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Communities and Local Government Committee

Housing and the Credit Crunch

Third Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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Communities and Local Government Committee

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Summary

As a result of the credit crunch the Government is unlikely to meet the ambitious housing targets set out in its 2007 Green Paper, *Homes for the future: more affordable, more sustainable*. Nonetheless, we strongly advocate retention of those targets because they continue to reflect levels of need and demand. The target for new social rented homes should be increased, both to address a historic backlog in need and to meet the likely increase in demand from households unable to purchase a home or access good quality private rented provision as a result of current economic circumstances.

We conclude that there is little merit in the claim that the planning and building requirements placed on house builders should be relaxed in order to reduce their costs. The homes that are built now must stand the test of time and should not, therefore, be built to an inferior standard.

The measures the Government is taking to shore up the housing market are positive. By buying up developers' unsold stock for use as social housing, the Government might be able to facilitate the start of new building projects, although we note the need to ensure that homes purchased in this way meet as many of the quality standards required of new social homes as possible. We recommend that the Government also purchase a limited number of family homes on the open market, where they have remained unsold for the period of a year or more. Such homes would satisfy a substantial unmet need within the social rented sector. The large funding injection for the building of new social houses promised by the Government is extremely welcome although we are concerned that the Government's ability to meet its targets in future years will be put in jeopardy if it does not subsequently replace the money brought forward to pay for it.

Housing associations have become reliant on the market to fund new developments. Without an increase in Social Housing Grant, many new affordable homes will not be delivered. We commend the Homes and Communities Agency for its quick response to calls for an increase in public funding for this sector. We also welcome work being carried out by the Tenant Services Authority to prevent housing associations from becoming insolvent. It is still too early to tell what impact these measures will have upon the housing market, and we intend to reassess the situation later in 2009.

House prices are falling but many buyers, particularly first-time buyers, remain unable to purchase a home, either because prices are too high in their area or because they are unable to obtain a mortgage. The Government provides a number of Low Cost Home Ownership schemes to assist qualifying first time buyers. HomeBuy Direct, the newest of these, should help to address the difficulties experienced by buyers of shared ownership homes with obtaining finance from banks. The vast array of schemes available is, however, confusing for buyers and lenders alike and we recommend that the Government simplify what it offers to improve take-up levels.

The number of home repossessions has increased since the beginning of the credit crunch, although fear of repossession is at a much higher level than actual repossession. The Government has targeted its support at different groups of home owners. Six thousand of

the most vulnerable households will be helped by the Mortgage Rescue Scheme, with households less at risk able to apply for help with mortgage interest payments. We welcome these measures. We are concerned, however, that the Government seems powerless to affect lender behaviour, with Financial Services Authority guidelines and the Government's new pre-action protocol on repossession lacking enforceability. We recommend that it address this problem through its new Lenders' Panel. We also recommend that the Government take action to protect any private tenant whose home is put at risk when their landlord defaults on the mortgage.

Local authorities have a crucial role to play in pulling together all these initiatives in their local area.

The credit crunch is still evolving, and the impact it will have on the housing market in the coming months is not yet known. We intend to return to this subject later in 2009 to see how effective the Government's initial response has been

1 Introduction

1. Since 2007 the UK, in common with much of the rest of the world, has been in the grip of a "credit crunch": a sudden, severe and prolonged reduction in the availability of loans affecting all areas of the economy. Its impact is being felt across all sectors of the housing market. Home buyers have found it difficult to get a mortgage, and those who have found a lender have had to provide a relatively much larger deposit, which has tended to affect first time buyers in particular. Reduced purchasing power has meant sellers have had to cut prices, but the market remains slow. Although some home owners have benefited from falling interest rates, the economic downturn means others are in danger of repossession.[1] Developers are finding it difficult to sell new property and are scaling back their building projects. This has adverse consequences for the affordable housing sector as well as for private housing, and makes it more difficult to retain skills and capacity in the construction industry. Housing associations can no longer use surpluses generated on a buoyant market to cross-subsidise their activities and many have lost access to the advantageous borrowing facilities they have enjoyed for some time.

2. This is occurring against the backdrop of ambitious targets for new homes set by the Department for Communities and Local Government (CLG). Although set in a time of greater prosperity and optimism, they were derived from the need to address both a longstanding shortage of housing supply and lack of affordability, and demographic trends which indicated a continued increase in the number of new households being formed each year. There is a danger that one result of the credit crunch will be a further increase in the gap between housing supply and demand, raising prices yet higher when the market recovers and leaving even more people without access either to home ownership or to social housing.

3. We announced our short inquiry into housing and the credit crunch on 14 October 2008. Our call for evidence asked witnesses to consider the likely effectiveness of the measures being taken by CLG to deal with the credit crunch, with particular reference to—

- the achievement of the Government's housebuilding targets, both for market and for social housing;
- the financial viability and ongoing business of housing associations; and
- measures to help existing and prospective homeowners affected by the credit crunch.

In accordance with our terms of reference, we have focussed on the measures for which the Department for Communities and Local Government is responsible: that is, those affecting housing policy. The Treasury Committee is conducting an inquiry into the banking crisis, which we understand is considering the effect of the credit crunch generally on the financial markets, including wider questions concerning issues such as the measures the Government is or should be taking to free up liquidity. Given that Committee's inquiry, we

[1] The correct legal term is "possession" but "repossession" is in common usage and is therefore used throughout this report.

have not considered these wider questions except to the extent that they affect the Government's housing policy.

4. We received 62 written submissions and held one oral evidence session, on 16 December 2008. At that session we heard first from representatives from the Council of Mortgage Lenders, the National Housing Federation, the Home Builders Federation and the Intermediary Mortgage Lenders' Association; we then heard from the Minister for Housing, accompanied by the Director General of Housing and Planning at CLG and the Chief Executives of the newly-established Homes and Communities Agency and Tenant Services Authority. We are grateful to all those who submitted evidence to us. We are also grateful to our specialist adviser, Professor Steve Hilditch, for his advice and assistance throughout this inquiry.[2]

5. The issues we examined in this inquiry are substantial and complex, and the effect the credit crunch has on the provision of housing is constantly evolving. The Government itself notes that "it is largely too early to tell whether the series of Government announcements over the summer and early autumn has yet had an impact".[3] Since we launched our inquiry the Government has made a series of further announcements about new measures it is taking to shore up the housing market and facilitate the continued flow of new affordable housing.[4][5] The impact of these new measures cannot be gauged for some months to come. Thus our report can only provide a snapshot of an evolving situation. We intend to revisit the subject later in 2009 to assess further the achievability of the targets and the effectiveness of the measures taken by the Government so far.

[2] Professor Hilditch declared the following interests to the Committee: work for the Chartered Institute of Housing to deliver its contract with the Department for Communities and Local Government (CLG) to facilitate a series of expert and practitioner workshops in relation to the CLG/HMT review of council housing finance; independent chair of the CLG Project Group on setting up the National Tenant Voice.

[3] Cred 60. References to "Cred" numbers are to the written evidence to this inquiry, which may be found printed with this Report. See the rest of written evidence on page 53.

[4] See Annex E of the Government's supplementary memorandum, CRED 60A, for a summary of the various housing market announcements over the past year.

[5] In this Report we use the term "affordable housing" to mean social rented housing and intermediate housing. "Intermediate housing" includes low cost home ownership and other forms of sub-market housing, including intermediate rent.

2 House building targets

The 2007 Housing Green Paper

6. In July 2007 the Housing Green Paper *Homes for the future: more affordable, more sustainable* set out the following targets—

— A total of three million new homes to be built by 2020, two million of them by 2016;

— To achieve this, the number of new homes built each year is intended to reach 240,000 per year by 2016;

— Within this, a minimum of 70,000 affordable homes, of which 45,000 should be new social rented homes, need to be built each year by 2010–11.[6]

Targets: need and deliverability

7. The Government's housing supply targets are designed to address both *demand* for new housing from buyers and tenants, and housing *need*, which reflects overall demographic trends. The targets are based on projections derived from population data from the Office of National Statistics, which anticipate that households will increase in number by 223,000 per year to 2026. The target number of 240,000 new homes per year is greater than the estimated number of new households because of the need to address many years of undersupply. The goal of building 45,000 new social homes per year similarly takes into account both newly arising and past unmet need. The targets also aim to increase affordability by reducing the price rises which occur as a result of shortage of supply. As Dr Peter Williams, Executive Director of the Intermediary Mortgage Lenders' Association (IMLA), told us, "the three million is about slowing the increase in house prices, improving affordability so that demand can become effective".[7]

8. Underlying levels of demand are not always reflected by activity in the housing market. Property professionals have reported a marked decline in private sales since the onset of the credit crunch. The Royal Institution of Chartered Surveyors (RICS) notes that, in September 2008, "the number of completed sales per surveyor over the last three months fell to 11.5 per surveyor, which is a historic low for the survey".[8] The Council of Mortgage Lenders (CML) paints a similarly gloomy picture, noting that "mortgage approvals for house purchase are already running at around one third of last year's levels [...] current indications also suggest that first-time buyer numbers [...] may struggle to hit 200,000 this year – the lowest level for at least 40 years".[9] Both these observations indicate a decline in *effective*—or realisable—demand but do not necessarily represent a fall in *underlying* demand. The distinction is made by the Home Builders Federation (HBF), which states "survey evidence, and abnormally high new home cancellation rates, show that potential demand for new homes has fallen far less than new home reservations, which means many

6 CLG (July 2007). Housing Green Paper, *Homes for the future: more affordable, more sustainable*, pp 22, 72.

7 Q 18

8 Cred 31

9 Cred 30

potential buyers are unable to proceed because they cannot obtain a mortgage on terms they can meet".[10] As well as problems with access to lending, some buyers are unwilling to buy a home whilst house prices continue to fall. Neither of these factors alters the demographic trends and assumptions about demand which underpin the Government's housing targets. As Barton Willmore, a planning and design consultancy, notes, "just because people cannot buy houses at present does not mean that the need has disappeared".[11]

9. Like most submissions, the evidence from Barton Willmore assumes that the credit crunch will have an adverse impact on housing supply but that demand will remain constant, or even grow. There is, however, a possibility that the economic downturn may also have an impact on the rate of new household formation, for instance through migration. Difficult financial conditions may reduce the rate at which economic migrants enter the country, for example, and the rate of migration out of the country could increase. There is as yet little evidence either to support or to discount this possibility. When asked about it in oral evidence on 27 October 2008, the Minister for Housing, Margaret Beckett, replied, "You may be right in thinking that present events will have some impact on household formation. I think it is much too early to judge but it is genuinely a very interesting question".[12] **We were pleased to note at our oral evidence session on 16 December 2008 that the Government is intending to conduct research on the likely impact of the credit crunch upon housing demand, and look forward to seeing the results.**[13]

10. In order to meet the target of 240,000 new homes per year by 2016, an average increase of 7,274 new homes would be needed each year from the 2007 level of 174,530 (a 4% increase in 2008). However, evidence from the National House-Building Council (NHBC) shows that the number of new homes registered with NHBC to be built each month in the UK fell by 56% from 15,871 in September 2007 to 7,055 in September 2008.[14] At the end of 2008 it predicted that the total number of new homes started in that year would be 103,000, half the number of new homes started in 2007, and approximately 80,000 lower than would be necessary for the UK to be on course to meet its 2016 target (see figure 1, below).[15]

[10] Cred 42

[11] Cred 56

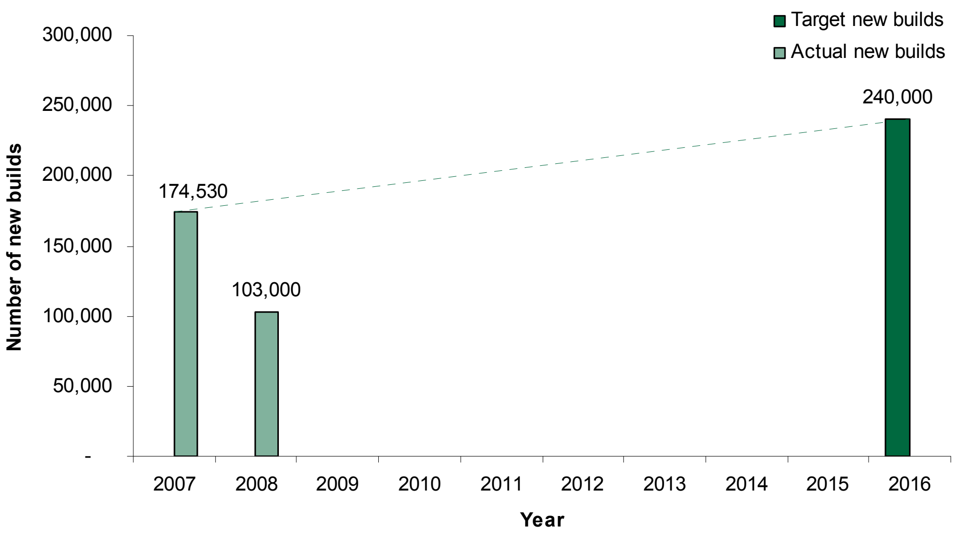
[12] Uncorrected transcript of oral evidence session on the Departmental Annual Report, 27 October 2008, Q 135: http://www.publications.parliament.uk/pa/cm200708/cmselect/cmcomloc/uc1089-ii/uc108902.htm.

[13] Q 35

[14] Cred 41

[15] NHBC (23 December 2008) press notice: http://www.nhbc.co.uk/NewsandComment/UKnewhouse-buildingstatistics/Year2008/Name,36221,en.html.

Figure 1: Progress against building targets



Source: Cred 41 (National House Building Council)

The national downward trend in the number of new builds is generalised throughout the regions. The South East England Regional Assembly notes that the South East is unlikely to achieve the 33,125 new homes per year set out in the South East Plan.[16] Similarly, the East Midlands Regional Assembly states that housing targets for that region "are unlikely to be achieved".[17]

11. It is clear that, in the immediate term at least, the Government's housing targets cannot be met. The Construction Products Association argues that "if Government maintains its commitment to targets that are no longer credible it will lose the confidence of the companies to invest in the UK, and future targets will not be taken seriously".[18] However, only a small number of written submissions to this inquiry support any revision of the targets because this would imply a reduced long term commitment. John Stewart, Director of Economic Affairs at HBF, stated in oral evidence that "the fact that supply will be down over the next two or three years, possibly longer, does not change the fundamental fact that those people exist, they need homes, they need adequate housing".[19]

12. In evidence to us on 27 October 2008, the Minister for Housing appeared to suggest that there might be some flexibility in the overarching housing target: "I think the most challenging of the targets is the three million, but that is an ambition actually rather than a target".[20] Since then, however, we have been reassured that the Government continues to take its targets very seriously. In written evidence, the Department affirmed that "although the housing market is facing a major short- to medium-term challenge as a result of reduced credit and a loss of confidence, it is important to recognise that this does not

[16] Cred 37

[17] Cred 27

[18] Cred 23

[19] Q 2

[20] Q 129, http://www.publications.parliament.uk/pa/cm200708/cmselect/cmcomloc/uc1089-ii/uc108902.htm.

negate the long-term supply and affordability challenges".[21] In other words, although the target for three million new homes by 2020 may have become even more challenging in current economic conditions, "because the need is not going to go away, the targets cannot just disappear either".[22]

13. **We accept that, in the short term at least, the Government's housing targets may not be met. The targets were set, however, in response to housing need and demand: they set the context for the vigorous policies needed to improve delivery over the long term, whatever the short term barriers. The credit crunch does not reduce levels of demand for new housing, nor does it affect the need to address years of undersupply. We strongly support the Government's continued commitment to the housing targets set in its 2007 Housing Green Paper.**

Balance of provision: private, social rented and low cost home ownership

14. By 2010-11, the Government wants approximately one third of the total new homes intended to be built each year to be affordable homes. Of these 70,000 new affordable homes, 45,000 are to be for social rent, leaving a target of 25,000 new Low Cost Home Ownership (LCHO) homes per year.[23] This breakdown underpins the policy objectives the new Homes and Communities Agency (HCA) is mandated to achieve from the National Affordable Housing Programme budget.

15. As a result of the credit crunch, there may be a need to adjust the relative proportions of the overall housing targets allocated to social and LCHO homes. The Committee has for some time expressed concern about the shortage of provision of social rented housing. In our 2008 report on *The Supply of Rented Housing*, we noted that the Government was "unlikely to be able in this spending period to reduce the backlog in need for social rented housing, and may not even be able to meet new demand".[24] Crisis, the homelessness charity, states in written evidence that "in 2007, 1.6 million households, around 4 million people, were on the social housing waiting lists. That number is predicted to rise to some 2 million households by 2010, that's 5 million people waiting for a social home. This is without taking into account the likely increase in demand due to the current crisis".[25] A report published by Shelter in November 2007, *Homes for the Future - A new analysis of housing need and demand in England*, estimated the backlog in need for social housing at a lower level than Crisis, at "more than 500,000 households requiring social rented homes, who are currently homeless, living in overcrowded, temporary or other unsuitable accommodation".[26] Whichever figure is more accurate, the unmet need for social homes is significant. The Shelter study concludes that the targets for LCHO and social rented homes do not reflect actual need. Its analysis indicates that "newly arising need and demand will

[21] Cred 60

[22] House of Commons Deb, Col 12, 18 November 2008

[23] LCHO schemes comprise, broadly, shared ownership, shared equity and rent-to-buy products. See paragraphs 67 and 68 for a more detailed description.

[24] Communities and Local Government Committee, Eighth Report of Session 2007-08, *The Supply of Rented Housing*, HC 457-I, para 68.

[25] Cred 44

[26] Shelter, *Homes for the Future - A new analysis of housing need and demand in England*, November 2008, p 1.

require 67,000 social rented homes, 30,000 intermediate homes and 145,000 market homes each year to 2020".[27] Shelter's analysis of the shortfall in targets against its projections of need is given in figure 2, below.

Figure 2: Shortfall in targets against projected need

	Government plans		Shortfall from estimated requirements	
	Social rented homes	Intermediate homes	Social rented homes	Intermediate homes
Total 2008-11	110,000	75,000	91,000	15,000
2011-12	45,000	25,000	22,000	5,000
2012-12	45,000	25,000	22,000	5,000
2013-14	50,000	25,000	17,000	5,000
Total shortfall 2008-14			152,000	30,000

Shelter, Homes for the Future - A new analysis of housing need and demand in England, November 2008, p 18

16. The lack of availability of mortgage finance to enable first time buyers to meet their own housing needs, taken together with an increase in the number of repossessions (see paragraphs 76 to 81 below), particularly in the sub-prime mortgage sector, are likely to lead to greater demand for additional social rented housing. The West Midlands Local Government Association and West Midlands Regional Assembly argue that "funding social rented housing during this period will be very significant in ameliorating potentially serious pressures in communities and the economy".[28]

17. Building more social homes has the potential not just to meet the needs of prospective social tenants but also to benefit the wider economy. In written evidence, CLG commented "social rented housing is vitally important at this time – not only because of urgent unmet need, but also because of the contribution to the economy made by Government-supported construction".[29] Increasing the number of new social rented homes being built creates construction jobs to replace those lost in the private sector and ensures the retention of skills and resources for the economy as a whole.

