easy. That means ensuring, wherever possible, that key facilities such as shops, childcare facilities, primary schools, offices, leisure facilities and community space are within five minutes' walk. Walkability needs to be reinforced by reducing car parking, promotion of car clubs and ensuring provision of good public transport. Sprawling masterplans are replaced with more compact forms for both

**'Rethinking community management, including energy delivery, has the potential to create a distinct new model'**

## Sustainable design and new models of sustainable living

urban<sup>64</sup> and suburban contexts,<sup>65</sup> creating mixed-use centres. Increased densities can be achieved without compromising the public realm by creating car-free areas where it is safe for children to play and neighbours to meet each other – improving child health through exercise and better air quality, increasing social capital, reducing crime and reducing the fear of crime.<sup>66</sup>

### Making recycling easy

Waste and consumer items comprise around 13 per cent of our ecological footprint and recycling can be an important way to reduce this. Sustainable masterplans can facilitate recycling by careful location of facilities. In the highest-density masterplans, subterranean vacuum-assisted removal of waste can be employed – such as the Envac system being introduced at Wembley City – freeing up public space from the clutter of bins and showing increased recycling rates, and reducing energy consumption by negating the need for refuse collection vehicles.

### Encouraging sustainable food production

Our food contributes 25 per cent to our ecological footprint<sup>67</sup> and creating sustainable food systems will be essential to meeting our 80 per cent carbon reduction target by 2050. Allotments abandoned at the turn of the century are now oversubscribed. New developments should incorporate both full-size allotments and mini-plots to fit in with the modern time-poor lives. Even high-density schemes

<sup>64</sup> *Cities for a small planet*, Rogers, 1997

<sup>65</sup> *One planet communities – a real life guide to sustainable living*, Desai, 2009

<sup>66</sup> *Society today*, Farrall and Jackson, May 2008, ESRC

<sup>67</sup> 'Our health, our environment', Barrett and Frey, International Footprint Conference, 2007

can incorporate food-growing opportunities such as the mini-allotment plots provided on the roof terrace at the One Brighton apartment block scheme and providing individual apartments with herb boxes. We might even see a growth in urban agriculture, with market gardening coming to urban and suburban areas. Food supply from local farmers can be facilitated by masterplans featuring squares that can host farmers markets' or buildings with space for farmers to drop off local food in bulk.

### Sustainable energy delivery

District heating will be an important way to reduce carbon emissions from buildings and can come from simple biomass boilers, gas combined heat and power (not zero carbon but low carbon combined heat and power [CHP]) or, when reliable small-scale technologies emerge, biomass CHP. The capital cost and efficiency of district heating is dependent on density of development. Densification can increase the cost effectiveness of district heating in much the same way as it helps reduce car dependence. Similarly, mixed-use developments can support lower car use and assist district heating systems too, providing more even loads between homes with high loads in the morning and evening and non-residential uses such as offices, industrial units and schools with high daytime loads. Dense development is of course obvious for city centre development but densification is also possible in the suburban context.

**'Mixed-use developments can support lower car use and assist district heating systems too'**

Green business, good business: sustainability will increasingly form part of a business brand for developers. BioRegional Quintain and Crest Nicholson promote their One Brighton scheme (right) as 'specially designed to help you live a significantly more sustainable lifestyle'

© Crest Nicholson and BioRegional Quintain



In terms of management, readily available off-the-shelf solutions for on-site renewable generation – so-called energy services companies (ESCOs) – do not yet exist, despite a lot of talk in the industry. ESCOs are not straightforward but complicated technical, financial and legal structures which have to navigate operations and maintenance, energy trading regulations, consumer protection, lease agreements, billing and metering and debt control. Selling heat is generally more straightforward than selling electricity. This not only limits the scale at which ESCOs become viable, but prevents all but the most committed developer, or coerced developer, from introducing them.

A simplified regulatory framework is essential to enable ESCOs to operate on a wide scale. Perhaps opportunities for greater community ownership might be a way forward, but a culture shift in attitude to community ownership of assets will be required. Without these changes it will hard for housebuilders to drive this culture change as the saleability and mortgageability of homes may be an issue. Ultimately it is probably not in the long-term core competency of the developer to be energy providers – a new ESCo industry needs to emerge, and this will become more viable as government incentives such as the renewable heat incentive and feed-in tariffs are introduced.

### Community management

Wider estates management is not just about energy delivery. It is important for supporting sustainable lifestyles long term – maintaining,

**‘When places are seen as communities with a positive stance on sustainability, the role of estates management takes on new meaning’**

enhancing and increasing the penetration of ideas such as car clubs, recycling and local food. However, estates management has languished at the unglamorous end of the property industry and has been characterised by poor service and poor consumer experience. Housebuilders have generally neglected the importance of estates management. There is little or no brand awareness by the consumer of the industry – reflecting a certain lack of pride and underlining the opportunity to introduce new quality and new services. Has the time arrived for a new approach?

At BioRegional Quintain, we describe ourselves as ‘sustainable communities developers’. The aim is not solely to sell homes but to create a coherent offer to consumers based on offering a high-quality way of life which is underpinned by principles such as zero carbon and zero waste.

### Making community management work

Estates management has previously been thought of as simply maintaining the buildings and keeping the grounds tidy. However, when places are seen as communities with a positive stance on sustainability, the role of estates management takes on new meaning. The opportunity extends to embrace a host of lifestyle services including:

- providing transport services such as car clubs, cycle clubs and travel information
- promoting local food links and receiving deliveries of local food

- supplying renewable energy
- advising residents on energy saving and green choices – for the first year of residency at BedZED we employed a green lifestyles officer to help residents maximise the green living potential of the development
- promoting community spiritedness and community events
- providing on-site composting and food-growing facilities
- managing leisure facilities such as gyms and office space
- managing a community centre.

‘Community management’ is perhaps a better term for this holistic, people-centred service than ‘estates management’. We can learn a lot from the management of leisure resorts, where lifestyle and customer service are key drivers.

The range and extent of services that can be provided will depend on the size, location and aspirations of the community. Careful thought must go into the capital and running costs of the facilities but there are huge opportunities for community management services to bring coherence to the lifestyle being offered and to ensure cost-effective delivery.

Importantly, not everything need be an additional cost on a service charge to residents. Some of the services can be organised as separate cost centres or independent businesses run within an overall estates management strategy. For example, allotments or mini-rooftop allotments can be rented to residents,

**‘Services need not cost residents more. Allotments can be rented out, and community centres can act as small business hubs’**

covering maintenance costs. Community centres can be run as social enterprises, gaining income from renting out space or acting as small business hubs with hotdesks and shared office facilities.

Energy-efficient homes do save some money in running costs, but the savings are small except when compared to old housing stock. Increasingly, it is the appliances which we use in the home which really determine levels of energy consumption.

However, major savings can accrue if levels of car ownership and mileage driven are reduced. The average car in the UK now costs £100 per week to run by the time taxes, depreciation, fuel and insurance are taken into account. CarPlus, the UK trade association for car clubs, states that members save up to £3,500 per year by not owning and running a similar car (this is borne out by my own personal experience). This massive saving in household expenditure more than compensates for the higher costs per unit of green energy or increasing the service charge.

Car dependence is an environmental, social and financial problem. When the economy recovers, oil prices are likely to rise again and make it difficult for many people on low incomes. We have talked a lot about creating affordable homes, but we need also to create affordable lifestyles.

### Community creation as a business?

Is there a long-term opportunity to create a brand based on community creation? Where residential developers are traders – selling homes rather than retaining a long-term interest – there is little brand recognition. People choose a home on the basis of location and price. In such an undifferentiated market, is there a business opportunity in creating sustainable communities?

Given that sustainability is about the long term and that some of the value generated through sustainability is also long term, it is highly likely that the most successful business model for sustainable communities will involve developers taking a long-term interest in the schemes they build. This will lead to the opportunity to create brands based on value, quality and service.