18. **The Government set its current targets for new social rented housing in a time of greater prosperity. Even then, the targets did not adequately cater either for projected levels of new need or for the backlog of need.** In our report last year on the supply of rented housing, we discussed the relative proportion of social rented and other non-market housing which the Government was intending to fund in the period to 2011, concluding:

> The sums announced are close to some independent estimates of the sums needed to meet additional demand for social rented housing. However, those funds will be spent not only on social rented housing but also on other forms of non-market housing. Consequently the Government is unlikely to be able in this spending period to reduce the backlog in need for social rented housing, and may not even be able to meet new

27 The designation "intermediate homes" is equivalent to LCHO homes.

28 Cred 11

29 Cred 60

> demand. We recommend that the Government monitor the effect of its planned expenditure on the supply of social rented housing and be prepared to raise investment still further if, as we expect, it proves necessary.[30]

Our expectations have proved correct. **A greater proportion of the total number of households are now likely to need access to social housing as a result of current economic conditions. We recommend that, in response, a greater proportion of the new homes built each year be designated as social homes. We also consider that this may be a wise move given the continuing uncertainty over low cost home ownership sales which we note below. Although it is not possible on the basis of the evidence we have received for this short inquiry to determine precisely what proportion that should be, we have previously endorsed the estimates of the need for social housing produced by Shelter, and recommend that the Government carefully examine that organisation's most recent assessment in deciding what the appropriate division should be between new social rented housing and other forms of non-market housing.**[31]

19. Some of the written evidence we received suggested that, under current economic conditions, the Government's emphasis on the creation of LCHO homes does not reflect levels of demand. The Local Government Association, for example, comments "shared ownership sales are almost non existent" and goes on to argue that:

> shared ownership applicants are unable to access mortgages. This in turn increases the pressure on the limited amounts of affordable rented housing. The continuing preference for Housing Associations to develop shared ownership will not be financially viable.[32]

David Orr, Chief Executive of the National Housing Federation (NHF), however, told us in oral evidence that the Government's affordable housing targets reflected underlying demand, even if that demand is not currently effective: "housing associations are seeing more and more enquiries about different kinds of shared ownership. However, the rate at which these become completions is tiny […] in the big majority of cases the transaction fails because of the non-availability of mortgage finance".[33]

20. We asked the Minister for Housing whether or not the balance of provision between homes for social rent and LCHO homes needed to be adjusted in the light of the credit crunch. She told us: "my impression is that at the moment there continues to be quite a strong demand for home ownership, including for the shared equity schemes that we are continuing to run or are beginning to promote".[34] It is possible that levels of demand will increase still further if first time buyers remain unable to purchase a home on the open market. However, at present, consumer demand for LCHO homes is ineffective, resulting in a substantial backlog of unsold stock.

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[30] Communities and Local Government Committee, Eighth Report of Session 2007-08, *The Supply of Rented Housing*, HC 457-I, para 68.

[31] Communities and Local Government Committee, Third Report of 2005-06, *Affordability and the Supply of Housing*, HC 703, para 33.

[32] Cred 48

[33] Q 7

[34] Q 35

21. **The evidence suggests a strong underlying demand for Low Cost Home Ownership (LCHO) homes, but much of that demand cannot be realised due to the restricted availability of mortgage finance. Whilst the Government attempts to address the shortage of available loans we recommend that, in the short-term, it scale back its targets for the completion of new LCHO homes and focus on building new homes for social rent. This would provide an opportunity to clear the backlog of unsold LCHO stock. Targets can be increased again if and when it becomes clear that demand for low cost housing has become effective**. LCHO schemes are addressed in more detail in paragraphs 67 to 72 below.

22. Households unable to afford to purchase a home or access mortgage finance do not necessarily have or need access to social homes, nor do they necessarily want to purchase a LCHO home. As the Rugg review, *The Private Rented Sector: its contribution and potential*, notes, the private rented sector "has been successful in meeting the housing needs of 'intermediate' households, whose income means that they are unable to afford owner occupation, but who are not in a priority group for social housing".[35] Witnesses told us there may need to be an increase in the supply and variety of private rented homes in order to cater for the increasing number of households who might in more favourable conditions have bought a home, but who now could not afford to do so. Households on modest incomes or in particular types of employment (key workers) could benefit from increased provision of homes for "intermediate" rent, where the tenant pays 80% of the market rate and the remainder is subsidised by a housing association, perhaps with an option to convert to an LCHO option later.

23. Witnesses made several suggestions about ways to diversify the private rental sector. Dr Williams of the Intermediary Mortgage Lenders' Association mentioned the options of pension funds being invested in the buy-to-let market or housing associations becoming, in the short- or long-term, private landlords.[36] David Orr of the National Housing Federation told us "market rent with an opportunity but not an obligation to buy is one option. Intermediate rent leading to a shared ownership opportunity is another possible way. We have to think creatively about it".[37]

24. The Minister indicated to us that options for the diversification of the rental sector were already under consideration by CLG and housing associations.[38] Richard McCarthy, Director General of Housing and Planning at CLG, told us "intermediate rent options are all within the funding envelope that we have for our low-cost home ownership intermediate housing", implying that no additional funding was needed in order for these options to be pursued.[39] Peter Marsh, Chief Executive of the new Tenant Services Authority (TSA), noting the complex interplay between different types of tenures, told us the TSA would be continuing to look at how best to design those options as the market changed.[40] **We are encouraged that the Government and housing associations are**

[35] Julie Rugg and David Rhodes, *The Private Rented Sector: its contribution and potential*, 2008, p xv.

[36] Q 5

[37] Q 8

[38] Q 49

[39] Q 49

[40] Q 65

already pursuing several different rental options for the large and growing number of households who are neither owner occupiers nor qualify as social tenants. Creative solutions need to be found to meet the needs of such households, and we urge housing associations to continue innovating in order to meet those needs. The Government's existing rent-to-buy schemes are discussed in paragraphs 67 and 68, below.

Land values

25. Land values are crucial to the financial viability of any development, determining both rental rates and the number of homes a developer needs to be able to build and sell on a plot in order to achieve a return. If land is too expensive, any social rented homes built upon it will not pay for themselves and homes sold will not generate a profit, particularly if property and rental prices are in decline. However, land values tend to fall in parallel with property prices. Valuation Office Agency data indicates that land values fell by 15% in England and Wales between January and July 2008. Data are not yet available for the second half of 2008.[41] One proposed solution to the decline in completions of new homes is for the Homes and Communities Agency (HCA) to take "advantage of depressed development land values to buy cheap sites for housing development" by housing associations, thereby reducing the overall cost of development to within affordable parameters.[42] There are a number of constraints to this proposal—

a) Falling land prices do not necessarily equate to affordability. The Northern Housing Consortium states "residential land valuations across the North have risen by over 400% in the past decade […] there is a long way to fall for residential land values to become more affordable for the public sector".[43]

b) If prices fall too far, there may be a shortage of willing vendors. Richard McCarthy told us "there is very strong evidence from the property sector and advisors about land values falling […] it will mean in some cases land will not be put on the market to be sold".[44]

c) Developers, including housing associations, may be reluctant to start developments on land acquired in this way until the market improves because, when property and land prices are falling, even a reduced price for the land might not be recovered if the value of the homes being built continues to fall throughout the construction period. Three Rivers District Council comments "[Registered social landlords] that can buy land will do so cheaply, but will not submit plans to redevelop until the market picks up".[45]

26. The public sector is a major UK landowner. In common with all landowners, it attempts to get the best possible price for any land it sells. This can inhibit development because land is a big capital outlay at the start of any building project and house builders may be unable or reluctant to make such a big investment at a time when returns are so

[41] Cred 60A (CLG).

[42] Cred 31 (Royal Institute of Chartered Surveyors).

[43] Cred 13

[44] Q 90

[45] Cred 10. In this Report we use the term "housing association" where other sources may use "Registered Social Landlord" [RSL].

uncertain. The Government has launched two initiatives in an attempt to reduce the cost to developers of developing on land currently owned by the public sector:

- The establishment, through the HCA, of local housing companies with the aim of building new homes on surplus public sector land. This is being done in conjunction with measures to enable land to be brought to market more quickly. Four local authorities have announced their intention to establish local housing companies, which will have the potential to deliver approximately 10,000 homes. The Government states in evidence that the "HCA will work with a further 28 authorities which have expressed an interest, and will continue to develop and adapt the model to maximise its flexibility to respond to current market conditions".46

- Work with the HCA to establish new approaches for land disposal "such as reducing the costs to private sector developers of doing business with the public sector in return for long-term commitments to deliver; and joint ventures with developers to improve cash flow in return for commitments to progress development, and with unsold homes converted to new affordable housing".47 This adheres closely to the recommendation made in written evidence by G15, a group of the fifteen largest housing associations in London, that a new housing model should "take advantage of reducing land values to create long term public/private partnerships".[48]

27. **Falling land prices have the potential to make a useful contribution to addressing the housing shortage and enabling development activity to continue throughout the economic downturn. There will be opportunities for housing associations to buy good sites even if development then proceeds cautiously. As a major landowner the public sector has a vital role to play in making land available in ways which produce the best social outcome, which might involve a lower initial price in return for a share of long term asset appreciation due to development. We welcome the measures the Homes and Communities Agency will be taking to achieve this and intend to revisit this issue later in 2009 to assess what progress has been made.**

Retaining skills and capacity in the construction sector

28. If there is to be any chance of meeting the Government's housing supply targets in the long term, skills and capacity need to be retained in the house building sector. There is a risk that the short-term reduction in the number of active building sites will damage the UK's ability to achieve this. John Stewart of the Home Builders Federation told us "capacity is being lost every day we delay taking action either to help house builders start new sites or to sort out the mortgage market. Jobs are lost, capacity is lost, firms go out of business and the supply will be even worse".[49] In his review of mortgage finance, Sir James Crosby states "my discussions with the industry suggest that capacity has fallen by between 40 and 50 per cent".[50] CLG puts the minimum number of jobs lost in the house building industry so far at

[46] Cred 60

[47] Cred 60

[48] Cred 05

[49] Q 34

[50] Sir James Crosby, *Mortgage Finance: final report and recommendations* (November 2008), p 5.

6,000 (3.5%) of a total of 170,000.[51] The HBF's written memorandum suggests a problem of a much greater magnitude, estimating that, by the end of the downturn, of the 300,000 people it believes are currently employed in the sector, between 100,000 and 150,000 will have lost their jobs.[52]

29. Jobs lost now may lead to reduced capacity in the long term as those made redundant move into other sectors to find work. The Chartered Institute of Housing observes that "those made redundant from the construction industry in the last market downturn did not return to the sector when the market recovered, leading to a significant loss of skills".[53] Not all skills will be lost to other sectors: some of the jobs lost will be those of migrant workers likely to return to their country of origin when there is no work available but who, equally, may return when conditions improve. The decline in construction has knock-on effects for manufacturers. The Construction Products Association comments that "some factories are being mothballed but it will still take at least six months to re-commission these once the companies are confident there is a sustained recovery in demand. Many other factories are, however, being permanently closed and will never be re-opened".[54]

30. Approximately 21% of construction output is accounted for by maintenance and repairs.[55] The Housing Forum notes "investment in a programme of refurbishment of the existing housing stock would […] help to preserve the capacity and skills of the construction industry for when there is an upturn in the market".[56] In paragraph 45 we recommend that the Government purchase properties which have remained unsold on the open market for a period of a year or more and refurbish them for social rent. The Government is already using refurbishment programmes to utilise skills which would otherwise be lost. In answer to written supplementary questions CLG notes:

- £150 million brought forward from 2008–09 and 2009–10 budgets will be used to maintain and improve the Decent Homes Programme, upgrading 25,000 homes. The Government estimates that this could secure 1,500 construction jobs.

- £175 million brought forward will enable councils to carry out major replacement programmes. The Government estimates that this could secure 1,000 construction jobs.[57]

31. **House building levels will need to increase dramatically following the end of the economic downturn if there is to be any hope of meeting the Government's housing targets in the longer term. It is therefore vitally important that steps be taken to retain skills and capacity within the house building sector. We welcome the Government's measures to redeploy skilled workers in refurbishment programmes. Increasing targets for new social homes as we have recommended would enable the Government directly**

[51] Cred 60

[52] Cred 42

[53] Cred 50

[54] Cred 23

[55] Cred 60A (CLG).

[56] Cred 39

[57] Cred 60A

to support the construction industry, providing a more effective outlet for skills and capacity which might otherwise be lost.

"Regulatory burden"?

32. Since 1990, the number of requirements placed upon house builders by the Government through the planning system has steadily increased. In particular, house builders must give heed to—

- Section 106 (s.106) agreements.[58] These agreements (also known as planning obligations or planning gain) are legal agreements between the local planning authority and another body, typically a developer, with interest in a plot of land. They restrict the use or development of land; require the land to be wholly or partially used for a particular purpose; or require financial contributions to be paid. S.106 agreements are used by local authorities to help meet their goal of creating mixed communities. A typical agreement might require, for example, a developer to allow 20% of a site for social housing, 20% for LCHO homes and 60% for private homes. Other obligations might include environmental improvements or, on large sites, a contribution towards education provision in the area. Individual schemes vary greatly in their viability and each one is negotiated on its merits within broad planning guidelines.

- The Code for Sustainable Homes. Since May 2008, it has been mandatory for all new homes to be rated against the Code, which runs from level 1 to level 6 (see figure 3, below). New social housing must currently be rated to a minimum of Code level 3. All new homes must reach level 3 by 2010 and level 6 by 2016.[59]

Figure 3: Code for Sustainable Homes

Code level	Energy and water efficiency requirements
1	10% more energy efficient than most new homes, with maximum water consumption of 120 litres per person per day.
2	18% more energy efficient, with maximum water consumption of 120 litres per person per day
3	25% more energy efficient, with maximum water consumption of 105 litres per person per day
4	44% more energy efficient, with maximum water consumption of 105 litres per person per day
5	100% more energy efficient, with maximum water consumption of 80 litres per person per day
6	Zero carbon, with maximum water consumption of 80 litres per person per day

CLG (October 2008), Code for Sustainable Homes: Technical Guide, p 13[60]

[58] The term "s.106" refers to the section of the 1990 Town and Country Planning Act (as amended), which forms the legal basis for the agreements.

[59] CLG (July 2007), Housing Green Paper, *Homes for the future; more affordable, more sustainable*, p 64.

[60] The Code also sets out a range of other standards to be met, including the provision of home office space and secure cycle storage. For further details see the Technical Guide, p 11.

33. Evidence submitted to us by house builders protests about the cost of s.106 agreements. Bovis Homes, for example, argues “affordable housing contributions are a pure cost to development as they do not in any way enhance the sales value of the open-market dwellings on a site”.[61] Many submissions argue that, whilst it was possible in a rising market profitably to build new homes which met all the planning requirements, the cost of adhering to these requirements whilst land and property prices are falling reduces or eliminates any profit which might be made. The Housing Forum, for example, told us “the cost of increased standards has been met through house price inflation in recent years. As this cannot happen in a period of reduced house prices, the Government may need to prioritise the various regulatory burdens in order to keep house building viable”.[62] The Home Builders Federation argues for a review of “the cost burden of regulation which, combined with falling land prices, has made many sites unviable for housing development. This will act as a major brake on raising housing numbers unless these costs are lifted”.[63]

34. There is, of course, an element of special pleading in all of these claims. S.106 contributions have been easily affordable to developers in a time of high and rising house prices and it is arguable that the social contribution made by these arrangements is even more necessary in times of economic difficulty. It could also be argued that calls to reduce s.106 requirements are redundant since planning authorities, when they undertake viability assessments on individual projects, already have considerable flexibility to negotiate s.106 agreements which are reasonable within the financial context of the particular development. It is in the interest of local authorities to ensure developments are financially viable and thus they are likely to reduce their demands in the current climate. Their willingness to do so has already been demonstrated through the provision by the Homes and Communities Agency of increased rates of Social Housing Grant (see paragraph 56, below). **The viability of some developments may only be assured if there is increased public subsidy for the social housing element. However, the evidence submitted to us suggests that the greatest barrier to new development is the state of the housing market. Even if section 106 requirements are reduced, the developer will not make a profit unless homes can be sold at the end of the project. This relies not on public subsidy but on the availability of mortgage finance and on consumer confidence.**

35. House builders have told us they will also find it difficult to meet the cost of compliance with the Code for Sustainable Homes, particularly as requirements become more stringent over time. The Federation of Master Builders (FMB) claims “building to Level 5 is in the region of 24% more expensive than building to building regulations alone and could potentially add over £40,000 to the final sale price”.[64] Bovis Homes states “the cost of achieving the energy requirements of Code Level 5 […] would be between £19,000 per plot for an apartment to £25,000 for a detached house. Home buyers will pay only a modest premium for such dwellings”.[65] Again, the argument is made that falling house prices increase the cost borne by the builder in meeting stringent environmental standards. The

[61] Cred 18

[62] Cred 39

[63] Cred 42

[64] Cred 46

[65] Cred 18

Construction Products Association asserts "the sharp fall in property prices means that any additional costs associated with creating a zero carbon home will constitute a higher proportion of the selling price of the house".[66]

36. There is some evidence that buyers may be willing to pay a small premium for increased environmental standards. Natural England observes "in terms of rising fuel costs, energy efficient measures are likely to become more important to householders concerned about the running costs of their homes".[67] NHF comments "the higher environmental standards required of the homes that housing associations develop themselves deliver significantly higher fuel efficiency. This is very important where many of the households housed by the association sector will be on very low incomes and at high risk of fuel poverty if housed in a poorly insulated and inefficient home".[68] Fuel efficiency reduces running and maintenance costs for the housing association as well as the tenant and thus saves money in the long term.

37. The Code for Sustainable Homes was designed to combat climate change and ensure both quality of life for individual households and the durability of houses currently being built. These long term goals remain critical, whatever the economic climate. The same conclusion was reached by the London Assembly Planning and Housing Committee in its inquiry into the Mayor's Draft Housing Strategy. It notes:

> most experts told us that cutting back on quality and efficiency standards is an example of bad short-term thinking. This is surely the right approach and all homes built with public subsidy should reflect the highest possible standards—be they design, room size, play / recreation space, energy efficiency or water conservation.[69]

We are pleased to note that the Government appears to have taken the same view. In written evidence the Housing Corporation comments "sustainability and quality, as well as being legitimate objectives in their own right, should also be seen as means through which confidence in the market for new homes can be restored".[70] **As the cost-benefit of environmental standards will be felt in the long term it would be short-sighted to reduce standards in a panic response to short-term financial constraints. Overall, the evidence suggests there is enough flexibility in the system to make it unnecessary to amend building requirements.**

Government response: purchasing unsold units

38. Many completed new private homes are remaining unsold either because no buyer can be found or because of a lack of available mortgage finance. Bovis Homes observes "UK house building is a market based industry and no house builder will continue to build what they cannot sell".[71] John Stewart of the Home Builders Federation told us "as long as you

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[66] Cred 23

[67] Cred 19

[68] Cred 43

[69] Cred 59

[70] Cred 61

[71] Cred 18

have stock outstanding you tend not to start new dwellings […] a lot of sites have not been started or have been mothballed while they are trying to clear current stocks".[72] Stagnation on the open market has consequences for the provision of affordable homes. The local authority representative organisation London Councils, for example, points out "planning gain sites with a mix of tenures are being delayed or mothballed primarily as a result of the risk of not being able to sell the private units" and notes "six out of 15 boroughs have experienced schemes falling through".[73] Thus the inability of developers to sell their existing stock causes blockages throughout the entire system.

39. On 2 July 2008 the Government announced the establishment of a National Clearing House to enable house builders to approach the Housing Corporation with proposals to sell their unsold stock for affordable housing. The scheme is funded by £200 million from the Affordable Housing Programme.[74] The Minister told us in December that, in total, £120 million had been spent to date on approximately 3,800 homes using the National Clearing House system. A more recent deal was announced on 6 January. It cost £18 million to purchase 379 affordable homes and took the total number of homes purchased to 4,800.[75] Developers and lenders have welcomed the initiative, although several organisations have suggested it is too limited in scope. IMLA, for example, told us "though this support is welcome it will not prevent a serious contraction in output and the impact of that will be felt widely".[76]

40. Objections to the scheme focus primarily on the type and quality of the housing it encompasses. There is a widespread perception that much of the unsold stock comprises small, inner-city flats in blocks. In the social rented sector demand is highest for family homes. David Orr of NHF told us—

> In the private sector a two-bed apartment may well be bought by a couple, two people, who will live there for four or five years and sell it to a similar household. If you are running a social housing organisation, the expectation and the expectation from local authorities making nominations to it will be that a two-bed apartment will be occupied by three or possibly four people and possibly for the next 20 years. That is a huge maintenance cost on properties which are too small to be able to accommodate that properly, but it is also a huge personal cost on the people who actually live in those homes. Generally in social housing we house people who are on very low incomes, so if they are not environmentally sustainable, you trap people in fuel poverty as well. These properties are not suitable for a social housing purpose.[77]

This concern is echoed in much of the written evidence we received. RICS, for example, states that the purchase by the public sector of unsold private homes "will only have a limited success. The main problem with this stock is that it does not meet guidelines on space and environmental standards […thus] the ongoing management costs will be higher

[72] Q 19

[73] Cred 47

[74] CLG (2 July 2008) press notice: http://www.communities.gov.uk/news/corporate/869428.

[75] CLG (6 January 2009) press notice: http://www.communities.gov.uk/news/corporate/1113423.