There is little evidence so far of commercial added value (a green premium) in the residential sector although there is evidence of small green premiums in commercial property from sophisticated markets such as those in the USA.<sup>68</sup> There is a general sense that greener buildings are going to be an inevitable part of the future. The business rationale for taking a wide sustainability approach therefore remains one of belief that things can be done better and a better quality of life created which will be reflected in better sales values or sales rate. It is also likely that green living will become a positive choice of customers and that developers taking this approach will be more favourably viewed by stakeholders through the planning process – and regulation is heading this way anyway.

68 *Doing well by doing good*, Eichholtz, Kok and Quigley, March 2009, RICS Research

### 'Communal living and co-housing save energy, but they can also tackle isolation and mental ill health'

### Communal living

New models may well arise in other areas of housebuilding. One area not yet exploited to a great extent in the UK is the opportunity for more communal living. Major environmental savings are possible if people share appliances or activities such as watching TV or cooking. Per capita energy consumption increases in single-person households and demographic changes are creating more of them. Condominiums with communal laundries, common rooms and TV rooms offer an interesting opportunity. Co-housing can go even further into shared cooking, food-growing and community management. Both condominiums and co-housing complement other aspects of sustainable living such as car clubs. They might also create a lifestyle that tackles isolation, which is increasingly predisposing people to mental ill-health.

Culturally the UK has not been generally receptive to communal living, but with demographic changes the time is probably right to start introducing these sorts of products. Reducing private space and increasing communal space in developments could also reduce the cost of housing provision, making it easier for people to join the property ladder or to downsize later in life. The EcoStudio concept at One Brighton – of well-designed but compact private space, complemented by communal spaces such as sky gardens and a community centre – goes part of the way along this path.

### Community build

Long term, we might also do well to build strategies for housing delivery that bypass conventional funding and offer alternatives. Just as micro finance has transformed poor communities in developing countries, alternatives might be useful to increase access to housing in the UK for parts of the community that are excluded. This should not be on a 'hand-out' basis that fosters dependency, but on a self-help basis, facilitating those who want to work and contribute. There are people who want to work and those people need homes – can we unblock this impasse?

Self-build has been promoted but it requires self-organisation that can be difficult. One alternative we have been exploring is what we call 'community build'. As developer we could offer the design, planning, project management and financing knowledge. Construction villages would be established with simple mobile homes, where workers sign up to say three years of work to construct their own community. In return, workers are trained, paid 50 per cent of their wages and have the remaining 50 per cent retained as a deposit on their home in the community. This forced saving in effect pre-sells the homes and enables them to be financed.

Construction techniques such as 'multi-skilling' will enable a reduction in trades on site and allow community build workers to do more of the building themselves. The construction villages could be organised to provide low-cost sustainable services

### 'Community build provides workers with simple mobile homes and with training, and half their wages are retained as a deposit'

such as car clubs and facilities such as allotments, creating a high-quality lifestyle with low outgoings while living on the construction village and providing life training for the community. The first year of training might be subsidised through 'multi-skilling' apprenticeships.

Community build could be facilitated through a different approach to land ownership as well. Land speculation added to the boom-bust cycle in property. There is an opportunity to mitigate this by retaining land as an equity component in properties that receives a steady rental income – a 'shared land equity' model. Not having to finance land purchase means that the costs of development are reduced, lowering the hurdle for development to become viable. These approaches would not fundamentally change the core business of property developers, but could be added as a 'product' to sit alongside conventional home-building – perhaps with 10 per cent of larger sites developed on this community-build basis.

### Future proofing

The current economic crisis raises some interesting issues. Arguably the most sustainable sites to develop – brownfield city centres – are now the least viable. The collapse in oil and gas prices has reduced the immediacy of the value of energy saving and driven many renewable energy companies into difficulties. New build housing output is greatly reduced. Any increased build costs are not welcome.