[76] Cred 08

[77] Q 19

than properties built specifically for Housing Associations".[78] The Joseph Rowntree Foundation cautions "the Government needs to ensure that releasing funds for housing associations to buy empty stock does not incentivise them to buy stock that is inappropriate for their clients' needs or for their association's long term business plan".[79]

41. The Government has affirmed that "the public sector does not want to buy [housing of] inferior quality".[80] In oral evidence Sir Bob Kerslake, Chief Executive of the HCA, told us that "the key point in terms of purchase is that it has to be the right property in the right place and at the right price".[81] The Minister said that, of the homes purchased so far, "slightly to my surprise and pleasure, apart from in London there is a high component of houses. It was not just flats."[82] To date National Clearing House funds have been used to purchase 1,910 flats and 1,539 houses.[83] In written evidence the Housing Corporation set out the Government's pragmatic approach to balancing consideration of standards and housing need: "whilst these completed homes may not meet all of our current quality standards, we have set out additional criteria upon which we will consider, on a case by case basis, accepting private market sector variants which in some aspects fall below the Corporation's published minimum standards".[84] **We support the Government's conclusion that the National Clearing House should only be used to buy properties which are suitable for social rent or affordable housing, not to mop up inappropriate unsold stock. However, a balance must be struck between the need to adhere strictly to standards and the urgent and very basic need of potential tenants for a home. We welcome the Government's pragmatic approach to this issue.**

Street property purchase

42. Instead of a scheme to purchase unsold new build homes, in its evidence, London and Quadrant Housing Group advocates a "volume street property purchase programme"—that is, the Government-funded purchase, for the purpose of social renting, of pre-existing homes already on the open market. It argues that such a measure would increase the supply of family housing for housing associations at a relatively low cost whilst fulfilling the Government's aim of creating mixed communities.[85] The Retirement Housing Group notes that such a programme would have benefits for elderly owner-occupiers, some of whom are unable to move into sheltered accommodation when they need to because their house will not sell on the open market in current conditions. It observes "the availability of options for elderly owner-occupiers to move to specialist accommodation, if they wish, is

78 Cred 31

79 Cred 40

80 Iain Wright MP, Parliamentary Under-Secretary of State for Communities and Local Government, in answer to Bob Spink MP, House of Commons Deb, Col 115, 18 November 2008.

81 Q 68

82 Q 68

83 Cred 60A (CLG).

84 Cred 61

85 Cred 06

crucial to releasing under-occupied family-sized housing into the market for families and younger people".[86]

43. A similar proposal advocates the purchase and renovation of properties currently lying empty. RICS argues "the UK's 600,000 empty homes should be brought back into use by reducing VAT on repair and maintenance and giving local authorities real power rather than ineffective Empty Dwelling Management Orders".[87] Similarly, the Campaign to Protect Rural England notes "in the North West region alone, there are around 130,000 homes lying empty—more than five times the number of new homes planned for the region (23,000 per year)".[88]

44. In the early 1990s the Government used a street property purchase programme to unblock transactions on the housing market and increase the supply of family homes for social rent. Some evidence suggests this was not an entirely successful move. The Joseph Rowntree Foundation, for example, states "despite taking empty homes out of the market, house price falls continued into 1993 and 1994".[89] NHF offers a different criticism of the scheme, noting "the experience of many associations that bought homes in the 1992 market package was of markedly higher maintenance costs driven by a number of different factors including, lower build quality [and] use of unusual or different materials or components e.g. non-standard boilers of different design to the rest of an association's stock of homes".[90] In addition, the same issues of quality and environmental standards apply as to the purchase of unsold developers' stock (see paragraphs 38 to 41, above).

45. The arguments laid out against a Government programme of purchasing unsold homes on the open market are similar to those used against the National Clearing House. The purchase of unsold homes, however, is a measure more likely to produce family houses with gardens in mixed communities which can be used to directly benefit large families waiting in temporary accommodation. If it would be unlikely to bring about a rise in house prices, it would nonetheless assist some home owners who are desperate to sell, but unable to do so because of market conditions. As such it would meet the immediate needs of two groups of people. **The Government is willing to purchase unsold homes from developers through the National Clearing House. We believe it should also be willing to buy unsold family homes, for which there is a particular need in the social rented sector, on the open market. We recommend that it direct some of the money from the National Affordable Housing Programme to the purchase of suitable properties which have not sold on the open market for a period of a year or more. Priority should be given to the purchase of homes where the transaction would enable elderly home-owners to gain access to much needed sheltered accommodation. The refurbishment of these existing homes for social rent will help utilise skills and capacity in the construction industry which might otherwise be lost.**

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[86] Cred 17

[87] Cred 31

[88] Cred 53

[89] Cred 40

[90] Cred 43

Government response: additional social housing

46. It is unlikely that affordable housing supply targets will be met in the short term. In the South East of England, the Regional Assembly observes "in 2006–07 the region saw 7,100 new affordable homes built against a target of 11,600 homes. Notwithstanding our major concerns regarding the Government's overall housing target for the region, it is clear that a higher level of overall investment will be required by Government if we are to meet the affordable housing needs of the region".[91]

47. In order to address the likely shortfall in the number of new social rented homes being built, the Government has promised a total investment of £975 million. This amount was covered by two separate announcements:

- £400 million, announced as part of the housing rescue package on 2 September 2008, will be used to deliver 5,500 additional social housing units over 18 months.[92] This funding is brought forward from the 2010-11 National Affordable Housing budget.

- £575 million, announced as part of the 2008 Pre-Budget Report. Of this, £150 million is intended to support the delivery of approximately 2,000 new social housing units,[93] £250 million will be invested in the Decent Homes Programme and £175 million will be spent on major repairs.[94] This money is brought forward from the 2010–11 budget for the Regional Development Agencies and other capital budgets from that year.[95]

48. None of the £975 million to be invested in social homes is new money: all of it is brought forward from future years. We asked the Minister what would happen in 2010-11, the year for which the money had originally been intended. She replied "we have brought forward a lot of funding which we were anticipating using in 2010–11 and that issue will have to be dealt with as we get nearer to that time". **We welcome the Government's investment of £975 million in the provision of good quality social rented housing. However, this money has been taken from the budget for future years. It is not additional money. In 2010–11, the year from which the Government has taken money, it has set a target for the construction of 45,000 new social rented homes. We have observed that this target needs to be higher. Meeting even the Government's existing targets will not now be possible without additional funding in that year. The Government's approach of borrowing from the future to pay for investment in social housing now is understandable and, in our view, right. The Minister's inability to say how that borrowing will be paid off, however, is worrying. Notwithstanding the additional social housing which, we hope, will be made available from the money taken from 2010–11, the need for yet further such housing will still be there in that year. The funding to meet that need must also be there. We recommend that, to demonstrate its ongoing commitment to building new social homes, the Government increase its**

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91 Cred 37

92 CLG (2 September 2008) press notice: http://www.communities.gov.uk/news/corporate/950558.

93 Q 39

94 HM Treasury, Pre-Budget Report 2008: *Facing global challenges: supporting people through difficult times* (November 2008), p 96.

95 CLG, Explanatory Memorandum to the Winter Supplementary Estimate 2008-09, p 37.

budget for new social housing, without which even the Government's targets cannot be achieved, let alone the higher targets that we advocate.

Government response: critical regeneration schemes

49. As part of its housing rescue package, announced on 2 September 2008, the Government stated that it would work "with Regional Development Agencies to support the most critical regeneration schemes with the most potential to transform their communities".[96] It has commissioned a review by the Regional Development Agencies (RDAs), the Homes and Communities Agency and its predecessor bodies of regeneration schemes in the regions. The review will assess the extent to which regeneration schemes are at risk as a result of the credit crunch and formulate a view on how regional and national funding partners can ensure the viability of key projects which offer the best value for money and have potentially the most far reaching impacts.

50. The Government's approach is supported by the RDAs, which note in written evidence "the importance of taking this holistic view to the current economic challenges […] The RDAs understand the Government's current emphasis on housing, but an appreciation of the importance of mixed-use schemes in providing jobs, social infrastructure and affordable homes to communities is also important".[97] Similarly, Thames Gateway London comments "where we face increasing competition at a national level [local and social] disparities become ever more important and difficult to rectify. In this light, regeneration schemes take on an even more strategic role for stimulating investment and providing the vital framework and support for growth".[98] The Northern Housing Consortium is one of many organisations which perceive a need for Government intervention in this area, stating "the embedded market renewal and regeneration activity taking place across the North is crucial to rebalancing our housing markets and economic aspirations and the current credit crunch can jeopardise the success and impact of these schemes".[99] **We welcome the Government's statement that it will seek to ensure that critical regeneration schemes are not abandoned or seriously undermined by the credit crunch. We intend to return to this subject later in 2009 to assess the progress that has been made in this area.**

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[96] CLG (2 September 2008) press notice: http://www.communities.gov.uk/news/corporate/950558.

[97] Cred 20

[98] Cred 36

[99] Cred 13

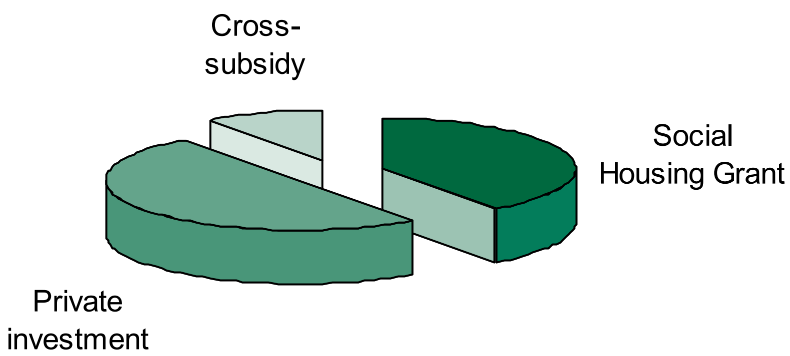
3 Financial viability of housing associations

Building more affordable homes: the funding model

51. The Government's targets for building new affordable homes are almost entirely dependent on the ability of housing associations to fund them. Prior to 1988, about 90% of the cost of building new affordable homes was met from the public purse. Since then, through the Housing Corporation, the Government has sought to achieve the greatest value for money possible from Social Housing Grant and average grant rates have decreased to between 30% and 40% of total cost. The resulting funding gap has been met in part by planning gain from private development but mainly by accessing borrowing from the private sector. Associations have also become adept at negotiating viable and profitable developments with a mix of funding, moving gradually first to develop successful shared ownership models which generate cross-subsidy for social rented homes and later to build private homes for sale, thereby generating surpluses for reinvestment. In times of prosperity, there were great opportunities to use the surpluses generated by development to expand. However, housing associations are not immune to the vagaries of the market, and the credit crunch has introduced significant new risks into the business model.

52. NHF notes that, after public subsidy, "housing associations fund the other 60% of development cost through a combination of private finance (typically providing around 50% of construction costs) and contributions from their reserves (typically around 10% of construction costs)".[100] This breakdown is given in figure 4, below. For most housing associations, the ratio of public subsidy in the form of Social Housing Grant to borrowing has decreased steadily over time. This is illustrated in the Annual Report of London and Quadrant Group, which shows that the ratio of public subsidy to borrowing in that housing association has decreased between 2003-04 and 2007-08 from approximately 3:2 to approximately 1:1.[101]

Figure 4: Source of funding for new affordable homes



Source: Cred 43 (NHF)

[100] Cred 43

[101] The L & Q Group, *Financial Statements 2008* (2008), p 7.

Social Housing Grant

53. The National Affordable Housing Programme, administered by the Homes and Communities Agency, is supported by allocations of Social Housing Grant. This is a capital grant paid upfront in instalments as each building project progresses. There are different rates for social rented and LCHO homes. A formula taking account of the levels of building required on a regional basis determines the levels of Social Housing Grant allocated to each region. Within the regions, housing associations, local authorities and a small number of other developers and Arm's-Length Management Organisations (ALMOs) submit competitive bids for their share of the regional allocation. To facilitate financial planning, organisations are given an indicative allocation for the two following years but, until recently, bids had to be submitted for schemes on a quarterly basis.

54. Many submissions observe that the decrease in the level of Social Housing Grant, noted above, makes housing associations reliant on cross-subsidy for their development projects. The National Housing Federation, for example, states "grant rates for new development are such now (about 40 per cent) that it is impossible to build social housing at anything but a financial loss, unless associations cross subsidise this building".[102] Much of the evidence we received called for an immediate increase in Social Housing Grant levels in order to reduce the reliance of housing associations on more volatile funding sources. The Housing Forum, for example, told us "housing associations are likely to need increased grant levels if they are to build the same or more properties that they have been up to this point".[103] Ahead of the conclusion to its inquiry into the Mayor's Draft Housing Strategy, the London Assembly Planning and Housing Committee notes that it is considering recommending that "grant rates need to be significantly increased in the short term and that applies to both new schemes in the new financial climate as well as, potentially, those that have already got approval but find themselves now financially unviable".[104]

55. The Government has responded to the calls for increased Social Housing Grant by changing the way payments are made. Previously, housing associations received 50% of their allocation at the beginning of a project, and 50% upon completion. They will now receive 60% at the start, and 40% upon completion. CLG has also enabled them to bid for Social Housing Grant on a scheme-by-scheme basis instead of in quarterly bidding rounds.[105] Both these changes are intended by the Government to support the cash flow of housing associations and thereby stimulate development. The Homes and Communities Agency (HCA) has recently also demonstrated a willingness to increase grant rates in order to rescue schemes which would otherwise become unviable. Speaking to *Inside Housing*, the Assistant Director of the National Housing Federation, Bob Wilson, said "we are beginning to get a feel from our members that the HCA is responding positively to the need to negotiate—on an individual basis—significantly changed grant rates".[106]

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[102] Cred 43

[103] Cred 39

[104] Cred 59

[105] Cred 60

[106] Crispin Dowler, "Grant rates rise for associations", *Inside Housing* (16 January 2009).

56. **The Government has taken some welcome steps to improve cash-flow and stimulate building activity by increasing the Social Housing Grant money available to housing associations. The Homes and Communities Agency has also shown a willingness to increase grant rates where necessary in order to ensure the continued viability of developments. It is likely that, as the economic downturn continues, fewer developing housing associations will be able to continue building without such an increase. We urge the Homes and Communities Agency to continue to respond flexibly to the changing economic situation, but there is a limit to what it can do without an overall increase in its budget. We recommend that the Homes and Communities Agency's budget be increased. Without that it will be impossible to meet even the Government's targets for new social homes, let alone the higher targets that we advocate.**

Social housing grant and local authorities

57. **We welcome the Government's commitment in principle to allowing local authorities to build new social housing. We also welcome the decision that the Homes and Communities Agency should accept bids for social housing grant from local authorities and Arm's-Length Management Organisations, as well as housing associations. We recommend that local authorities take advantage of this change by coming forward with new initiatives to increase housebuilding, including providing land at nil cost. This approach to increasing house building rates will only bear fruit if all three of these elements come together.**

Lending to housing associations

58. For a typical housing association, approximately 50% of the building cost of new affordable housing is met through borrowing. The market for lending to housing associations consists of about eight or nine major institutions and is worth approximately £40 billion.[107] Housing associations have typically been perceived as sound financial prospects with an implicit government guarantee through the Housing Corporation and have become recognised by lenders as a good triple A investment. As a consequence they have been able to secure loans at very competitive rates. IMLA notes—

> over the last five years the strong competition between lenders has driven both the margin on lending to associations very low (0.25 basis points above LIBOR/Base rate) but also the terms of that lending had become less demanding in terms of cover ratios and covenants [...] With the onset of the credit crunch in 2007 the number of active lenders to the sector fell [...] In recent months there have been only 3 major lenders still active in the sector.[108]

59. As well as a reduction in the amount of lending, the terms on which banks will lend to housing associations have become more stringent. Housing associations have had little benefit from falling interest rates as loans to them are traditionally linked to the LIBOR inter-bank lending rate, which has fallen much more slowly than the bank base rate. IMLA notes that banks are also "looking more closely at governance and finance and that they

[107] Cred 08 (Intermediary Mortgage Lenders' Association)

[108] Cred 08

have begun to discriminate between [different housing associations] in terms of pricing and terms".[109]

60. As housing associations find themselves accessing borrowing on less favourable terms, they become exposed to greater financial risk because of their reduced operating margins. Operating surpluses have typically been used to cover the interest payment on loans. The ratio of surpluses to interest costs is usually referred to as "interest cover". Until recently, housing associations have had good interest cover, but some housing associations are now reporting a decrease. G15, a group of the fifteen largest housing associations in London, notes that, in the sector as a whole, "interest cover [is] down from 107% to 92%": by contrast, levels of borrowing are up from 51% to 59%.[110]

61. Banks are not simply restricting the criteria for new lending, but are seeking to toughen up the terms of existing loans to housing associations. David Orr from the National Housing Federation gave one instance as an example of this practice:

> A housing association which had a group structure with three different organisations in its group decided […] that it wanted to collapse that governance structure so that there is one organisation with resident panels, a different model but saving about £300,000 a year and the £300,000 could be invested in better services, neighbourhood support services, new development, whatever. Their core lender said that if they did that, it would regard that as a significant event in the terms of the loan agreement and re-price the entire loan book at a cost to that organisation of £1.9 million a year. The impact of that is that nothing happened; there was no change. So £300,000 of efficiency savings are not being generated, a more rational governance structure has not been put in place and the bank has gained not a single penny piece from its behaviour.[111]

Peter Marsh from the Tenant Services Authority told us this type of behaviour was not, in itself, totally unreasonable in a commercial environment. It is the TSA's role to "try to mediate between legitimate commercial pressures, which will be applied by a bank at an opportunity that presents itself, and avoiding banks applying such aggressive commercial pressure that it becomes a disincentive for rational behaviour".[112] It sets out to achieve this aim by facilitating conversations between lenders and housing associations to try to find compromises which enable banks to see a continuing return on their investment and also ensure that housing associations are able to make efficiency savings without penalty. **We welcome the proactive approach being taken by the Tenant Services Authority to facilitating dialogue between housing associations and the lenders upon whom they rely so heavily. It is too early to judge what effect this is having on the borrowing conditions faced by housing associations. We intend to revisit this issue later in 2009 to assess what progress has been made.**

[109] Cred 08

[110] Cred 06

[111] Q 23

[112] Q 78

Cross-subsidy

62. The Council of Mortgage Lenders argues "the continual reduction of grant rates has created an over reliance on cross subsidy for both the delivery of affordable housing but also the business operating models of associations".[113] The National Housing Federation states that, typically, 10% of the cost of building new affordable housing is met by housing associations through "cross-subsidy". This could take the form of—

a) S.106 contributions from the developers of private homes on sites also being used for affordable housing. the Home Builders Federation states "in 2006-07, 58% of all Affordable Housing was delivered through such agreements".[114] As developers reduce their total number of developments, the contribution to affordable housing made by s.106 agreements also decreases. The London Assembly Planning and Housing Committee learnt that "perhaps 50 per cent to 75 per cent of the expected section 106 financed homes [in London] will not now be delivered due to the slowdown in the private market sector".[115]

b) Funding from the housing association's own reserves. These could be made up of, for example—

    i. Shared ownership "staircasing" receipts. "Staircasing" refers to the practice of selling further portions of a shared ownership home to the tenant/owner. Until recently, tenants/owners could only "staircase up" by increasing their share of the property but, under one of the terms of the Government's housing rescue package, tenants/owners at risk of repossession will be given the option to "staircase down" by decreasing their share of the property. We were told that the "reduction in mortgage availability, partly as a result of some lenders now classifying shared ownership mortgages as "sub-prime", had resulted in reduced sales for associations.[116] In turn this reduces the level of potential staircasing receipts.

    ii. Proceeds from the market sale of existing properties. The Gentoo Group states "an increasing number of RSLs are balancing their books through property sales with 6 of the top 20 providers of social housing reporting a combined total of £129 million through surplus on the sale of fixed assets in 2007/08".[117] As the housing market declines, it becomes more difficult for housing associations to raise money in this way.

Housing associations may also use money from their "recycled capital grant fund". This is money generated through the sale of affordable housing which was itself funded by Social Housing Grant. This money is not returned to the Homes and Communities Agency but is held by the housing association and accounted for as if it were new Social Housing Grant.

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[113] Cred 30

[114] Cred 42

[115] Cred 59

[116] Cred 25 (Unison).

[117] Cred 26

63. All the different funding streams listed above are exposed to the vagaries of the housing market and are liable to dry up during the credit crunch. This is an issue which was raised repeatedly in both written and oral evidence to our inquiry. G15 told us “the credit crunch has brought to a standstill housing associations’ ability to cross-subsidise new homes. This calls into question their ability to meet Government supply targets without increased Government assistance”.[118] The Intermediary Mortgage Lenders’ Association states “the development model in use in recent years by large and medium sized associations—cross-subsidy—is now broken and must be replaced by one based around higher grant rates and with a focus on social renting”.[119] Without being able to make up the funds which would previously have been derived from cross-subsidy, housing associations cannot continue to develop new homes. This is explained by NHF as follows: “overall sector viability remains strong and sound because housing associations are well run and well managed organisations. But it is precisely this astute financial management that means associations will not take unwise development risk and will not continue to develop using a financial model unsuitable for the current economic climate”.[120]

64. **The ability of housing associations to build new affordable homes is critical to the attainment of the Government’s housing targets. If, because of market failures, they are no longer able to cross-subsidise their development activities at the same high rate as before, we see no alternative but for the Government to replace this funding with a higher average percentage rate of Social Housing Grant. This inevitably means each allocation of Social Housing Grant will produce fewer units than before, but this is a better outcome than funding allocations remaining partially unspent because associations are unable to bring viable schemes forward.**

Contingency planning

65. Given the high levels of exposure to financial risk being experienced by housing associations as a result of the credit crunch, it is of fundamental importance that they undertake robust contingency planning. Some of the written evidence we received suggested that this was not happening. Unison, for example, reports “a third of social landlords contacted in a survey by Baker Tilly […] have not made contingencies for dealing with the crisis”.[121] We heard in oral evidence, however, that over 80% of housing associations already had strategies in place.[122] Similarly, the Housing Corporation states in written evidence that a “significant number” of housing associations have begun to review their business models since the onset of the credit crunch. It details a number of the measures being taken, including—

- “reviewing all uncommitted development and in particular scaling back on shared ownership assumptions;
- reviewing their operating cost base;

[118] Cred 05

[119] Cred 08

[120] Cred 43

[121] Cred 25

[122] Q 76 Peter Marsh (TSA)

- looking at sales dependence and how the exposure can be mitigated; and
- ensuring treasury management strategies are appropriate for the current situation".[123]

66. As the new independent regulator, the Tenant Services Authority has oversight of the contingency planning process. Oral evidence from Peter Marsh, its Chief Executive, suggested that it is already being very proactive in this role. He told us that, of the 250 housing associations in development partnerships with the Homes and Communities Agency, approximately one in three has tended to be heavily reliant on cross-subsidy. Of that number, there are "half a dozen which have risks which need to be addressed and managed in the next six months". The TSA is managing these six housing associations by asking "to see cash flows on a weekly basis and we want to talk to the boards and we want to and are engaging with both their chairs and their lenders to ensure we understand their response to the threats posed to them".[124] The authority is also generating "a cab rank, if you like, of organisations that would be ready and willing to step in" should a housing association fail and require takeover by another housing association.[125] On 9 January 2009 three large housing associations, Affinity Sutton, Circle Anglia, and L&Q Group, told the TSA that they would be willing to lend to housing associations facing financial difficulties.[126] The TSA has been scenario-testing to ensure it is able to respond quickly in the event of such a takeover.[127] A detailed guide to its contingency plans is set out in Annex C to the Government's response to supplementary written questions posed by us following the oral evidence session on 16 December 2008.[128] **We welcome the proactive approach being taken by the Tenant Services Authority to managing the contingency planning of housing associations and look forward to an update on its effectiveness later in 2009.**

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[123] Cred 61

[124] Q 76

[125] Communities and Local Government Committee, oral evidence session with the Tenant Services Authority, 21 October 2008, Q 7, Peter Marsh (http://www.publications.parliament.uk/pa/cm200708/cmselect/cmcomloc/uc1123-i/uc112301.htm).

[126] Crispin Dowler, "Cash-rich landlords agree to bail out peers", *Inside Housing* (9 January 2009).

[127] Communities and Local Government Committee, oral evidence session with the Tenant Services Authority, 21 October 2008, Q 7, Peter Marsh (http://www.publications.parliament.uk/pa/cm200708/cmselect/cmcomloc/uc1123-i/uc112301.htm).

[128] Cred 60A

4 Home ownership

Affordability

67. In recent years, vastly increased house prices have put home ownership beyond the grasp of many who might have bought a home when prices were lower. For these households, the Government offers a range of low cost home ownership (LCHO) products, as set out in figure 5 below.

Figure 5: LCHO schemes

Product name	Product type	Description
HomeBuy Direct	Shared equity	• Buyer given equity loan of up to 30% of total purchase price and must secure a mortgage for remainder. • Scheme used to buy new build properties from one of HCA's development partners. • Maximum property value of £300,000. • Available to households with maximum annual income of £60,000.
MyChoiceHomeBuy (part of Open Market HomeBuy scheme)	Shared equity	• Buyer given low-interest equity loan of between 15% and 50% of total purchase price and must secure mortgage for the remainder. • Loan is provided by one of a consortium of eight housing associations. • Buyer can use a deposit if they wish. • Scheme used to buy suitable properties on open market.
New Build HomeBuy	Shared ownership	• Buyer buys 25% to 75% share of property at outset and landlord retains remaining share, on which buyer pays rent. Buyer needs to be able to obtain a mortgage on their share. • Buyer can purchase additional shares until they own 100% of the property. • Scheme used to buy properties from housing associations. • When buyer wants to sell, property sold at market rate and buyer benefits from any increase in value on their share at time of sale. • Available to social housing tenants, those on local authority waiting lists, key workers and those with priority need for housing. Also available to first-time buyers with maximum annual income of £60,000.
OwnHome (part of Open Market HomeBuy: scheme)	Shared equity	• Buyer given low-interest equity loan of between 20% and 40% of total purchase price and secures a mortgage for the remainder with the OwnHome partnership funder. • Initial mortgage must be taken with the partnership funder but buyer can remortgage with another provider at a later stage. • Buyer can use a deposit if they wish. • Scheme used to buy suitable properties on open market.
Rent to HomeBuy	Rent-to-buy	• For up to first three years, buyer pays "intermediate rent" on a new-build property at 80% of market rate in order to save for a deposit.

		• After rental period, buyer can purchase property through New Build HomeBuy scheme (see above). • Available to first-time buyers with maximum annual income of £60,000.
Social HomeBuy	Shared ownership or outright ownership	• Housing association and local authority tenants are able to purchase their home at a maximum discount of between £9,000 and £16,000. • Tenants have choice of buying their home on a shared ownership basis (and increasing their share over time if they wish to) or buying their home outright. • If tenants sell their home within five years of buying it they must repay the discount on the purchase price.

HCA website: http://www.homesandcommunities.co.uk/home_buy

68. The LCHO products detailed in figure 5 fall into three broad categories—

a) **Shared ownership**. Richard McCarthy of CLG explained to us that "the legal nature of that programme is that the owner buys a proportion of the property and not the whole property. Consequently they have been traditionally seeking mortgages of up to 100 per cent on the element that they were buying".[129] Lenders are no longer willing to provide mortgages to buyers without an equity stake in the property they are buying.

b) **Shared equity**. With these products, housing associations loan a cash deposit (the "equity") to the prospective buyer. The buyer obtains a mortgage for the remainder of the purchase price. Legally, under this scheme, households own 100% of their home. Richard McCarthy explained that this "means that when individual prospective first-time buyers approach their lenders they will be seeking a loan-to-value ratio of 70 per cent".[130]

c) **Rent-to-buy**. Prospective buyers are able to save for a deposit during a period of living in the property when they pay "intermediate rent" at 80% of market value. This enables them to take an equity stake in the property when they buy it up to three years later, requiring a mortgage of less than 100% of the purchase price as a result.

69. Since the onset of the credit crunch, banks have stopped providing 100% mortgages, a move which has had adverse consequences for many of those wanting to participate in shared ownership schemes. The National Housing Federation notes "some lenders perceive [LCHO] purchasers as sub-prime".[131] Caution amongst banks has fed through into the market. The Intermediary Mortgage Lenders' Association observes "LCHO sales have been falling reflecting both mortgaging difficulties and a reduction in demand".[132]

[129] Q 56

[130] Q 56

[131] Cred 43

[132] Cred 08

Government response: HomeBuy Direct

70. The Government's response to reluctance on the part of lenders to provide mortgages to purchasers of shared ownership products has come in the form of the introduction of HomeBuy Direct, a shared equity product (see figure 5, above, for details). In written evidence, CLG states that HomeBuy Direct "offers greater protection for first time buyers against negative equity since, if the value of the property goes down, Government and the developer will only share the sale proceeds that are left over once the mortgage has been repaid. This also provides greater security to lenders".[133] This move was broadly welcomed in the written evidence we received although some organisations caution that LCHO schemes "must be sustainable over the economic cycle and particular caution should be exercised over promoting such an option at a time of rapidly falling house prices".[134] **Buyers should not be encouraged by the availability of Low Cost Home Ownership schemes to take risks with the purchase of a home. We are satisfied, however, that, through the provision of a substantial equity loan, HomeBuy Direct has been designed to offer maximum security to both buyer and lender even in a falling market.**

71. HomeBuy Direct is worth £300 million and the Government estimates that it should be able to help 10,000 first-time buyers get onto the housing ladder. As is the case with most of the measures in the Government's housing rescue package, some organisations express disappointment at the limited extent of the scheme. Thames Gateway London, for example, comments "given the number of first time buyers decreased by 17,000 in July alone, the 10,000 targeted for support could represent a small percentage of those demonstrating a repressed demand".[135] We note these concerns but are mindful of the fact that the number of first-time buyers in the market may have decreased for a number of different reasons, amongst them caution at a time of falling prices. The Government cannot be expected to assist every potential first-time buyer to purchase a home and help must be directed at those who need it most.

72. HomeBuy Direct brings the total of LCHO products available to six. The Minister told us there are so many products available because "each of the options which is available now has been put forward because of a perceived and identified need".[136] However, the variety of products on the market can also lead to confusion. The North West Housing Forum observes "with the plethora of schemes now available, it is becoming increasingly difficult for first time buyers to understand the options that are available to them".[137] Worryingly, the confusion seems to extend to lenders as well. The Building Societies Association states "shared ownership schemes designed to help aspirant first time buyers remain complex for both building societies and borrowers, deterring both from participating in the schemes".[138] The complexity of the variety of schemes on offer is readily apparent simply from a reading of the explanatory note which the Government submitted to us following

133 Cred 60

134 Cred 30 (CML).

135 Cred 36

136 Q 58

137 Cred 15

138 Cred 57

our oral evidence session.[139] **We accept that each of the Low Cost Home Ownership (LCHO) schemes offered by the Government has been created in response to a perceived need and commend Government on its responsiveness. However, if the schemes are to be effective, it is important that both buyers and lenders understand the range of products available. We recommend that the Government rationalise its LCHO programme to make it easier to understand and use, reducing the number of named schemes to three, covering shared-equity, shared-ownership and rent-to-buy.**

Government response: stamp duty

73. On 2 September 2008 the Government announced an exemption from stamp duty for properties costing under £175,000 from September 2008 until September 2009. CLG told us this "stamp duty holiday" was designed "to demonstrate the Government's support for homebuyers at a time of difficult conditions".[140]

74. The measure is targeted at properties at the lower end of the scale. Figure 6 gives average house prices and average first-time buyer house prices in the last quarter of 2008 across the UK.

Figure 6: Average house prices and first-time buyer house prices by region

Region	Average price	Average price (first-time buyer)
Greater London	£238,057	£193,784
South East	£181,477	£142,275
South West	£172,789	£136,692
Northern Ireland	£147,833	£128,858
East Anglia	£153,080	£120,869
West Midlands	£141,783	£112,837
Wales	£136,174	£111,242
East Midlands	£133,102	£106,168
North West	£136,090	£103,495
Scotland	£138,941	£101,992
Yorks and Humber	£133,632	£101,863
North	£118,525	£94,801

Source: Nationwide House Price Index, First Time Buyer Index: http://www.nationwide.co.uk/hpi/historical.htm

75. Several submissions complain that the stamp duty exemption will "have a very limited impact on the current housing market with transactions at a low level. For instance, in London the average first time buyer house price in August 2008 was £254,132, well above

139 Cred 60A

140 Cred 60

the £175,000 threshold”.[141] It is certainly true that, in London, the measure will have a negligible impact with the average price paid by both first-time and other buyers in the last quarter of 2008 falling above the new threshold. Elsewhere in the country, however, the average price paid by first-time buyers falls well beneath the stamp duty exemption threshold as, with the exception of the South East, does the average house price. We are less concerned about the number of buyers who will benefit from the exemption than we are about the extent to which they will benefit. To an average first-time buyer in the West Midlands, the waiver represents a saving of £1,128; to the buyer of an average home in the same region, the saving would be £1,418. **Although the savings generated by the stamp-duty exemption will be extremely welcome to those who benefit, their impact on the overall affordability of homes in the UK is marginal. We recommend that the Government not renew this measure in September 2009 but instead direct the revenue it raises from the lowest bracket of stamp duty land tax receipts towards its National Affordable Housing Programme, which has a greater potential to benefit low income households.**

Repossession

76. It is expected that the number of repossessions will rise as a result of the credit crunch. The Council of Mortgage Lenders (CML) predicted that there would be 45,000 repossessions in 2008 with 210,000 mortgages being three months or more in arrears by the end of the year. For 2009 they predict 75,000 repossessions with 500,000 mortgages being three months or more in arrears by the end of the year. This represents 0.66% of all mortgages resulting in repossession and 4.41% resulting in serious arrears.[142] CML comments that the 2008 repossession rate now “is similar to that of the late 1990s, but remains less than half the rate experienced in the early 1990s”.[143] Whilst the proportion of households facing repossession remains small, it is nonetheless increasing rapidly and, as the Minister told us, “there is this very, very high level of fear of repossession”.[144] Citizens Advice observes that “the first four months of 2008/09 have produced around 27,300 enquiries [about mortgage and secured loan possessions], compared to roughly 18,200 enquiries in the first four months of 2007/08 – an increase of around 45 per cent”.[145] However small the numbers involved, the impact of repossessions upon the households affected can be devastating, as is described by the Joseph Rowntree Foundation:

> repossessions have a deep and long lasting impact on the mental, physical, educational and financial lives of the families involved. The impact of repossession doesn’t begin or end with the loss of a home. It is often preceded by months of building debts and court appearances and followed by months or even years of continued debts, moves to new accommodation and compounding levels of ill-health.[146]

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141 Cred 31 (Royal Institution of Chartered Surveyors).

142 Council of Mortgage Lenders (18 December 2008), press notice: http://www.cml.org.uk/cml/publications/marketcommentary/109.

143 Cred 30

144 Q 87

145 Cred 52

146 Cred 40

Thus, **whilst the levels of repossession being experienced should be kept in perspective, it is important not to dismiss the severity of the problem for those involved or the value to home owners and lenders alike of keeping people in their homes.**

77. The Minister told us "when you realise that the average cost to a lender of pursuing a repossession all the way through is about £35,000, it seemed to us […] that it might be in their interests too to avoid incurring those costs to no useful purpose".[147] Nonetheless, concern has been expressed about the speed with which banks resort to repossession. Shelter states "too many lenders are taking an aggressive approach to arrears management and failing to treat repossession as a last resort".[148] Similarly, Citizens Advice comments that evidence it has collected "highlight[s] cases where some lenders did not seem to be doing enough to help borrowers deal with arrears, and seemed instead to be using the courts as a first resort rather than as a last resort", continuing "we [are] also concerned that the court process for mortgage possession did not include sufficient safeguards to prevent lenders from going to court where this was not necessary".[149]

78. As part of his Pre-Budget Report, on 24 November 2008 the Chancellor announced the establishment of a new Lenders' Panel to improve the monitoring of lending. As part of this, the Government announced that individuals can expect "a commitment from major mortgage lenders on the Panel not to initiate repossession action within at least three months of an owner occupier going into arrears".[150] Since 19 November 2008, lenders have been obliged to follow a pre-action protocol before initiating repossession. This approach has been criticised as lacking in strength. Paul Marsh, President of the Law Society, for example, has commented "while the idea to resolve arrears disputes at an early stage is welcome, there are no sanctions for lenders who fail to follow the protocol and there is no requirement for lenders to explain why they have rejected a borrower's offer of payment. It lacks any bite. It is just a gesture".[151]

79. Shelter "believes that a more robust approach to the regulation of lenders' arrears management behaviour is needed from the [Financial Services Authority (FSA)]".[152] The FSA has published guidance for lenders entitled *Mortgages: Conduct of Business*. It states that every lender should ensure its written policy and procedures include "using reasonable efforts to reach an agreement with a customer over the method of repaying any payment shortfall or sale shortfall, in the case of the former having regard to the desirability of agreeing with the customer an alternative to taking possession of the property".[153] The Council of Mortgage Lenders statement of practice on the handling of arrears and repossessions states "possession of a property will be sought only as a last resort when all

[147] Q 86

[148] Cred 54

[149] Cred 52

[150] HM Treasury (24 October 2008) press notice: http://www.hm-treasury.gov.uk/prebud_pbr08_press01.htm.

[151] Law Society (2 December 2008) press notice: http://www.lawsociety.org.uk/newsandevents/pressreleases/view=newsarticle.law?NEWSID=416000.

[152] Cred 54

[153] Financial Services Authority, *Mortgages: Conduct of Business* (April 2007), section 13.3.2: http://www.fsa.gov.uk/pubs/hb-releases/rel64/rel64mcob.pdf.

attempts to reach alternative arrangements with the borrower have been unsuccessful".[154] All CML members are committed to complying with FSA guidelines.

80. The Government is implementing a number of other measures in an attempt to avoid the need for widespread repossessions. In May 2008, the then Minister for Housing, Caroline Flint, announced that the Government would:

- expand debt advice by strengthening the National Housing Advice Service and providing additional specialist training for local authorities and Citizens Advice Bureau staff; and
- fund 74 further court desks, ensuring that just under 90% of English county courts have access to free legal advice and representation. The Department claims that, in 85% of cases where people attend court, this measure has ensured that immediate repossession is avoided.[155]

81. The Government, the Financial Services Authority and the Council of Mortgage Lenders all have a number of measures in place to try to ensure good practice amongst lenders when dealing with mortgage arrears and repossessions. Yet if the regime were working well, lenders would all be following best practice and it would not be necessary for the Government to provide funding for the provision of so many additional court desks. **We are concerned that the measures in place to limit repossessions, including the new pre-action protocol and FSA guidelines, cannot be enforced. We have received worrying reports of the precipitate behaviour of lenders when dealing with customers who have fallen into arrears with their mortgage payments, implying a lack of commitment to the principle of using repossession as the last resort. We recommend that the Government use the establishment of its new Lenders' Panel closely to monitor lenders' repossession behaviour. It should consider what sanctions should be imposed upon lenders if they fail to comply with FSA guidelines or the new pre-action protocol.**

Government response: mortgage rescue

82. In written evidence CLG states that one of its primary objectives in dealing with the credit crunch is to: "support individuals at short-term risk of repossession, with a particular focus on preventing homelessness amongst vulnerable households".[156] In support of this aim, on 2 September 2008 the Government announced a mortgage rescue scheme worth £200 million. The scheme has two elements:

- **Shared equity**. A housing association provides an equity loan enabling a household's mortgage payments to be reduced. This option is designed to assist homeowners who have an equity share in their home and are facing a payment shock from remortgaging and/or higher living costs but who are likely to retain their current income.

[154] Council of Mortgage Lenders, *Statement of Practice: Handling of Arrears and Repossessions*: http://www.cml.org.uk/cml/policy/issues/1629

[155] Cred 60

[156] Cred 60

- **Government mortgage to rent**. A housing association pays off the entire mortgage and the householder pays rent to the housing association at a level they can afford. This option is designed to assist homeowners who are unable to meet lenders' requirements, perhaps because their income is unstable, and households which are more suited to social tenancies.