However, these are short-term issues and we should be keeping our eye on the long term. The underlying supply and demand trend does indicate increased oil and gas prices. The commitment to tackling climate change will see fossil fuels under pressure through regulation and fiscal measures. Motoring will get more expensive. The shift in the economic centre of gravity to the east will put pressure on incomes. The pensions crisis will mean more concern over how to live well in old age.

The aim must be to create places, communities and lifestyles that are future proofed from these threats. Places that are less car-dependent and more self-supporting, energy-efficient and community-spirited will be more resilient in the face of these challenges. It will not necessarily cost more to create these communities (and in many cases, will even cost less). It will require a change in lifestyle but the scientific evidence is this will increase the probability of people being healthier and happier.

### Lessons for government

In all of this, what should government do? Given the right framework, companies like ours can thrive and influence the shape of the wider industry in the coming years. The government should:

- Develop coherent policies on sustainable housing based on creating sustainable lifestyles rather than simply green buildings
- Take the opportunity to reduce the complex and unnecessary regulations, codes and standards and replace them with simple integrated processes

**'It is about creating places where people can lead happier and healthier lives within the environmental capacity of our planet'**

- Concentrate on setting the fiscal environment through taxes and incentives to promote sustainable lifestyles and not try to deliver sustainability through an inflexible standards-based approach
- Be more discerning and learn from the few practitioners, such as members of the Good Homes Alliance, who are delivering on the agenda, rather than engaging in wide consultations in the hope that a clear strategy can be formed this way.

### Conclusion

New models of housebuilding will emerge in the future to address the opportunity and challenge of sustainability. Green supply chains are emerging, as well as services such as car clubs, making it easier to create sustainable communities. Regulation, long-term rises in oil and gas prices and a changing fiscal landscape will alter the viability of things like ESCos. At some level there is a certain inevitability in all of this.

However, the real opportunity lies in finding the nexus between wider sustainable lifestyles, reduced capital and household costs, catering to the new demographics of single-person households and creating places with increased quality of life. This will not simply be about building greener homes but also about creating places where people can lead happier and healthier lives within the environmental capacity of our planet.



## 6 Dickon Robinson Innovations in tenure Summary

The UK is unusual in its emphasis on owner-occupation as the ideal tenure type. The housing shortage and inflated house prices have been framed as a problem of affordability, and policy focuses on enabling first-time buyers to get onto the housing ladder. However, the economic downturn has revealed that affordability is dependent on the availability of credit. A more diverse tenure mix may be the best way to meet the needs of a growing population, and the challenges of climate change.

Market rental is currently seen as an intermediate solution for those who cannot afford to buy, and social housing is stigmatised as the last resort. Many apparent innovations are old ideas reinterpreted for modern conditions. Some explored here which could be refreshed for the 21st century include licensed occupation and the London Estate model which favours investment rather than speculation. Tenure types that have never taken off in the UK include shared ownership, shared equity, co-operatives, co-ownership and co-housing.

The construction of yet more small apartments to meet demand for single-person households is an unsustainable approach to housing in the long term. Housing in multiple occupation needs to become an option of choice for the many, rather than the few. Larger homes can adapt to changing circumstances but are less profitable for developers. There is a need to find ways to overcome this through the planning system, tax incentives and new mortgage products.

The growth of buy-to-let has shown that mortgages can unleash social and environmental change. New products could be designed to achieve sustainability goals.

## Introduction

The credit crunch and recession were marked by huge government spending on bank bail-outs and fiscal stimulus measures. It will be a long time before the banking sector is able to support a mortgage market of the size we have become used to, and once current public sector budgets for housing investment have been spent, it is hard to see how they will be replenished. The need for public subsidy will increase at the same time as its availability sinks to record low levels.

The search for innovative tenures and financial products to square this circle will be energetic. However, it is unlikely to be successful and, with little scope to subsidise the cost of new housing, a return to traditional and fundamentally simple strategies looks inevitable.