On 24 November, the Chancellor announced in his Pre-Budget Report that the Government would extend the mortgage rescue scheme to cover second charge lending.[157] Full details of the scheme were announced on 16 January 2009.[158]

83. The mortgage rescue scheme is designed to assist up to 6,000 households facing repossession. Crisis argues that "whilst we were pleased to see the Government acting to prevent some 6,000 repossessions across England, this will be only a small proportion of the overall total and barely scratches the surface".[159] According to the Council of Mortgage Lenders figures cited in paragraph 76, above, the scheme would assist just 8% of the total number of households predicted to be repossessed in 2009. Michael Coogan, Director General of CML, described the scheme as "small scale and unambitious".[160] We put these criticisms to the Minister and she responded that the people eligible for the mortgage rescue scheme "are people in the vulnerable groups who would otherwise trigger the homelessness legislation […] It is actually a more restricted group than I think the assumption there had initially been and that is partly why the costs of the scheme are as they are and it is the 6,000".[161] CLG's website emphasises that "this scheme will not help those who are in negative equity".[162]

84. Repossessions can affect a number of groups of people for different reasons. When making its forecast about the number of repossessions expected in 2009, the Council of Mortgage Lenders notes that "a significant number of these are likely to be cases where the property is abandoned or where property fraud has been perpetrated, and a sizeable share are expected to be buy-to-let mortgages".[163] It would not be a good use of public funds for the Government to assist people in these situations. It is also debatable as to whether full-scale mortgage rescue is appropriate for home owners who are struggling to pay their mortgage but who would not be classed as "vulnerable". These groups may be more effectively helped by income support payments (see paragraphs 87 to 90) at less cost to the taxpayer. Yet the line between a struggling household and a vulnerable household may be difficult to draw.

85. **The Government's mortgage rescue scheme offers welcome assistance to vulnerable households at risk of homelessness if their homes are repossessed. But it will assist**

[157] HM Treasury, Pre-Budget Report 2008: *Facing global challenges: supporting people through difficult times* (November 2008), p 95.

[158] "Mortgage rescue scheme extended across England", Department for Communities and Local Government press notice, 16 January 2009. Details available on www.communities.gov.uk.

[159] Cred 44

[160] Q 31

[161] Q 81

[162] http://www.communities.gov.uk/housing/buyingselling/mortgagerescuemeasures/

[163] Council of Mortgage Lenders (18 December 2008), press notice: http://www.cml.org.uk/cml/publications/marketcommentary/109.

fewer people than had been generally assumed when it was first announced: expectations raised by those initial announcements led to a confused response to the scheme from the public and risked confusion in its administration. The Government's more recent announcement of the details of the scheme, including a helpful "frequently asked questions" document, may be sufficient to ensure that is not the case. When we return to this subject later in 2009, we will assess whether the funds made available through the scheme have been sufficient to meet the needs of those it is intended to support.

Sale-and-rent-back in the private sector

86. The Government mortgage-to-rent element of the mortgage rescue scheme mirrors a process already operational in the private sector. Several submissions described the problems which occurred in the hitherto unregulated private sale-and-rent-back sector, including early eviction or unsustainable rent increases by unscrupulous landlords. Some people have sold their home to a sale-and-rent-back landlord only to find themselves evicted because the landlord has defaulted on the mortgage. This area was the subject of a recent Office of Fair Trading market study. It recommended that "sale and rent back transactions be subject to statutory regulation, and that this be carried out by the Financial Services Authority".[164] **We recommend that the Government implement the Office of Fair Trading recommendation on sale-and-rent-back schemes as a matter of urgency to protect the growing number of households falling behind on their mortgage payments from exploitation by unscrupulous landlords.**

Government response: Income support for mortgage interest payments

87. As well as using its mortgage rescue scheme to support vulnerable households, CLG states that it intends to "promote confidence in the housing market by preventing avoidable repossessions which can cause unnecessary public concern".[165] One of the ways it is seeking to do this is through reforms to its Income Support for Mortgage Interest (ISMI) payments scheme. The twofold reforms are worth £100 million and should assist approximately 10,000 claimants—

- Since 5 January 2009, homeowners will only have to wait 13 weeks, instead of 39 weeks, to be eligible for support. This is broadly in line with the three month limit by which time banks would consider mortgage payments to be seriously in arrears.
- As a temporary measure, from 5 January 2009 the capital limit for loans on which ISMI is based was increased to from £100,000 to £200,000.

In the Pre-Budget Report, the Chancellor also announced that the Government would "maintain the level of support at the current interest rate for the next six months for existing claimants so that net support to such claimants is increased".[166]

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164 Office of Fair Trading, *Sale and rent back: An OFT market study* (October 2008), p 6.

165 Cred 60

166 HM Treasury, Pre-Budget Report 2008: *Facing global challenges: supporting people through difficult times* (November 2008), p 96.

88. The reforms to ISMI have been well received although, again, there have been suggestions that their scope is too limited. The Intermediary Mortgage Lenders' Association states "the extensions to the ISMI scheme are important and helpful but the scheme still remains restrictive".[167] The Council of Mortgage Lenders states "coverage for around 10,000 potential claimants does not go far enough in an environment of rising unemployment".[168] The scheme does exclude some households who could reasonably be argued to be entitled to some support, for example households where a mortgage is predicated on two incomes, since these "will see their entitlement to ISMI heavily reduced or negated through means testing".[169] It also excludes households experiencing a reduction in, rather than total loss of, income, perhaps through lost overtime. We were pleased to note that the Government is already aware of this gap. The Minister told us—

> we are working now very actively with Treasury, with the FSA and the lenders, to see what scheme can be put together mutually to help people whose income has diminished. It is not for people who are trying to get out of paying their mortgage but people who want to pay their mortgage, people who are trying to continue to do so, people who have every right to expect that in the longer term they will be able to return to paying the full amount but in the short term either one of them has lost their job or lost their overtime or whatever and they have had a sharp drop in income.[170]

89. On 3 December 2008, HM Treasury announced the creation of a new Homeowner Mortgage Support Scheme, under which "households that experience a significant and temporary loss of income as a result of the economic downturn [are able] to defer a proportion of the interest payments on their mortgage for up to two years. The Government will guarantee the deferred interests payments in return for banks' participation in the scheme".[171] It is intended by the Government as a "bridge through difficult times".[172] To date the eight biggest lenders, representing 70% of lending, have pledged to work with the Government to implement the scheme, which the Government envisages becoming available "in the New Year".[173] The Homeowner Mortgage Support Scheme differs from the ISMI scheme because of the requirement for the home owner to repay the financial support given at a later date.

90. **We welcome the work being done by the Government on providing a support scheme which caters for households which have lost one of two incomes or which have had a significant reduction in income. Many such households could legitimately be entitled to support for their mortgage payments in order to prevent unnecessary repossession. The new Mortgage Support Scheme is a step in the right direction but, because it takes the form of a further loan, may deter households unwilling to take on more debt at a time of financial uncertainty. We will return to this subject later in 2009 to assess the actions taken by Government.**

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167 Cred 08

168 Cred 30

169 Cred 30 (CML)

170 Q 81

171 HM Treasury (3 December 2008) press notice: http://www.hm-treasury.gov.uk/press_132_08.htm.

172 Cred 60A (CLG)

173 Cred 60A

Repossession of privately rented properties

91. Some private tenants face eviction because their landlord has defaulted on a mortgage. There was no consensus amongst the written submissions we received about the rate of repossession of privately rented properties. Crisis states "the number of buy-to-let landlords being repossessed in the first half of 2008 is double that of the first half of last year".[174] Tom Parkinson, an individual who was the victim of just this problem, suggests in evidence to us that "anecdotal evidence from a local estate agent concurs that buy-to-let properties are being repossessed at a vastly disproportionate rate".[175] The National Landlords Association disagrees, stating "figures from the Council of Mortgage Lenders indicate that currently only 1.1% of buy-to-let mortgages are in arrears of more than 3 months (compared to 1.33% in the wider market). The rate of repossessions is the same as for owner-occupied property: 0.16%".[176] Whether or not the problem is as widespread as Crisis and others suggest, it is important that measures be taken to protect this group of individuals who have paid their rent but who have little control over a decision which has a significant impact upon their lives.

92. One of the most significant problems with repossessions in the private rental sector is the insecurity of tenure which it inflicts on tenants, some of whom may be vulnerable to homelessness should they lose their accommodation. We received written evidence from two tenants who had been given little or no notice at all that an eviction was about to take place from properties on which they had been reliably paying rent.[177] This is the practical manifestation of a legal situation in which, even for tenants with an unblemished record, "the rights of the lender to repossess the property normally override those of the tenant, who, as 'occupier', is only entitled to receive notification of the possession proceedings and eviction date".[178] In written evidence, Unison recommends that "where a lender is intending to seek a possession order they must first establish whether the property might be tenanted and if it is give the tenant sufficient time to find alternative accommodation or seek to transfer the property to an RSL".[179] In oral evidence, Richard McCarthy of CLG told us "the Ministry of Justice is looking at extending the minimum level at which the courts will require notice to be given to a buy-to-let tenant when their home is repossessed. […] We are looking to extend what is the current minimum period of two weeks to seven weeks".[180] Written evidence from one tenant suggests that, when being given notice of an impending repossession, tenants should be given the option of leaving the property, even if their contract has not yet expired and the repossession does not eventually go ahead, in order to avoid the stress and uncertainty they are likely to undergo as a result of the proceedings against their landlord.[181]

174 Cred 44

175 Cred 21

176 Cred 49

177 Cred 21 and Cred 62

178 Cred 52 (Citizens Advice)

179 Cred 25

180 Q 87

181 Cred 62 (Jay Ridgeway)

93. There is evidence that some buy-to-let lenders are already taking the needs of tenants into consideration. The Paragon Group of Companies, a major lender to the private rented sector, states that it looks "at a range of options when arrears emerge but we always ensure that the welfare of sitting tenants is our highest priority. In all cases at present, where we have to take control of a property due to chronic non-payment, we will leave a sitting tenant in the property and ensure that the property is professionally managed and maintained".[182] This is an example of good practice which should be disseminated throughout the sector. **We welcome consideration being given by the Ministry of Justice to extending the period of notice a lender is obliged to give a tenant that their home is at risk of repossession. We recommend that the Government also produce guidance stipulating that lenders repossessing properties where there is a sitting tenant make arrangements for the professional management of the property for a minimum of six months after repossession or until the end of the contractual tenancy period if sooner.**

[182] Cred 38

5 Conclusion

94. The Government's ambition for housing is for "everyone to have access to a decent home at a price they can afford, in a place where they want to live and work."[183] Its ability to achieve that ambition was already in question before the effects of the "credit crunch" began to bite; it is so to an even greater extent now. The message which we received from the four key non-governmental witnesses from whom we heard oral evidence, as indeed from those who submitted written evidence, was clear: the steps the Government is taking are welcome; but further action is needed if the Government is to have a chance of meeting its targets for home building and achieve that goal of a decent home for all.

95. Our witnesses in oral evidence were agreed that the priority in the first instance was the implementation of the recommendations of the Crosby review of mortgage finance.[184] Implementation of that review lies, of course, mainly outside the immediate responsibility of CLG, the department which we are responsible for scrutinising. It is nonetheless crucial for the achievement of CLG's policy goals, and **it is therefore vital that CLG, both at official and at Ministerial level, maintain pressure on the Treasury to ensure the measures which will revive the mortgage markets are implemented as soon as possible.**

96. Local authorities have a crucial role to play in pulling together all the initiatives which the Government is taking in their local area. Given the wide range of initiatives relating to different parts of the housing market, it is vital that local authorities take the lead locally. **We recommend that all local authorities develop a comprehensive and imaginative strategy for meeting housing needs in their area. They should also ensure that they take a comprehensive approach to making advice available to people in their area on the options available.**

97. Meanwhile, there are a number of steps which CLG itself can take to address the effects of the credit crunch. It should retain its long-term housebuilding targets, since the underlying need for housing remains; and it should increase its targets for new social rented housing, to reflect the increased demands which will be placed on the social housing sector as a result of the economic downturn. Increasing construction of new social housing will also provide a means of maintaining capacity in the homebuilding industry whilst the market recovers, as will the acceleration of refurbishment programmes for social housing. CLG and its agents, especially the Homes and Communities Agency, should also ensure appropriate opportunities are taken to acquire further social housing through the purchase of unsold stock and street properties. The Homes and Communities Agency should encourage public sector bodies to make land available for the development of new homes.

98. Meanwhile the Homes and Communities Agency and the Tenant Services Authority should continue to be active in ensuring the financial viability of housing associations. In particular, HCA should remain prepared to increase social housing grant where necessary to ensure the viability of development schemes; and the TSA should facilitate dialogue with lenders to housing associations and, where appropriate, apply pressure on those lenders to

183 *Homes for the future: more affordable, more sustainable*, p. 6.

184 Qq 2, 6, 7, 31.

ensure the continued availability of finance at favourable rates. The TSA should also ensure it is prepared to act to ensure the protection of tenants should any housing association fall victim to the recession.

99. There are also further steps which CLG, either itself or in conjunction with other Government departments, should take in the intermediate and private housing sectors. CLG should rationalise its low-cost home ownership programme to make it easier to understand and use, reducing the number of named schemes to three, covering shared-equity, shared-ownership and rent-to-buy. Lenders' repossession behaviour should be closely monitored through the new Lenders' Panel, and the Government should consider imposing sanctions upon lenders if they fail to comply with FSA guidelines or the new pre-action protocol. Later in 2009 we expect to assess the effectiveness of the schemes which the Government has set up to offer assistance to vulnerable households at risk of homelessness if their homes are repossessed and to keep in their homes households which have lost one of two incomes or which have had a significant reduction in income.

100. Finally, we have considered the private rented sector, which has not escaped the effects of the "credit crunch". We recommend that the Government implement the Office of Fair Trading recommendation on sale-and-rent-back schemes as a matter of urgency,to protect the growing number of households falling behind on their mortgage payments from exploitation by unscrupulous landlords. We also welcome the Government's consideration of extending the period of notice that a lender is obliged to give a buy-to-let tenant that their home is at risk of repossession; and we recommend that guidance be produced stipulating that lenders repossessing buy-to-let properties make minimum arrangements for the professional management of such properties.

101. As the economic picture changes, so do the effects on housing policy; and it will take time before the effects of the measures which the Government has taken and continues to announce can be judged. **In the introduction to this report and in a number of places throughout we have indicated our intention to return to the subject later in 2009, to consider the situation further. We look forward to considering progress, and urge the Government in the meantime to focus on ensuring all possible measures are taken to achieve the aim of a decent home for all, despite the credit crunch.**

List of conclusions and recommendations

House building targets

Targets: need and deliverability

1. We were pleased to note at our oral evidence session on 16 December 2008 that the Government is intending to conduct research on the likely impact of the credit crunch upon housing demand, and look forward to seeing the results. (Paragraph 9)

2. We accept that, in the short term at least, the Government's housing targets may not be met. The targets were set, however, in response to housing need and demand: they set the context for the vigorous policies needed to improve delivery over the long term, whatever the short term barriers. The credit crunch does not reduce levels of demand for new housing, nor does it affect the need to address years of undersupply. We strongly support the Government's continued commitment to the housing targets set in its 2007 Housing Green Paper. (Paragraph 13)

3. The Government set its current targets for new social rented housing in a time of greater prosperity. Even then, the targets did not adequately cater either for projected levels of new need or for the backlog of need. (Paragraph 18)

4. A greater proportion of the total number of households are now likely to need access to social housing as a result of current economic conditions. We recommend that, in response, a greater proportion of the new homes built each year be designated as social homes. We also consider that this may be a wise move given the continuing uncertainty over low cost home ownership sales which we note below. Although it is not possible on the basis of the evidence we have received for this short inquiry to determine precisely what proportion that should be, we have previously endorsed the estimates of the need for social housing produced by Shelter, and recommend that the Government carefully examine that organisation's most recent assessment in deciding what the appropriate division should be between new social rented housing and other forms of non-market housing. (Paragraph 18)

5. The evidence suggests a strong underlying demand for Low Cost Home Ownership (LCHO) homes, but much of that demand cannot be realised due to the restricted availability of mortgage finance. Whilst the Government attempts to address the shortage of available loans we recommend that, in the short-term, it scale back its targets for the completion of new LCHO homes and focus on building new homes for social rent. This would provide an opportunity to clear the backlog of unsold LCHO stock. Targets can be increased again if and when it becomes clear that demand for low cost housing has become effective. (Paragraph 21)

Land values

6. We are encouraged that the Government and housing associations are already pursuing several different rental options for the large and growing number of households who are neither owner occupiers nor qualify as social tenants. Creative

solutions need to be found to meet the needs of such households, and we urge housing associations to continue innovating in order to meet those needs. (Paragraph 24)

Retaining skills and capacity in the construction sector

7. Falling land prices have the potential to make a useful contribution to addressing the housing shortage and enabling development activity to continue throughout the economic downturn. There will be opportunities for housing associations to buy good sites even if development then proceeds cautiously. As a major landowner the public sector has a vital role to play in making land available in ways which produce the best social outcome, which might involve a lower initial price in return for a share of long term asset appreciation due to development. We welcome the measures the Homes and Communities Agency will be taking to achieve this and intend to revisit this issue later in 2009 to assess what progress has been made. (Paragraph 27)

"Regulatory burden"?

8. House building levels will need to increase dramatically following the end of the economic downturn if there is to be any hope of meeting the Government's housing targets in the longer term. It is therefore vitally important that steps be taken to retain skills and capacity within the house building sector. We welcome the Government's measures to redeploy skilled workers in refurbishment programmes. Increasing targets for new social homes as we have recommended would enable the Government directly to support the construction industry, providing a more effective outlet for skills and capacity which might otherwise be lost. (Paragraph 31)

9. The viability of some developments may only be assured if there is increased public subsidy for the social housing element. However, the evidence submitted to us suggests that the greatest barrier to new development is the state of the housing market. Even if section 106 requirements are reduced, the developer will not make a profit unless homes can be sold at the end of the project. This relies not on public subsidy but on the availability of mortgage finance and on consumer confidence. (Paragraph 34)

Government response: purchasing unsold units

10. As the cost-benefit of environmental standards will be felt in the long term it would be short-sighted to reduce standards in a panic response to short-term financial constraints. Overall, the evidence suggests there is enough flexibility in the system to make it unnecessary to amend building requirements. (Paragraph 37)

11. We support the Government's conclusion that the National Clearing House should only be used to buy properties which are suitable for social rent or affordable housing, not to mop up inappropriate unsold stock. However, a balance must be struck between the need to adhere strictly to standards and the urgent and very basic need of potential tenants for a home. We welcome the Government's pragmatic approach to this issue. (Paragraph 41)

Government response: additional social housing

12. The Government is willing to purchase unsold homes from developers through the National Clearing House. We believe it should also be willing to buy unsold family homes, for which there is a particular need in the social rented sector, on the open market. We recommend that it direct some of the money from the National Affordable Housing Programme to the purchase of suitable properties which have not sold on the open market for a period of a year or more. Priority should be given to the purchase of homes where the transaction would enable elderly home-owners to gain access to much needed sheltered accommodation. The refurbishment of these existing homes for social rent will help utilise skills and capacity in the construction industry which might otherwise be lost. (Paragraph 45)

Government response: critical regeneration schemes

13. We welcome the Government's investment of £975 million in the provision of good quality social rented housing. However, this money has been taken from the budget for future years. It is not additional money. In 2010–11, the year from which the Government has taken money, it has set a target for the construction of 45,000 new social rented homes. We have observed that this target needs to be higher. Meeting even the Government's existing targets will not now be possible without additional funding in that year. The Government's approach of borrowing from the future to pay for investment in social housing now is understandable and, in our view, right. The Minister's inability to say how that borrowing will be paid off, however, is worrying. Notwithstanding the additional social housing which, we hope, will be made available from the money taken from 2010–11, the need for yet further such housing will still be there in that year. The funding to meet that need must also be there. We recommend that, to demonstrate its ongoing commitment to building new social homes, the Government increase its budget for new social housing, without which even the Government's targets cannot be achieved, let alone the higher targets that we advocate. (Paragraph 48)

Financial viability of housing associations

Building more affordable homes: the funding model

14. We welcome the Government's statement that it will seek to ensure that critical regeneration schemes are not abandoned or seriously undermined by the credit crunch. We intend to return to this subject later in 2009 to assess the progress that has been made in this area. (Paragraph 50)

15. The Government has taken some welcome steps to improve cash-flow and stimulate building activity by increasing the Social Housing Grant money available to housing associations. The Homes and Communities Agency has also shown a willingness to increase grant rates where necessary in order to ensure the continued viability of developments. It is likely that, as the economic downturn continues, fewer developing housing associations will be able to continue building without such an increase. We urge the Homes and Communities Agency to continue to respond flexibly to the changing economic situation, but there is a limit to what it can do without an overall increase in its budget. We recommend that the Homes and Communities Agency's budget be increased. Without that it will be impossible to meet even the Government's targets for new social homes, let alone the higher targets that we advocate. (Paragraph 56)

16. We welcome the Government's commitment in principle to allowing local authorities to build new social housing. We also welcome the decision that the Homes and Communities Agency should accept bids for social housing grant from local authorities and Arm's-Length Management Organisations, as well as housing associations. We recommend that local authorities take advantage of this change by coming forward with new initiatives to increase housebuilding, including providing land at nil cost. This approach to increasing house building rates will only bear fruit if all three of these elements come together. (Paragraph 57)

Contingency planning

17. We welcome the proactive approach being taken by the Tenant Services Authority to facilitating dialogue between housing associations and the lenders upon whom they rely so heavily. It is too early to judge what effect this is having on the borrowing conditions faced by housing associations. We intend to revisit this issue later in 2009 to assess what progress has been made. (Paragraph 60)

Home ownership

Affordability

18. The ability of housing associations to build new affordable homes is critical to the attainment of the Government's housing targets. If, because of market failures, they are no longer able to cross-subsidise their development activities at the same high rate as before, we see no alternative but for the Government to replace this funding with a higher average percentage rate of Social Housing Grant. This inevitably means each allocation of Social Housing Grant will produce fewer units than before, but this is a better outcome than funding allocations remaining partially unspent because associations are unable to bring viable schemes forward. (Paragraph 64)

19. We welcome the proactive approach being taken by the Tenant Services Authority to managing the contingency planning of housing associations and look forward to an update on its effectiveness later in 2009. (Paragraph 66)

20. Buyers should not be encouraged by the availability of Low Cost Home Ownership schemes to take risks with the purchase of a home. We are satisfied, however, that, through the provision of a substantial equity loan, HomeBuy Direct has been designed to offer maximum security to both buyer and lender even in a falling market. (Paragraph 70)

21. We accept that each of the Low Cost Home Ownership (LCHO) schemes offered by the Government has been created in response to a perceived need and commend Government on its responsiveness. However, if the schemes are to be effective, it is important that both buyers and lenders understand the range of products available. **We recommend that the Government rationalise its LCHO programme to make it easier to understand and use, reducing the number of named schemes to three, covering shared-equity, shared-ownership and rent-to-buy.** (Paragraph 72)

22. Although the savings generated by the stamp-duty exemption will be extremely welcome to those who benefit, their impact on the overall affordability of homes in the UK is marginal. **We recommend that the Government not renew this measure in September 2009 but instead direct the revenue it raises from the lowest bracket of stamp duty land tax receipts towards its National Affordable Housing Programme, which has a greater potential to benefit low income households.** (Paragraph 75)

Repossession

23. Whilst the levels of repossession being experienced should be kept in perspective, it is important not to dismiss the severity of the problem for those involved or the value to home owners and lenders alike of keeping people in their homes. (Paragraph 76)

24. We are concerned that the measures in place to limit repossessions, including the new pre-action protocol and FSA guidelines, cannot be enforced. We have received worrying reports of the precipitate behaviour of lenders when dealing with customers who have fallen into arrears with their mortgage payments, implying a lack of commitment to the principle of using repossession as the last resort. **We recommend that the Government use the establishment of its new Lenders' Panel closely to monitor lenders' repossession behaviour. It should consider what sanctions should be imposed upon lenders if they fail to comply with FSA guidelines or the new pre-action protocol.** (Paragraph 81)

25. The Government's mortgage rescue scheme offers welcome assistance to vulnerable households at risk of homelessness if their homes are repossessed. But it will assist fewer people than had been generally assumed when it was first announced: expectations raised by those initial announcements led to a confused response to the scheme from the public and risked confusion in its administration. The Government's more recent announcement of the details of the scheme, including a helpful "frequently asked questions" document, may be sufficient to ensure that is not the case. When we return to this subject later in 2009, we will assess whether the funds made available through the scheme have been sufficient to meet the needs of those it is intended to support. (Paragraph 85)

26. **We recommend that the Government implement the Office of Fair Trading recommendation on sale-and-rent-back schemes as a matter of urgency to protect the growing number of households falling behind on their mortgage payments from exploitation by unscrupulous landlords.** (Paragraph 86)

27. We welcome the work being done by the Government on providing a support scheme which caters for households which have lost one of two incomes or which have had a significant reduction in income. Many such households could legitimately be entitled to support for their mortgage payments in order to prevent unnecessary repossession. The new Mortgage Support Scheme is a step in the right

direction but, because it takes the form of a further loan, may deter households unwilling to take on more debt at a time of financial uncertainty. We will return to this subject later in 2009 to assess the actions taken by Government. (Paragraph 90)

28. We welcome consideration being given by the Ministry of Justice to extending the period of notice a lender is obliged to give a tenant that their home is at risk of repossession. We recommend that the Government also produce guidance stipulating that lenders repossessing properties where there is a sitting tenant make arrangements for the professional management of the property for a minimum of six months after repossession or until the end of the contractual tenancy period if sooner. (Paragraph 93)

Conclusion

29. It is vital that CLG, both at official and at Ministerial level, maintain pressure on the Treasury to ensure the measures which will revive the mortgage markets are implemented as soon as possible. (Paragraph 95)

30. We recommend that all local authorities develop a comprehensive and imaginative strategy for meeting housing needs in their area. They should also ensure that they take a comprehensive approach to making advice available to people in their area on the options available. (Paragraph 96)

31. In the introduction to this report and in a number of places throughout we have indicated our intention to return to the subject later in 2009, to consider the situation further. We look forward to considering progress, and urge the Government in the meantime to focus on ensuring all possible measures are taken to achieve the aim of a decent home for all, despite the credit crunch. (Paragraph 101)

Formal minutes

Tuesday 10 February 2009

Members present:

Dr Phyllis Starkey, in the Chair

Mr Clive Betts	Anne Main
Andrew George	Emily Thornberry

Housing and the credit crunch

Draft Report (*Housing and the credit crunch),* proposed by the Chairman, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 47 read and agreed to.

Paragraph 48 read, amended and agreed to.

Paragraphs 49 to 55 read and agreed to.

Paragraph 56 read, amended and agreed to.

A paragraph—(*Mr Clive Betts*)—brought up, read the first and second time, and inserted (now paragraph 57).

Paragraphs 57 to 91 (now 58 to 92) read and agreed to.

Paragraph 92 (now paragraph 93) read, amended and agreed to.

Paragraphs 93 and 94 (now 94 and 95) read and agreed to.

A paragraph—(*Mr Clive Betts*)—brought up, read the first and second time, and inserted (now paragraph 96).

Paragraphs 95 to 99 (now 97 to 101) read and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That written evidence received in connection with the inquiry be reported to the House for printing with the Report.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 2nd March at 4.20 pm

Witnesses

List of written evidence

List of unprinted evidence

The following memoranda have been reported to the House and are available on the Committee's website, http://www.parliament.uk/parliamentary_committees/clg.cfm, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

Armand Toms
Nordic Enterprise Trust
Ann Petherick
CgMs Consulting Ltd
Yorkshire and Humber Assembly
Residential Landlords Association Limited
Royal Town Planning Institute (RTPI)
Places for People
Carodon District Council and Cornwall Citizens Advice Bureaux
Anchor Trust
Care & Repair England
Elderflowers Projects Company Ltd
South West Regional Assembly
Association of Chief Police Officers – Crime Prevention Initiatives
National Association of Estate Agents (NAEA), a division of the National Federation of Property Professionals (NFOPP)
Adrian Cole
Defend Council Housing (DCH)

The following memorandum referred to in the Report has been accepted as evidence to the Committee but contains information of a personal nature and has not therefore been made public:

Jay Ridgeway (CRED 62)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008–09

First Report	Work of the Committee in 2007–08	HC 120
Second Report	Communities and Local Government's Departmental Annual Report 2008	HC 238
Third Report	Housing and the Credit Crunch	HC 101

Session 2007–08

First Report	Coastal Towns: the Government's Second Response	HC 69
Second Report	DCLG Annual Report 2007	HC 170 (*Cm 7335)*
Third Report	Local Government Finance—Supplementary Business Rate: the Government's Response	HC 210
Fourth Report	Work of the Committee in 2007	HC 211
Fifth Report	Ordnance Survey	HC 268
Sixth Report	Refuse Collection: Waste Reduction Pilots	HC 195
Seventh Report	Existing Housing and Climate Change	HC 432 (*Cm 7428)*
Eighth Report	The Supply of Rented Housing	HC 457–I & II (*Cm 7326)*
Ninth Report	New Towns Follow-Up	HC 889
Tenth Report	Community Cohesion and Migration	HC 369–I & II (*Cm 7489*)
Eleventh Report	Planning Matters—labour shortages and skills gaps	HC 517–I & II (*Cm 7495*)
Twelfth Report	The Provision of Public Toilets	HC 636 (*Cm 7530*)
First Special Report	Ordnance Survey: Government's Response to the Committee's Fifth Report of Session 2007–08	HC 516
Second Special Report	Refuse Collection: Waste Reduction Pilots—Government Response to the Committee's Sixth Report of Session 2007–08	HC 541
Third Special Report	Local Government Finance—Supplementary Business Rate: the Government Response: Government Response to the Committee's Third Report of Session 2007–08	HC 1200

Session 2006–07

First Report	The Work of the Committee in 2005–06	HC 198
Second Report	Coastal Towns	HC 351 (*Cm 7126*)
Third Report	DCLG Annual Report 2006	HC 106 (*Cm 7125*)
Fourth Report	Is there a Future for Regional Government?	HC 352–I (*Cm 7119*)
Fifth Report	Refuse Collection	HC 536–I
Sixth Report	Equality	HC 468 (*Cm 7246*)

Seventh Report	Local Government Finance–Supplementary Business Rate	HC 719
Eighth Report	Local Government Finance–Council Tax Benefit	HC 718
First Special Report	Local Government Finance–Council Tax Benefit: Government's Response to the Committee's Eighth Report of Session 2006–07	HC 1037
Second Special Report	Refuse Collection: Government's Response to the Committee's Fifth Report of Session 2006–07	HC 1095

Session 2005–06

First Report	ODPM Annual Report and Accounts	HC 559 (*HC 1072*)
Second Report	Re-licensing	HC 606 (*Cm 6788*)
Third Report	Affordability and the Supply of Housing	HC 703-I (*Cm 6912*)
Fourth Report	The Fire and Rescue Service	HC 872-I (*Cm 6919*)
Fifth Report	Planning-gain Supplement	HC 1024-I (*Cm 7005*)
First Special Report	Government Response to the Committee's Fourth Report of Session 2004-05, on the ODPM Annual Reports and Accounts 2004	HC 407
Second Special Report	Government Response to the Committee's Eleventh Report of Session 2004-05, on the Role and Effectiveness of The Local Government Ombudsmen for England	HC 605
Third Special Report	Government Response to the Committee's Seventh Report of Session 2004-05, on the Role and Effectiveness of the Standards Board for England	HC 988
Fourth Special Report	Government Response to the Committee's First Report of Session 2005-06, on the ODPM Annual Report and Accounts 2005	HC 1072

Oral evidence

Taken before the Communities and Local Government Committee

on Tuesday 16 December 2008

Members present

Dr Phyllis Starkey, in the Chair

Mr Clive Betts
Andrew George
Emily Thornberry

Witnesses: **Michael Coogan**, Director General, Council of Mortgage Lenders, **David Orr**, Chief Executive, National Housing Federation, **John Stewart**, Director of Economic Affairs, Home Builders Federation and **Dr Peter Williams**, Executive Director, Intermediary Mortgage Lenders' Association, gave evidence.

Q1 Chairman: May I welcome you to this session and just explain that flu is raging through Parliament so it is partly responsible for the absence of some of our colleagues. The rest of us are here, moderately healthy and keen to question you on the issues relating to the credit crunch and housing. I should like to start off by focusing on the current delivery of new-house build and the relationship to the targets which the Government have set themselves over the medium and long term and to get your estimates of where you think house building is at the moment and how difficult it is going to be for the Government to deliver on their long-term target of 70,000 affordable homes a year.

Mr Orr: First of all thank you for inviting me to come along to give evidence. The first thing to say about the targets is that we in the National Housing Federation were very strong supporters of the scale of new development implied by the targets. It is very important to recognise that, in the midst of all the other turmoil in the financial markets and the impact that has had on housing and particularly owner occupation, housing need has not gone away and housing demand has not gone away. We are enthusiastic supporters of the target of 70,000 new homes a year. The way that housing associations have contributed to meeting that target has been through a combination of public investment, private borrowing and sales-based cross-subsidy. If you take the sales-based cross-subsidy out of the equation, you have to replace that. We think we can deliver a very high proportion of that number of homes provided we can replace that sales-based cross-subsidy. There is more land available, we have sites which have the capacity to be started, but we cannot do it based on an assumption of a significant volume of sales. It needs to be re-profiled so that it is more about rent with a more varied rent offer including market rent, intermediate rent and the prospect of rent then becoming a leap into a purchase. It will require a different degree of support from Government, perhaps equity investment by the Homes and Communities Agency or a higher proportion of grant funding or land becoming cheaper or more easily available. We are in a position now where we have a very detailed conversation with the HCA and with Communities and Local Government officials. It is difficult and unless changes are made very quickly the programme for next year will be very thin indeed, but I am increasingly optimistic that we can reach those agreements with Government and the Homes and Communities Agency.

Q2 Chairman: That is very helpful. Before we explore all of those in detail, do any of the rest of you have any comment on that?

Dr Williams: The NHF point is well made. The question of whether the cross-subsidy model is completely broken is a point of emphasis and David actually said that; he made the point that it would be more varied, more complicated going forward. We cannot assume the simple read-across from low-cost home ownership cross-subsidising renting. There is no doubt that puts a constraint on the development programme. However, I want to raise a more serious constraint on targets which are still valid and they are for the long term and much of that turns on capacity which I am sure John will talk about. The big question is resolving whether there will be a long-term credit constraint. If the mortgage market is simply to be based on deposits, this is problematic at least until securitisation markets re-open. Crosby has recommended that they should be re-opened and that Government should provide a guarantee but the proposals as set out at present are quite limited. We can perhaps come back to that. So there is an issue there about the capacity of the funding market ultimately to support the volumes that people are talking about in total. We were expecting lending volumes to be lower next year; clearly new development is only a small part of that but it will be a factor and that will mean that some people find access to the market more difficult. The final point I just make from this is that in all of this clearly what we are re-writing is the landscape of housing tenure in the UK ultimately through the credit crunch and perhaps we might come back to that. It ultimately means a smaller home-ownership sector and a larger set of rented sectors.

Mr Stewart: I very much support Peter's comments about Crosby. The new home sector—I am thinking particularly of the private side—is dependent on the housing market as a whole; it is about 10% of the market so if the market is down then house building comes down as well. The underlying targets, the wider targets—the two million and the three million, not just the affordable housing targets—remain just as valid because they are about people and housing need and housing demand. The fact that supply will be down over the next two or three years, possibly longer, does not change the fundamental fact that those people exist, they need homes, they need adequate housing. I do not think we should lose sight of the fact that the targets are still as valid today as they were 12 to 18 months ago. We very much support the Crosby recommendations and we are concerned that the Government waited until the Crosby report and then said they were going to wait yet again until the Budget. We were very surprised by that. The Treasury must have been well aware of what Crosby was thinking about. He had already done his interim report earlier in the year. We were very disappointed when they put off a decision until the Budget, which will presumably be March or April. We think urgency is important.

Mr Coogan: The first thing to say is that you do need targets. The timeframe in which you achieve your objectives is obviously more challenging in the current environment. The Crosby report and recommendations which were touched on were first put to Government in autumn 2007, so we, like others, are frustrated that they are not yet implemented. We do have a rationed mortgage market and that does mean that the money will either go to home owners or private renting or social housing and we do not yet know how that is going to play out into the future. We need to make sure all of the sectors are appropriately funded, but the pie is smaller.

Q3 Chairman: May I take up a couple of points which have come up there and I am sure we will explore the others in the rest of the session? The first is this issue about demand and need. Clearly demand, as expressed by people with money to buy, has fallen off. Are you all saying what Dr Williams was saying which was basically that the underlying need remains the same and is not affected by the credit crunch or by the economic downturn?

Mr Stewart: I would certainly support that view. There is a subtle distinction between need and demand of course. What matters to a private house builder is effective demand, not just a desire of someone to buy and it is the effective demand which has fallen so sharply. From our evidence—and we do not have hard statistics on this, certainly what house builders tell us is that the number of visitors to new home sites is down by a certain amount whereas the number who can actually buy is down significantly more than that. We have taken that to mean there is still, even given current circumstances, strong demand for housing but many of those people who would like to buy are unable to at the moment; they have not gone away, they are still there.

Mr Orr: I would say that it is probably the case that the need is increasing; it is not just remaining stable but is increasing. It is increasing because we continue to create new households for a whole variety of different reasons at a rate much greater than the replacement rate in the economy. The kind of indicators of that are that the one in 12 people in England on social housing waiting lists is, according to the LGA, likely within a couple of years to become one in ten and that seems right to us; that is certainly what we understand. The level of overcrowding in London is growing, the number of three-generation households is growing, these are measures of unmet housing need and those measures are going to grow. So there is an absolute requirement in this market in particular to think flexibly about how we can respond to that challenge and ensure that we continue to develop new homes.

Q4 Chairman: Just to clarify, are you saying that overall need is increasing or that the type of need is shifting from ownership into rental or social rental? If it is that, is there also going to be increasing demand for private rental?

Mr Orr: It is both, clearly both. One of the potential benefits of the re-thinking that we are having to do is that it may allow us to create a much more varied rental market in the economy than we have had until now. Actually we have needed that for some time. Our market has been able to accommodate people who can afford to buy and people who are on very low incomes accessing social rented homes, but there has not been anything in between. This gives us an opportunity to think much more creatively about what a fully functioning rental market would look like.

Mr Stewart: It is an important distinction. There are those who will always require social housing and there will be those who will always be able to buy in the open market even in today's market. There is a large intermediate category, which I suspect at the moment is extremely large because many of those people who even theoretically could buy just cannot get access to a mortgage. We would certainly support a healthy private rented sector and we are working with others to try to help that along. There is no way that we can say that the nature of the credit crisis has reduced the demand for owner occupation, for example. It is still there, it is just that there is this artificial constraint on whether people can actually achieve what they aspire to.

Q5 Mr Betts: In terms of this development of a different rental provision, are we talking here, as some of the British Property Federation have been arguing for, about people coming in and investing for the long term in the private rented sector, not the buy-to-let sector but actually developing their own products and then letting them and managing them and seeing them as a long-term asset to hold? Is this the sort of arrangement you are looking for?

Dr Williams: Many buy-to-let investors are long-term holders. To characterise buy-to-let investors as here and gone is not at all what the survey evidence would support. Buy-to-let investors by and large are long-term holders. Clearly there is the opportunity to open up a wider investment market, pension funds being one obvious category. There is also an opportunity for housing associations to be, potentially short term but in some cases maybe long term, themselves owners of private rented housing that is renting for the private market as opposed to the social rented market. So there is potential for a diversity of providers. If I may, just to reinforce a point I wanted to make, we should not assume that because prices all decrease affordability increases because clearly we are facing a situation where we have tightening access to credit, the terms of credit are much tighter and in some cases, if you use the example of the non-prime market, the credit simply is not available, so there is virtually no mortgage provision in some parts of the market. That impacts upon a number of people including right-to-buy purchasers, foreign nationals, relationship breakdowns and a number of people who would otherwise have entered and accessed the home ownership market will need to go somewhere else.