The idea that the overriding priority is to help more people to become owner-occupiers underpins all current housing policy. To this end central government exhorts planning authorities to give consent to more homes each year, and housebuilders to build more homes each year, while promoting the private rented sector as a transitional tenure. Social rent has become the tenure of last resort, and in between market renting and home ownership are a range of subsidised and intermediate products designed in part to prevent more households from looking to social renting as a solution to their housing needs.

## 'Is improving affordability the most important purpose of tenure innovation, or climate change and its social pressures?'

The downturn has reminded us that it is not supply and demand for homes that establishes the cost of homes. It is the availability of credit – and rising or falling personal wealth – which does that. As mortgages have dried up, so house values have fallen. Affordability is much improved, although it is very challenging for first-time buyers to take advantage of this cyclical opportunity because of the same lack of mortgages. Once the mortgage tap is turned back on, it seems most likely that prices will rise and affordability will get squeezed again.

## Planning for a sustainable future

Seeking new forms of tenure to solve the problem of affordability may seem like shorthand for developing more sophisticated subsidy mechanisms to ease a younger generation up the housing ladder. However, is improving affordability the only or indeed the most important, purpose of tenure innovation? Looking ahead 20 or 30 years, climate change and the immense social pressures it will bring are likely to become much more pressing concerns. Over that period the population of the UK is predicted to reach 80 million people. Much of that growth will be driven by immigration, not least from overheating countries in southern Europe. Pressure on water, food supplies and energy will become severe and will need to be reflected not only in where and how we build our homes, but perhaps more importantly in what kind of homes we build. This will make the design quality of those homes even more critical than it is today.

The government's target of three million new homes is designed to cater for population expansion and the creation of new households. The rapid growth of single-person households has, in an extraordinarily short time, led to the large number of high-density, one- and two-bedroom apartment blocks that have colonised our city centres. However, the value of some of these homes has halved, particularly in multi-landlord blocks and in some northern cities. This degree of instability in housing markets provides little reassurance that this is a sustainable way to deal with population growth.

A broad view of the problem places the emphasis on finding more sustainable housing for a growing and ageing population, and promoting tenures that make living in larger households more attractive. Designing homes that make it easy to take a lodger or keep an adult child at home for longer, and redesigning mortgage products to favour larger households, could both help.

With the future of local taxation under discussion and a renaissance in local government structures and responsibilities in prospect, now is a good time to redesign local services and taxation. Then we can bring our collective design skills to bear on the planning of new neighbourhoods and the architecture of new homes for a sustainable future.

**'We need homes that make it easy to take a lodger or keep an adult child at home, and mortgages that favour larger households'**

### Tenure – the current position

So what are the main forms of housing tenure? This section analyses the potential – and limitations – of each of them to contribute to meeting the demand for sustainable and well-designed homes and communities.

#### Owner-occupation: freehold

Owning your own home has many obvious benefits and attractions. A freehold – preferably detached – gives privacy and the freedom to decide when to maintain, improve or adapt, or to sell and move on. A home with a mortgage is almost as good. The crucial advantages are perhaps that it produces tax-free gains, has always over the long term beaten general inflation, gives the prospect of minimising housing costs in retirement and offers the potential of equity release to supplement pension provision.

Accommodating the housing needs of a growing population in a sustainable way suggests that it is this form of tenure that has the biggest potential. More and more households are choosing to extend their existing home rather than moving. Back extensions, new loft conversions and even new basements are increasingly common. Increasing the size of the family home makes it easier for adult children to stay there, or a lodger to be accommodated to help meet housing costs, or to meet care needs, or for home working which reduces the environmental costs of commuting.



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## Innovations in tenure

### **‘Elsewhere in the world, apartment tenure gives flat owners full rights and collective control over management’**

This all contributes to meeting sustainability targets, just like improving insulation levels or local renewable energy targets. The more people we can house – comfortably – in our existing stock, the more sustainable our society will be.