Q6 Mr Betts: May I come to my second point? You are talking about the fact that long-term demand and the desire to be owner-occupiers for many people who cannot afford it at present probably has not gone away. Is there not a potential major problem coming at some point in the medium term if the credit squeeze relaxes before the industry gets itself back in the capacity to start building again? We could actually see home prices, having gone down very rapidly, starting to come back very rapidly because of the shortage which has built up and because people have begun to be able to buy again.
Mr Coogan: We do have some risks here but clearly it depends on the timeframes of both the slowdown and the bounce-back. We are in a situation where the demand is out there but it is being curtailed in terms of home ownership because of house price falls. If there is not sufficient supply you will come back to the point where there is more demand in individual areas and that starts to stop the slowing down of house prices and starts turning it round. I do not think it will necessarily bounce back very fast but that is one of the questions because it is unclear at the moment where we are going in terms of the recession, the timeframe, how long house prices will keep falling or when they may start to go back up. Clearly if you do not have the infrastructure ready to have the supply of houses to meet the demand you do have a potential underpin for house prices and create some of the pressures we have seen over the last ten years.
Mr Stewart: Definitely the capacity will be there for another spike in house prices because we have a long-term under-supply in this country, which Kate Barker recognised in her report and we have been arguing that long before Kate reported. That situation will worsen over the next few years because the housing numbers will fall below what had been assumed would happen, but it critically depends on what happens in the mortgage market. If the mortgage market were to go back to where it was, then clearly you would have capacity for a big increase in house prices, but that is unlikely to happen in the short term. We must not forget that last time we had a crash in the housing market it finished in 1992 and it was 1996 before we finally began to see some recovery. It will be several years before that could happen but fundamental to it is that that is a problem which is there; the under-supply has not gone away and in fact has probably got worse.
Dr Williams: We do not know post the crunch what the regulatory response will be in terms of constraints on mortgage lending by regulators, international, European and UK. Lending risk appetite is massively depressed, as you might expect, and will be diminished for a long time. Overlaid on top of that will be the question of the regulatory response which we do not know at this stage.
Mr Stewart: May I just add that I think that is absolutely critical. A lot of this is premised on nothing being done. The Government have taken action and we welcome what has been done so far but if Crosby were implemented and if it worked, we would hope that could cause a fairly quick turnaround. If Crosby is not implemented, then the situation will be much worse. The Government have in their power measures they could introduce which probably all of us would believe would have a significant impact.

Q7 Mr Betts: Is Crosby felt by all of you to be absolutely key to the recovery?
Mr Coogan: The prognosis that if we have a net lending negative figure next year the market would shrink is a view that he has expressed that we would not disagree with in the current environment. That does mean therefore that there are fewer lenders available to lend, less money available to lend to those you want to lend to and your choice is where to lend. Do you lend to home owners, do you lend for private rental, do you lend to social housing? Those choices will be more difficult, the pie will be smaller but it is in an environment where the customers also are less likely to come to you and ask to borrow.
Mr Orr: It is also the case for us that the availability of mortgage funding is absolutely critical. The incidence of people looking for shared ownership purchases is higher this year than it was last year. Housing associations are seeing more and more inquiries about different kinds of shared ownership. However, the rate at which these become completions is absolutely tiny. In some cases it is because people are saying that they think this property may still go down in price so they are not going to buy, but in the big majority of cases the transaction fails because of the non-availability of mortgage finance.

Q8 Emily Thornberry: You were talking about differential rents and certainly it is something which within inner London we are very conscious of. The average two-bedroom social rented housing in Islington is £80 a week whereas in the private sector it is £300 a week. However, we have many people from the housing waiting list who end up in the private rented sector but being paid for by housing benefits and obviously therefore getting caught in the classic poverty trap we have always wanted everyone to avoid. The idea of differential rents and different types of rents, intermediate rents and everything else, opens a political spectre which is quite frightening. How would you distinguish between those who are given the social rent and those given the intermediate rent and those given a private sector rent? The idea of the housing associations in particular going in wholesale to an entirely different type of rented system is something which is a really big nettle for us to have to grasp. I wondered whether you could talk any more about that.

Mr Orr: There is no way around this. If you have different kinds of renting offers, then the determination of who gets them is going to be income dependent. If you have an intermediate renting offer—and intermediate at present is defined as being 80% of market rent—then that is likely to have the same kind of income cap on it as the low-cost ownership initiative of various kinds. So if you are earning above an income cap then you would not be eligible for that and inevitably intermediate rent would come with a degree of eligibility criteria because there is a degree of subsidy implied in it. Market rent of course is different because if you are paying what is in the market, then that is open to anyone who wants to be able to access it. Is it appropriate for a housing association to be doing this? Some already are of course. Is it appropriate to be doing it in the volumes that may be necessary? There are some very important questions for housing associations and local authorities and others about how we retain mixed income communities. The way that we have tended to do that has been through a focus on tenure. If we are not going to be able to deliver mixed tenure development for the next few years, then we do need to deliver mixed income developments. Market rent with an opportunity but not an obligation to buy is one option. Intermediate rent leading to a shared ownership opportunity is another possible way. We have to think creatively about it. One thing housing associations can bring to the table is pretty widespread expertise in property maintenance and housing management.

Dr Williams: I do think it would be unwise if associations *en masse* thought they could enter the private rented sector. The business skills there are quite different; the competition is complicated, not least because there are large numbers of home owners renting out their properties as well, so it is a very uncertain base in terms of the price to be achieved. It is clearly very appropriate for some who have the expertise and competence but the idea that the sector as a whole makes a major entry into the private rented sector would probably be inappropriate.

Q9 Emily Thornberry: Also do you not have an obligation as social landlords to have properties of a particular type. You have higher standards, larger rooms, better insulation, these sorts of things?

Mr Orr: Yes; absolutely.

Q10 Emily Thornberry: Would you be able to rent in the private sector?

Dr Williams: That is why I suggested that it is an intermediate hold for some associations. In other words, you recognise exactly the point you are making and David was agreeing with which is that you are not going to make all of those high standards without a lot of retro-fitting and all the rest. You therefore hold them as private rented property for a period and then potentially take the decision whether to exit that in the recovery or whether to sustain and support them and potentially even move them into social housing.

Mr Orr: Yes, but you do have to approach that from the end which says how do we improve the environmental and space standards of our housing stock more generally? I do not think it would be appropriate to use the present market as an excuse for moving backwards from some of the decisions we have taken about environmental and space standards.

Q11 Emily Thornberry: You were talking earlier about housing associations delivering housing based on public investment, private borrowing and cross-subsidy from sales and the sales aspect having dried up. Are you saying that private borrowing is not drying up?

Mr Orr: No, I am not saying that. There was a spell three or four months ago when it was virtually impossible for housing associations to access new borrowing. They are able to access new borrowing now but at different cost. The price of money for new development has increased significantly which obviously has an impact on the relationship between public and private investment within a fixed rent envelope. There is a much wider range of issues about lender behaviour which impacts on housing associations' business than purely new borrowing for new development. In a way that is the easy bit.

Q12 Chairman: On the point Mr Orr was making that we should not use the recession as an excuse to reduce environmental and space standards, Mr Stewart do you have the same view or not on that point?

Mr Stewart: This is a difficult one because I know David makes this point. The inference often is that somehow standards in the private sector are inadequate, which I would strongly dispute. The OFT carried out their study recently and I doubt the OFT came in thinking that the industry was absolutely squeaky clean.

Q13 Chairman: We are not suggesting they are inadequate, but it is the case, for example, that on the code for sustainable homes housing associations are required to deliver to a higher standard than is obligatory in the private sector. That is what we are talking about, for example.

Mr Stewart: Okay, yes, I understand that. The reason that the ten-year programme was originally agreed between private sector and Government was because it was felt that was feasible from a technical point of view, from a point of view of research and development, consumer satisfaction and particularly from developing capacity within the supply industries. The idea that you could apply code 3 immediately across the entire output, put aside the credit crunch, was just unrealistic; it just could not have been done practically.

Q14 Chairman: But you are not saying that the credit crunch means you should delay it still further.
Mr Stewart: It depends; it very much depends. In our submission there is a very big issue about the degree to which land value can fund policy and regulation.

Q15 Andrew George: May I come back to the issue of targets? I just need to understand where you are with this. As I have always understood it, the three million by 2020 target is merely a means to an end, the end being meeting housing need. We are in a different environment now. There has been a credit crunch, the supply side is drying up to an extent we can tell and you are concerned still about meeting that particular target. I am sure Mr Orr's organisation is obviously very concerned about those in social housing need, but if the end—because the three million is merely the means—is meeting housing need, I do not hear anything you are saying which reassures me that you have any understanding of what the current level of need is. That is surely what we should be targeting, not simply numbers.
Mr Stewart: I am not sure I quite understand your question. House builders can only build what they can sell, whether to a housing association through a 106 agreement or to the private buyer. House builders do not relish the thought of cutting back on staff and cutting back on capacity and not building. If today they could be building 50% more than they are, they would be doing that. The problem is an artificial constraint on whether people can buy or not. That does not affect the fundamentals of population and household formation and so on. So the need and the aspiration for housing are still there. Households still need a dwelling. You could debate about which exact households.

Q16 Andrew George: Are you saying that you agreed with the three million figure only because it sounded a nice high number for you?
Mr Stewart: No, no. We agreed with it because it was a sensible number, because we believed it was based on hard evidence inasmuch as any projection is hard evidence.

Q17 Andrew George: So what is the evidence now then?
Mr Stewart: It will not have changed. The only way that figure could change significantly, given that most of the people who would have formed the households over the next 10 or 15 years are here today, they are living today, they are my kids who are growing up and so on, would be if there were a very significant change in inward and outward migration over the next 10 or 15 years.

Q18 Andrew George: Or through second homes or less churn in the market. There are lots of lifestyle choices.
Mr Stewart: Second homes is a very small component, tiny, it does not make a significant difference. Empty housing is very small in the context of this. These are tidal forces we are talking about and unless we assume that migration changes significantly, those households and those people will be there. Some of those households will not be able to form if the dwellings are not there. Children will not be able to leave home, people who get divorced will have to go back and live with Mum and Dad. Those kinds of things will happen. The people will still be there.
Dr Williams: Do not forget that the three million is also about affordability. The three million is about slowing the increase in house prices, improving affordability so that demand can become effective. We have rehearsed already a number of reasons why that is more difficult but it is not just about a need-based measure.

Q19 Chairman: May I just mop up one or two little queries we have from your evidence about unsold new private homes? There seems to be disagreement between you as to quite the volume of unsold private homes, why they were not being bought by anybody, including housing associations and also the issue of land prices where there seemed disagreement. Unsold private homes first.
Mr Stewart: That affects our members. I was not aware that there was disagreement. There are no figures on that in this country unfortunately, unlike the United States. We do not have figures for stock levels so we do not know the numbers of unsold stock. Certainly from talking to the house builders—and we are in very close touch with them—a few of them have reported numbers but we have no industry figure. One suspects that it is quite a large number. The Government have implemented a number of measures. There is the so-called clearing house which was £300 million for RSLs to buy up unsold stock. I appreciate there are some concerns that RSLs are expected to meet code 3 and higher space standards than the private sector can offer and there is some degree of flexibility. I know that there has been success in that. I do not think the numbers have been published but I understand that there has been some success there. The house builders themselves are gradually clearing the stock. The key thing about stock from an economic perspective is that as long as you have stock outstanding you tend not to start new dwellings. So the whole process tends to grind to a halt; which is why starts are so volatile because they reflect what is happening to stock. Once you have cleared those then house builders will be ready to start new sites or new properties. A lot of sites have been not started or have been mothballed while they are trying to clear current stocks.
Mr Orr: It is the case that we do not know exactly what the numbers are. It is also the case that there is evidence of significant numbers in particular places of one- and two-bed city centre apartments which are lying unsold and housing associations have been invited to buy those. These properties are generally not suitable for social housing and the reasons are to

do with standards. In the private sector a two-bed apartment may well be bought by a couple, two people, who will live there for four or five years and sell it to a similar household. If you are running a social housing organisation, the expectation and the expectation from local authorities making nominations to it will be that a two-bed apartment will be occupied by three or possibly four people and possibly for the next 20 years. That is a huge maintenance cost on properties which are too small to be able to accommodate that properly, but it is also a huge personal cost on the people who actually live in those homes. Generally in social housing we house people who are on very low incomes, so if they are not environmentally sustainable, you trap people in fuel poverty as well. These properties are not suitable for a social housing purpose. The challenge for us is to identify what purpose they are suitable for in a market in which individuals are not prepared to buy them and lenders are not prepared to lend on them. That is where it is right that we should be looking at market rent and much more short-term use so that we can at a future point revert to the original expected use, but if we buy them for social housing, they do not revert to that original intended use, which is why housing associations are not really in the market to buy them in bulk.
Dr Williams: I chair a housing association. There is a point about the capacity of associations. Clearly associations are having to re-work their business plans significantly at present, reflecting the credit crunch, reflecting the loss of receipts from low-cost home ownership, reflecting uncertainty about values. There is an issue again about choices and whether associations devote resources to buying up unsold stock from the market with all the weaknesses David rightly pointed to or pushing on with existing development, some of which had been assumed to be cross-subsidised by other things they were doing. It is not a free ride here about associations just waiting to step in and buy things up. They too have capacity constraints and we have already alluded to fairly significant funding constraints.

Q20 Mr Betts: On the issue of housing associations could they not be approached in a different way? What you were saying about the issue there was just assuming housing associations carry on with the same allocation policy they have always had. The problem is that you allocate one of these inner city flats to someone, they then lose all their needs points on the list, go to the bottom and then cannot get into something else. Could we not let the property to someone who is not quite at the top of the needs list and not dock any of their points for moving in there? They will keep the same number of points and hopefully in two or three years' time they will be moved on to somewhere else. Use it as an interim staging post rather than simply assuming the same letting system will carry on for these properties as they would for other properties that you hold.
Mr Orr: In theory yes. In practice the whole process is very constrained by the way that the present rules operate about nomination arrangements and allocations policies and lettings policies and because of that, precisely because of that, we have suggested to the Communities and Local Government Department that the Housing Reform Green Paper, which is promised for the new year, should have a fundamental re-examination of these relationships. Housing associations are not sufficiently in control of their own destiny when it comes to making those decisions.

Q21 Mr Betts: In the meantime a bit of lateral thinking between local authorities and the housing associations could probably allot some of these properties for use, at least in the medium term, before this Green Paper comes out and is implemented.
Mr Orr: It could do. The thing we have been trying to stress throughout is that in this market the way we have been doing things is not working. So we need to think differently about how we nominate, how we allocate, how we build, what the funding packages look like. Flexibility is going to be absolutely critical.

Q22 Emily Thornberry: We stopped earlier when you were talking about the behaviour of lenders and funded housing associations and probably quite a few of you want to say something about that. Shall I just leave it as a general question?
Dr Williams: I think David was making the point that the funding market has been massively constrained for all lending to housing associations. There was deep competition for lending to housing associations in previous decades and the margin over LIBOR for lending to associations had got down to 0.2% to 0.3%, so ample funds and a very low rate and very generous terms. The market now is much more constrained. The number of lenders to the association market has fallen severely and those five or so lenders who are active at present are being very selective in what business they are doing. There is simply no open access market available at the moment and the terms have gone up. You are now looking at somewhere between 1.5% and 3% over LIBOR. You have lenders with significant constraints in terms of the term they wish to offer that lending for and the amount they are prepared to lend per organisation. What has to be understood of course is that because their cost of funds has gone up so sharply, the existing back book of mortgage loans to housing associations is fundamentally unprofitable. It is losing money compared with what the money is currently costing. The upshot is that lenders are seeking to re-price their existing back books with their existing customers when opportunities arise and those may arise for all sorts of technical and practical reasons. So there is a complete re-working going on at present.

Q23 Emily Thornberry: One hears rumours. Is it threatening the existence of some fairly well-known housing associations?
Dr Williams: That would be too strong. I do not think so. Lenders themselves obviously have an interest on both sides: they want the organisations to continue to exist because they have loans

outstanding to it. It is not threatening in that sense but clearly again it is back to this point about creating a new constraint, what associations can do and the extent to which they have to re-work their existing business plans. It is a seriously different environment where risk has gone up. The Tenant Services Authority recently simulated an insolvency for associations. These have been done on a periodic basis and the TSA has new powers in terms of intervention. What it looked like there with lenders involved in that simulation was that there would be a workout that possibly a large association becoming insolvent might be broken up, but certainly there was no sense at all of ultimate insolvency and repossession by the lender.

Mr Coogan: The other thing to say is that within CML we have a social housing panel which meets regularly and which is meeting more regularly in this current environment because we need to keep in touch with what individual organisations are doing which may trigger events and we need to make sure that events are managed if they do arise, which at the moment they have not. The important thing is that it is a regular dialogue and you should know there is a regular dialogue between the larger associations and lenders and Government to ensure that we are avoiding any potential problems and that has been supplemented with the new regulatory structure.

Mr Orr: That is all true and it is all very helpful. There is real discussion going on which is where we need to be. However this conversation so far has been focusing on associations' need for new borrowing and Peter is absolutely right that the cost of that new borrowing is much greater, it is more constrained. I think though that we understand the reasons for that. What are more problematic are other aspects of lender behaviour which are causing real problems for housing associations. The best way to illustrate this is to give you an example. This is a very straightforward example. A housing association which had a group structure with three different organisations in its group decided, for reasons which were primarily to do with improving its corporate governance but also generating efficiency savings, that it wanted to collapse that governance structure so that there is one organisation with resident panels, a different model but saving about £300,000 a year and the £300,000 could be invested in better services, neighbourhood support services, new development, whatever. Their core lender said that if they did that, it would regard that as a significant event in the terms of the loan agreement and re-price the entire loan book at a cost to that organisation of £1.9 million a year. The impact of that is that nothing happened; there was no change. So £300,000 of efficiency savings are not being generated, a more rational governance structure has not been put in place and the bank has gained not a single penny piece from its behaviour. That is true in issues like that, it is true when it comes to organisations talking about mergers, it would be an issue if a rescue package were to be organised and I think that there is a real danger that the value of public investment in saving banks is not being used effectively because it is leading to long-term costs for businesses like housing associations because of the way that banks are behaving. We had a private conversation recently with one of the CLG ministers where chief executives of housing associations were saying that their main business risk now is lender behaviour, not in terms of new development but in terms of existing facilities.

Mr Stewart: This is equally a problem in the private sector. There are many smaller private house builders who have gone out of business. I heard a story recently of a company which had had a 60-year relationship with its bank and went back to renegotiate its loan facility which was a regular thing. The terms were so onerous after 60 years that the owners of the company said they wanted no debt and they scaled the company down. That is all about capacity and that kind of thing is going on across the private sector; it is not just in the RSLs where it is happening.

Dr Williams: By way of explanation, clearly in the example David has quoted of the loan agreement, it is within the legal framework of the loan agreement that that lender was able to do that. It reflects the lack of competition, the fact that lenders are not looking for business and it reflects the fact that there are losses on those existing loans which they are seeking to re-price to make profitable. Clearly there is a wider issue here which David and John have referred to about the support the Government have given lending institutions, some of whom are active in the RSL market and in the small business market. That is about liquidity and solvency and not an infusion of funds to on-lend, although I know there is a debate about this. Fundamentally that was to support those banks rather than create a lending capacity. The lending capacity is assumed to flow later and that money of course is not there yet.

Mr Coogan: It is called credit crunch advisedly. We have seen the home owners, in terms of access to funds, small businesses, housing associations, developers, if there is less money available and it is more expensive the banks pass that on because they do not have access to cheaper funds elsewhere. Crosby has not been implemented. That all starts to build up into a picture, which is where the credit crunch hits across every sector.

Q24 Emily Thornberry: We have some other questions we want to ask you, particularly about the viability of housing associations. It is really a straightforward question and you have touched on it anyway. It is about the importance, in the circumstances, of increasing grant rates. You have talked about changes in tenure and how that can help cross-subsidise now, but are you also calling for a change in the formula when it comes to grant rates?

Mr Orr: Yes and no. My anxiety here is that we have assumed that there was one broadly successful model for housing association development and that the danger for us is to say that it used to be 40% grant rate and we now need some other figure as the grant rate. That is the wrong answer. At the moment what we have to be focusing on is what we need to do to allow this development to take place? How do we need to restructure it? What kind of investment needs to come from Government? What can housing associations bring to the table to do that? One of the great advantages that they have is the creation of the Homes and Communities Agency because it has a much wider range of investment powers than the Housing Corporation had. It leads to the possibility of perhaps the Homes and Communities Agency taking an equity investment in a development which allows some risk sharing in a way that has not been possible in the past. The answer to the fundamental question you are asking, about whether we need a greater degree of public support to allow development to happen in this market, given the lack of sales cross-subsidy and the increasing cost of private money, is yes, although, if we are able to access land much more cheaply than we have been doing that rebalances the equation back in the other direction. I really do think that the most critical thing at the moment is an ability to think flexibly and creatively.