#### Owner-occupation: leasehold

Leasehold offers some of the advantages of home ownership but contributes less to sustainability targets. Service charges frequently run into thousands every year. Arguably leaseholders only enjoy the right to occupy their home for a given number of years before it reverts to the freeholder, making their leasehold a depreciating asset. The market correction experienced over the past two years suggests that leasehold flats are particularly vulnerable to significant declines in value. Leasehold owners therefore have less incentive to invest in improving the sustainability of their home.

Commonhold is a new form of collective land ownership, introduced five years ago to deal with the perceived disadvantages of leasehold. It has not caught on: fewer than 20 commonhold associations have been registered and there have been no conversions from existing leaseholds. However, there are more promising forms of apartment tenure elsewhere in the world – such as condominium ownership in the USA and the cooperative flat system in use in continental Europe – that give flat owners full ownership rights over their home and collective control over management.

Repeating past mistakes? The new stock of high-density apartments may slip into a cycle of decline as rapid as some 1960s and 1970s council estates

The design of new apartments is a crucial issue. Building larger three or four bedroom apartments allows for double-aspect homes that can enjoy through ventilation and avoid overheating.

At the other end of the spectrum is the micro flat, generally targeted at key workers in central city locations. While this enables people on modest incomes to access home ownership, there is little experience of the resale market for these homes. In previous recessions, studio apartments had the most persistent negative equity. Designing them to be economically and easily amalgamated at some date in the future would seem to be prudent.

The experience of estate regeneration over the last 25 years has shown that remodelling undersized flats lacking modern amenities can provide attractive and desirable homes. Combining two original flats into one new one is much easier when the construction is frame rather than loadbearing, and where communal lifts and stairs can be retained. New apartment blocks should be designed with this long-term flexibility built in, and on the assumption that any one-bedroom apartments provided today can be combined with others to create larger apartments in the future.

### Shared ownership and shared equity

Introduced in the late 1980s, shared ownership is now a major product in the intermediate market sector. It has become very profitable for housing associations and a major subsidy component to their development funding model.

**‘Combining two original flats into one new one is much easier when the construction is frame rather than loadbearing’**

In the traditional form of shared ownership, occupants purchase a proportion of the equity – usually 50 per cent, but less if values are high – rent the balance, and acquire the right to staircase up ownership by buying successive tranches of equity. It is targeted at those whose career path suggests that their disposable income will increase over time.

Critics point out that in many instances the overall cost of shared ownership is not far below the cost of outright purchase. As a result, over the past decade many variants of this model have been developed to reduce the initial cost. Shared owners get the chance to participate in a rising housing market. However, when the market is falling the complications of shared ownership look less attractive, with reduced marketability not the least of them. While the shared owner enjoys only a limited exposure to rising prices, they are fully responsible for all the repair and improvement costs of their home. In high-value areas it is likely to remain a useful product, while in lower-value areas its appeal may become more marginal.

Shared ownership with an upper limit on staircasing has the advantage that the developer’s residual equity participation gives it a degree of control over the actions of the lessee. Subletting, for example, can be prohibited, ensuring that the lessee actually occupies their home rather than becoming a buy-to-let investor. This can help to create stable residential communities.

### Market rental

Private renting has many price points and is the only option for those who cannot afford to buy their home or access social housing or any of the intermediate housing tenures. While many tenants have little choice, it is important to remember that it is also a tenure of choice for better-off people who need housing mobility.

Of all the recent evolutions in the UK housing market, the explosive growth of the buy-to-let sector since the early 1990s is most marked. The introduction of the assured shorthold tenancy, and new mortgage products for landlords, have allowed a new generation of largely individual – as opposed to corporate – landlords to enter this market. The huge number of high-rise apartment buildings built in all our major cities over the past decade would not have been possible without pre-sales funded by buy-to-let mortgages and unless this mortgage product returns we will not see this form of housing development in the future.

The result of the buy-to-let boom is a significant new stock of high-density apartments, in central locations, which are becoming ever more affordable. This is a consequence not least of the realisation of the difficulty – and inherent expense – of managing multi-landlord apartment buildings. The jury is out on what the future holds for these buildings, but some may slip into a cycle of decline as rapid as some 1960s and 1970s council estates. In these circumstances local authorities will need

**'Private renting is also a tenure of choice for better-off people who need housing mobility'**

to exercise their compulsory purchase powers to consolidate ownership so that a comprehensive approach can be taken to ensuring that they can deliver satisfactory housing for their designed life. Since local authorities will need financial partners, this may create an interesting opportunity for co-operative/co-ownership style groups. This would create a framework for continuing occupation by any owners wishing to remain while bringing in new residents. Emphasising mutuality could provide a basis for consensual and economic service delivery models.

With the collapse in mortgage availability and the associated decline in the level of home building, there has been a flurry of interest in what has been termed build-to-let. The proposition is that institutional investors will step into the market and fund developments which will be entirely market rented, and which would not otherwise be built out. Previous attempts to achieve this form of investment when the market was stronger were unsuccessful, as institutions could achieve higher returns from other investments. The underlying reality of the UK market rental sector is that while management, maintenance and long-term repair and improvement costs might be affordable to buy-to-let investors who are primarily interested in capital appreciation, they make long-term institutional investment uncompetitive as a long-term strategy without the realisation and extraction of capital growth. This would tend to negate the intention of institutional investment, which is to encourage long-term, patient investment.

### Social rental

There is a growing lobby for a large building programme of social rented housing just when financial resources are under most pressure. It therefore seems a dream. Proposals that would effectively do away with social renting are being widely debated. While security of tenure would be retained by those who currently enjoy it, annual means testing would determine their rent levels, and most of those in housing need would have to look to the private rented sector and housing benefit.

Social landlords have by and large stuck to the notion that space standards are important and have also been willing to embrace the concept of lifetime homes and the ambition to achieve low carbon standards as soon as possible. However, taken in the round, housing associations' commitment to standards has not been reflected in an overall excellence in design quality. Much social rented housing has not been designed to a high standard and it is worrying that this ambition does not seem part of the DNA of many associations. Even where they have set an example, they have not given a lead to the volume housing sector.

The social housing sector suffers from the worst overcrowding in the UK. This is not just a personal problem for those households. The consequences for health and education create an unsustainable social impact. The right to buy has disproportionately depleted the social housing stock of houses and recent reliance on section 106 agreements for social

**'Much social rented housing has not been designed to a high standard and ambition is not part of the DNA of many housing associations'**

housing has put an emphasis on numbers rather than floor space, resulting in smaller homes.

### Intermediate rental

Basically a sub-sector of market renting, the main differences with intermediate rental are a 10-25 per cent discount to market rental levels and access restricted to defined groups of generally public sector workers. Like all other forms of intermediate housing, it enjoys a degree of subsidy that may not be available to, or afforded by, landlords in the future. Arguably, it is a consequence of the relatively low remuneration levels received by some public sector employees. If, as seems likely, more property comes into the rental sector, this essentially metropolitan measure may disappear.

### Licensed occupation

Short life housing evolved to take advantage of the large numbers of empty homes built up by inner London authorities via the municipalisation programmes of the early 1970s. Licensed occupation had no security of tenure but provided an acceptable form of housing for young single people on very low incomes and with no priority for social rental housing. In practice it often provided a bridge between squatting and mainstream housing and, by ensuring that otherwise empty homes remained habitable and in use, it fulfilled a useful purpose. The recent phenomenon of large numbers of new empty city centre flats may create an opportunity for its reinvention.

### Collective occupation – co-operative, co-ownership and co-housing societies

The co-operative housing movement has a long history within the social housing sector and has actively promoted self-build alongside traditional social renting. Surprisingly, considering the importance and popularity of the wider co-operative food and banking companies, the idea of co-operative housing has never become established in the UK in the way it has in continental Europe. We seem to be unable to overcome a preoccupation with independent approaches to housing ourselves. The introduction of funding via the Housing Corporation for modestly subsidised co-ownership societies in the late 1960s and early 1970s was a real opportunity to overcome this prejudice and a number of highly successful schemes were developed. However, before it could become established, political priorities changed and the funding stream was redirected to social renting. The chance to establish co-ownership housing as a mainstream tenure was lost.

Current circumstances might create the right conditions to try again. If we do, we should reflect that effective leadership is particularly important to co-operative activity and that whatever underlying subsidy regime is adopted there will need to be persistence over many years if it is to become embedded in our housing scene. Promotion by a committed local authority, development corporation or regeneration agency will be crucial in the early years of any such initiative.

**'The chance to mainstream co-ownership housing was lost once but now might be the time to try again'**

### Innovative directions in housing tenures for a sustainable future

Over the last two decades, volume housebuilders have concentrated on driving down construction costs rather than creating greater value. Under a planning system in the UK that ensures that there is always less housing land than the market needs for efficient functioning, savings anywhere in the production line and increases in value created by higher densities or general inflation simply enable landowners to increase their take. Any innovation in housing tenures that seeks to make housing more affordable will have to tackle this conundrum.

Many apparent innovations are old ideas reinterpreted for modern conditions. The early growth of planned London was driven by landowners, particularly the Bedford Estate in Covent Garden and Bloomsbury, introducing schemes of plot sub-division, building agreements, leases and ground rents. Homes were built by small builders rather than large developers and were owned leasehold rather than freehold, giving the landowners a degree of continuing control and the opportunity to extract additional value when leases came up for renewal. In this model, land value is taken as a long-term income stream rather than a bullet capital sum. It is a model that favours long-term estate investment rather than short-term land speculation.



### How might this model be refreshed for the 21st century?

Adoption of the Bedford Estate model could provide a mechanism to get housebuilding going again, by providing long-term extraction of land value combined with more affordable house prices for initial purchasers.

Landowners would undertake masterplanning based on party wall terraces or detached houses and simple infrastructure strategies. They would obtain all necessary consents including negotiating planning conditions, section 106 agreements and a design code. Plots would then be marketed on an individual or group basis to building contractors, house builders, housing associations or self-builders on the basis of a development agreement, and an agreement to lease on completion, and a requirement to comply with the design code. This would eliminate any land cost outlay until occupation. On completion of construction the purchase price of a 125-year lease would cover the costs of construction, plus the builder's profit (typically 5 per cent rather than developers' 20 per cent) and the landowner's expenses to date in masterplanning, gaining consents, apportioned section 106 costs and initial infrastructure investment.

By leaving the land value with the freeholder, the cost of the home will be about 25 per cent less than it would have been otherwise, which will be reflected in the initial purchase price or rental agreement.

**'By leaving the land value with the freeholder, the cost of the home will be about 25 per cent less'**

In the short term, the landowner would receive the income from the ground rents. However, the leases would allow the landowner to participate in any real uplift in value when leases are sold. If this were set at 25 per cent, they would then recoup the underlying original land value on first sale (as this would be at full market value and not the discounted first sale value) and go on to participate in further uplifts in value in perpetuity.

The model could be adopted by existing landowners or by the public sector. It would also work well in conjunction with community land trusts.

### Conclusion

We urgently need to diversify the national tenure mix from its existing over-emphasis on owner-occupation and role of social renting as the housing of last resort. Invigorating established but less popular forms of tenure for the 21st century would help. We could also revisit investment models that extract long-term value.

Diversifying tenure in this way could help address the multiple housing challenges that we face, including the growing population and the growth of single-person households. It would improve affordability, boost design quality, drive up standards of long-term management and help to address the challenges of climate change.

The collapse in the housing market reignited a debate about who should build our homes. Would a different mix of housing providers give us more stability and higher quality? Is it all about restoring the way things were done in the boom or can we explore new models of housebuilding? This report presents six essays by experts from across the sector. They offer their own challenge to the status quo. The proposals offer fresh ideas for investors, developers, councils and policymakers with an interest in more and better homes.

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