Q25 Emily Thornberry: Is your flexible and creative and pragmatic thinking going to result in us having less social rented housing?
Mr Orr: I hope not. We talked earlier about targets and it seems to me that the most important target at the moment is to build as much as we can.

Q26 Emily Thornberry: But social rented housing.
Mr Orr: Social rented housing has to be at the centre of the offer because we do not have enough of it at present. We have not had enough of it for a long time, it has become residual housing for those reasons, so the building of good quality, affordable, rented homes has to be at the centre of what we do.

Q27 Andrew George: I want to broaden this out to something you were all agreeing on earlier which is this intermediate market, that people will be buying at the top and people at the social end will be finding rented accommodation. I particularly wanted to ask Mr Coogan what he and his members can do to assist at this particular time during the credit crunch. What can you do to assist those who are trying to develop the intermediate market? Here is an opportunity, there is a gap, and with private investment, with developers contributing and housing associations.
Mr Coogan: I would agree with the short-term prospects which David highlights because of the financing constraints we have all alluded to. For the medium term and longer term we need to try to think ahead as to what we should try to have as a normal market beyond the next year or so. What we are looking at in the context of intermediate tenure is much more flexibility between tenures as something we should try to encourage and shape so that people can become part home owners, full home owners, become part home owners again and go in their lifestyle through different stages, moving between types of tenure more easily than they currently do; people being able to stay in their homes as tenants rather than simply as owners as an avoidance-of-repossession vehicle. We need to do it in a number of ways. Fundamentally behind your question is how much money is going to be available and that is the question we need to try to work with Government to improve the current prospects.

Q28 Andrew George: Also what restrictions do you and your members place upon those? With a lot of these developments there is a planning restriction, a local reserve, a quite understandable covenant in order to ensure that it remains within the intermediate market and often your members will not accept that.
Mr Coogan: They are certainly being asked to agree to a whole range of different arrangements in different local areas which adds to their work loads and complexity of process but that is the past. You asked me about the future and trying to improve the arrangements in which we look to try to get more fluidity between tenures, to make sure the social housing sector is big enough, to make sure those who aspire to become home owners can but do not feel they have to do it at an early age because they have a private rental sector option when they are young. What we are looking for is a system which would enable us to learn from some of the past experiences that the current business models do not work, you cannot cross-subsidise social housing with private sector sales and look at what money is going to be available for the different sectors going forward, working with Government to try to get a longer term strategy to deliver that.

Q29 Andrew George: Are you persuaded?
Dr Williams: I am with the lender category as well. The point you make about staircasing limitations does remain a problem, there is no doubt about it, that limitations for lenders, where authorities are imposing a cap of 80% ownership, create problems, particularly in the environment Michael and others have referred to of potentially increased repossessions and so forth. Lenders have to be able to trade these properties out and if you have a golden share that creates a real problem. We have tried for decades to sort this out with Government. There are simple solutions to it; we have not been able to get there and it does need addressing. On the intermediate market more generally for low-cost home ownership, clearly that market is widening and deepening as we speak because people cannot access the mainstream market. There will need to be an expansion in the market, there is a possibility of new products coming into that market, it is however worth saying that the way the low cost ownership initiatives have been handled through Government has at times been deeply confusing and it has not encouraged lenders to participate as fully as they might. We have had a chaotic set of arrangements with products being introduced, tampered with, changed and new ones being introduced without any clear sequencing. Frankly, for a consumer to try to enter the low-cost ownership market is a nightmare, given the variety and diversity of products and the different routes by which you might access them.

Q30 Andrew George: We can ask the Minister.

Mr Stewart: Could I add something positive? Yesterday the Government announced £400 million for something called HomeBuy Direct; you have probably caught up with that. That seems to me to meet many of the things we have been talking about. Intermediate tenure does not have to be sub-market. These are for first-time buyers on relatively low incomes, £60,000 household income and below; I think that classifies as intermediate. The lenders will have a part to play in that because they will have to fund the 70% that the first-time buyers buy. The Government have put in 15% and the developers are putting in 15%. The fact that the applications far exceeded the original amount of money, which was £300 million and the developers have put in for £400 million and were successful, suggests that there is a real appetite for this as long as it is supported by the lenders, which we hope it will be. We sat down with the Housing Corporation, as it then was, and with lenders and with developers and worked up a scheme which worked. The key thing about that particular scheme was that we developed the land. So a purchaser walks into a sales office on a site, they say they would like to buy and the developer can put them in the direction of purely open market or they can say "You are a HomeBuy Direct person" and they go off and get qualified. I think that is a really positive measure. We would like to see more money put that way but we should not think it is all doom and gloom. It is pretty gloomy but it is not complete disaster.

Q31 Mr Betts: Let us come on to what the Government have done or could do more of. You have all said Crosby please, as soon as possible and get that done. Apart from that it is probably true to say that the Government efforts overall have received general support, perhaps some elements rather more enthusiastically than others, from different individuals. Do you think there is anything else the Government could be doing that they have not done so far or should they be doing more of the same and putting more resources into what they have already done?

Dr Williams: Crosby recommendations are fine but they do not go far enough. They are only related to new lending, they effectively probably will be exclusive in some ways in the structure of their operation. From an IMLA perspective we have serious concerns about what Crosby has proposed. We welcome it but we would like to see it go further. Your point generally is that the Government have done a lot, a great deal. The packages are complex, evolving, changing daily and there is more to come, including a potential home owner mortgage guarantee scheme. All of these things are very welcome. There is an issue at times of confusion as to where all the parts fit. One of the things Government have been rather late in recognising is the role of the non-prime market, in other words, all of the specialist lending markets, which have played an important role in the UK mortgage market over the last decade and which are fundamentally underpinned both by major banks and what are called non-banks, that is people who do not take deposits. The non-bank sector has not been supported by any of the government schemes coming through and that remains a serious weakness. Part of the health of the housing market turns on the relationship between prime and non prime and the non-prime market is currently beached which will have consequences for the prime market.

Mr Coogan: I would draw attention to two elements. One is the financial stability measures where they have been innovative in the recapitalisation but it has been at a price to protect the taxpayer. We welcome the change of price and the credit guarantee scheme announced by the Treasury because it does free up some money towards the banks which they may be able to lend back out. I have not seen the full details of what the Treasury have just announced but clearly the financial stability is key because, as banks, once you have that you can start looking at a wider range of what you can do with your money and how you are going to spend it. Clearly from the perspective of the economic confidence of the market, consumer confidence is being undermined, the market is being undermined by house price falls so we need to see what measures can help on house price falls. I am not convinced that the home owner support scheme will actually make much difference to house prices. It will help to reassure many millions of customers that if they have difficulty they may have an additional facility to go to. We have said for some time that the two things which will make most difference in terms of consumer confidence would be to widen income support for mortgage interest so that it is paid out to people where they lose partial income not the whole of the income. The steps coming in in January are good but relatively small scale. The last figure I saw was 10,000 households helped out of arrears currently at £170,000 and three months plus. We also have a mortgage rescue scheme which is designed to help around 6,000 people who face homelessness over the next two years; again, helpful for those particular households but in an environment of 45,000 households small scale and unambitious. What we have said is that you need to improve income support and you need to have a sale and leaseback scheme on a much bigger scale than you currently have. What that would do is enable a customer to become a tenant instead of going through a court process. They would need to be a tenant of a reputable landlord, who had government support as well as lender financing and it is something we have been urging the Government to look at very seriously. If you have lots of cases going through the courts, lots of forced sales, it drives house prices even further down because once you have not sold on an estate agency board, you have not sold on auction you are losing that much more money at the end of the process and throughout that process the customer is stressed, has been re-housed and the lender loses more money and the shortfall debt is higher.

Q32 Mr Betts: That is all very well but that is representing your members as though they are not responsible for any of this. If I look at my postbag, it is not surprising that bankers are now the pantomime villains of the piece, looking at the various shows which are on around the country. Letters basically say to me that this lot, the bankers, have messed up their own finances and now they are messing up ours. If you look at what is going on, the Bank of England has cut interest rates, some lenders are passing those on to existing customers, but if you look at new products, they are often 2% or more expensive than existing products. Then, if you look at what is happening to first-time buyers, because they are being required to provide at least 20% and often much more of the cost of the property, which they cannot afford, they are being asked to pay even higher interest rates than other people who are borrowing money. It is not surprising then that the whole of the house-buying market has dried up because first-time buyers are almost being excluded from the process? Is this not a problem you are partly responsible for?

Mr Coogan: What you have described are three or four problems and each of them has a different cause and each of them has a different solution. In terms of first-time buyers, one of the reasons why the credit criterion is tightened is because the lenders are taking a more cautious view of their risks than they did in 2007. They have tightened their risk attitude. The price of money has gone up so the cost of the mortgages is higher. The bank of mum and dad is less able to provide the deposit than it used to be able to do because they are not producing equity from their houses because their houses are falling in value. Overall what we are looking for is how to manage, through the immediate term, the problems borrowers are generally facing. That is where we come to a rather odd thing that the Government want lenders to help customers both reduce their mortgage price but they also want lenders to lend more in 2009 at the 2007 levels. The money that will do that is savers' money. If you bring savers' rates down too far, savers stop saving. Therefore it is not intuitive that simply because base rates fall the base rate will be followed by lenders, not least because their cost of funds is not linked to the base rate it is linked to LIBOR. There are complex problems, complex solutions and each has to be dealt with one after the other, but it is very easy to mix them all together and say it is our fault. We are all having to deal with the consequences of the credit crunch.

Q33 Mr Betts: What the public out there sees is the Bank of England cutting interest rates, they see lots and lots of taxpayers' money going in to support the banks who promised to keep lending going at 2007 levels, yet they cannot get a mortgage.

Dr Williams: It would be very helpful if the Committee brought some clarity to this. There is a great deal of confusion around this issue and some of your comments reflect the public's view that if you get a bank rate fall you automatically get cheaper mortgages. The cost of funds is not priced any longer off the bank rate and that relationship has been broken.

Q34 Mr Betts: First-time buyers are paying more and without them in the market the whole market is drying up.

Dr Williams: And everybody knows that and everybody is striving to get there but there are some practical realities. As Michael rightly says, in a sense and notwithstanding your concern about banks—and many of us would recognise the points you are making—the fact is that lenders are being torn in two directions here about bringing money in, maintaining savings rates for many people in this room and at the same time trying to bring down mortgage rates again for many people in the room and those two relationships are really quite difficult.

Mr Orr: I am not going to add to what others have said but just a specific proposal for Government which does relate to public policy and the value that Government want to get from the money they invested in banks. One might argue more but we have one bank which is wholly a public sector bank, Northern Rock. We have a public policy determination by Government to support entry level owner occupation and particularly through shared ownership. If the Government own Northern Rock, if we own Northern Rock, what is wrong with a policy determination which says that on a commercial basis there should be specific encouragement to Northern Rock to provide shared ownership mortgages? If we were able to do that, that in itself would unlock a whole lot of the trapped development, it would allow far more new development to take place, it would allow us to meet a whole range of the policy objectives we have. I understand that would mean that Northern Rock would take longer to re-capitalise and buy itself back out but fundamentally there is a question for Government there about which of those priorities is the greater.

Mr Coogan: Clearly when state aid rules applied in February when Northern Rock was first nationalised the discussion with the European Commission was pre many countries capitalising their banks. Therefore the state aid rules now need to be looked at in an entirely different environment across Europe and the European Commission has a role to play in helping to provide more flexibility. To be fair, part of the problem the whole market has is the speed of shrinkage of Northern Rock and potentially Bradford and Bingley taking customers in the re-mortgage market who would otherwise not have re-financed and that is taking some of the money which would otherwise go to first-time buyers and house purchasers.

Mr Orr: State aid is an important issue and Michael is right that there is an opportunity to re-look at this because of what has happened in the market. Actually the 2008 Housing Regeneration Act includes some kind of shared ownership as part of social housing and there are specific determinations for social housing in the state aid rules. This is not an insurmountable problem.

Dr Williams: If Northern Rock did what David is suggesting there would be an enormous concentration of risk taken on by Northern Rock in

terms of the low-cost home ownership market. You simply cannot have a single institution doing these things.
Mr Orr: They could do it with RBS and Bradford and Bingley as well.
Mr Stewart: You asked what more could be done. The absolute priority must be Crosby because if you think of new build, it is just 10% of the whole housing market and we cannot row completely against the tide, so we have to sort out the mortgage market and all the issues that have been discussed here today. On the new build sector, we are very pleased with what the Government have done so far, but it has not been enough and it has been too slow. We put forward a proposal roughly a year ago for something very much in line with what was announced yesterday and it has taken nearly 12 months for that to come forward. It is great that the Government have taken that on board and talked to us and we came up with a scheme that is workable, but we need a lot more. The new Homes and Communities Agency, which of course takes in EPs' budget and the Housing Corporation and others and puts them all together, has a very large amount of money, £15 or £17 billion in total for three years and that money will not all be spent because of the credit crunch. The Government should be spending even more effort looking at how some of that money can be brought forward and spent early, whether that is to help us or private sector house builders. The critical thing about house building of course is that the private housing sector delivers the vast majority of housing in the good times. It will continue to do so as far as we can see and capacity is being lost every day we delay taking action either to help house builders start new sites or to sort out the mortgage market. Jobs are lost, capacity is lost, firms go out of business and the supply will be even worse. The urgency has been lacking somewhat in Government and we would like to see them give more attention, more urgently to that.
Chairman: May I thank you all very much indeed? This was a one-off session. It is quite possible that the Committee may decide to come back to this in more depth subsequently but you have given us lots of food for thought. Thank you very much indeed.

Witnesses: **Rt Hon Margaret Beckett MP**, Minister for Housing, **Richard McCarthy**, Director General, Housing and Planning, Department for Communities and Local Government, **Sir Robert Kerslake**, Chief Executive, Homes and Communities Agency and **Peter Marsh,** Chief Executive, Tenant Service Authority, gave evidence.

Q35 Chairman: You obviously received the intelligence that we are a bit short on numbers owing to flu and other commitments but it has allowed us to focus our efforts much more on teasing out the information we require so you may regard this as a mixed blessing. May I start by taking up the issue of government housing targets and the ability to meet them? I do not really want to re-open the debate we had with you last time as to whether it is a target or an ambition to reach the three million. I am much more interested in whether, within that overall number target, there is some re-thinking in current circumstances about the balance between homes for rent, for shared ownership and for market housing.
Margaret Beckett: It depends a little, as so often, on how you define your terms. How I would put it, rather than saying that at this moment there is a big re-think going on, is that although we have just commissioned or are about to commission some more research into housing need which may cast light on this issue, there is a consciousness that it is possible that there will come out of it perhaps a slightly different balance between people's approach in terms of whether they want home ownership or whether they want to rent, wherever that be. However, having said that, my impression is that at the moment there continues to be quite a strong demand for home ownership, including for the shared equity schemes that we are continuing to run or are beginning to promote and so on. It may be that actually the underlying desire towards ownership on some scale is so great that there will not be that much of a difference. It is too early to tell but that is exactly the kind of thing which I hope will come out of the research we are commissioning into what housing need is and how it is expressed.

Q36 Chairman: May we just concentrate on the short term as opposed to the medium term. In the short term it is quite clear that demand that can be expressed as opposed to demand which is related to need is extremely constrained as regards ownership and therefore presumably the demand is being expressed as rental, either in the private sector or social rented. What about short term shift?
Margaret Beckett: We think there is a relatively strong response, for example to the HomeBuy Direct programme which we gave the latest details of yesterday. It is an ongoing thing but yes, I do not dispute that at present there is a considerable demand for rented property and rented property of a good enough standard in particular.
Sir Robert Kerslake: I am happy to add a few thoughts on the short-term position. Your phrase "effective demand" is absolutely right. The constraints at the moment are twofold: one is the ability of purchasers to access mortgages and the other is the ability of developers, whether they be housing associations or others, to access investment finance to deliver houses for sale where there is a sales risk. In a sense the sales side is being squeezed in both directions is the way I would describe it. The reality is that what we are doing is to try to address that issue in two ways. One is to make it easier for people to access mortgages, and that is in effect what HomeBuy Direct does, by being a second charge

behind the mortgage that makes it more possible for people to access mortgages. The evidence, as announced by the Minister yesterday, is that there is a good deal of interest in that scheme from the sector, from house builders and others. On the other side, in terms of development of schemes, what no doubt you will have picked up from the National Housing Federation is that there is a certain amount of reluctance on the part of housing associations to take forward schemes which have significant sales risk. What we are seeking to do is to be flexible, to recognise that short-term reality and enable them both to do social rented and rent-to-buy so when the market does lift the opportunity is there to purchase.

Q37 Mr Betts: Is there not an immediate problem? We do not know quite when the market will lift. We have, as we all recognise because people are not able to access home ownership as easily as they might have done a year ago, an increasing demand for social housing and we all see that in our surgeries as Members of Parliament. We have housing association schemes not going forward potentially because they simply cannot stack up the numbers now and with not being able to sell they need to cross-subsidise. We have S.106 schemes grinding to a halt as well. Is the reality not that, despite what the Government have done already, we need a substantial increase in government funding for social rented housing if we are going to bring the two together, the increasing demand for social rented housing and the fact that the supplies in various forms are drying up?
Margaret Beckett: We have brought forward funding.
Mr McCarthy: You will be aware of the £400 million we announced.

Q38 Mr Betts: On top of that. That is not going to deal with this gap, is it? It is going to get wider rather than narrower even with that funding.
Mr McCarthy: The best priority must be for us to maximise the opportunity we have now to spend the money brought forward, now some £0.5 billion for social rented housing, because remember the PBR announced further additional money brought forward to support the social rented programme along with the decent homes programme. The first job that the HCA has to do with housing associations and others is actually maximise those social rented homes and we can new build with the money brought forward and were more money to be made available I am sure we would spend that further.

Q39 Mr Betts: How many extra units is the money which has so far been provided going to create?
Mr McCarthy: You will remember that the money we announced in September, that £400 million should deliver a further 5,500 homes so you can proportion that up. You will be aware that we also have to deal with some of the funding pressures which now exist in our funding system with less subsidy from S.106 agreements and the staircasing concerns.
Margaret Beckett: The initial thinking was that that £550 million might bring us forward about 7,500 units.

Q40 Mr Betts: Is not the reality that we are next year going to get fewer section 106 properties provided and that that reduction is likely to be bigger than the 7,000 which is going to be provided by the half a billion pound extra funding. That is the reality.
Mr McCarthy: It is not going to be that number but it is going to impact on supply which we have been quite open about and we are trying to maximise the benefits we have of lower property values and lower land prices which are now feeding through into the system and will ultimately impact on the supply costs alongside the fact that the cross-subsidy that we have referred to has substantially disappeared from the delivery side.

Q41 Mr Betts: What I am trying to get at is whether this half billion is the finality as far as Government are concerned or whether it is still a work in progress with further thought being given as to whether more needs to be done to sort out what is a major problem.
Margaret Beckett: On the one hand we have the £550 million that we brought forward already for build but also of course we have the money which was made available to ourselves to buy unsold stock which was suitable for social housing. As I understand it, the latest figures from November are that about £120 million of that money has been disbursed and has purchased about 3,800 new units. We are not saying this is enough by the way. What we are saying is that there is a substantial amount ongoing and we are always in the market for fresh offers of finance should any be made available.

Q42 Chairman: May I just pursue this money bit? Is the £400 million which was the September housing rescue money brought forward or extra money?
Margaret Beckett: Money brought forward.
Mr McCarthy: Money brought forward.

Q43 Chairman: Brought forward from what?
Mr McCarthy: From the social rented programme into the social rented programme; from 2010-11 into this and next financial year.

Q44 Chairman: And the extra £575 million?
Mr McCarthy: That was a mixture of money brought forward, again from our 2010–11 programme; £150 million of that is money brought forward from social rented housing into the social rented programme.
Margaret Beckett: A lot of it is money brought forward.

Q45 Chairman: So the question, looking over the long term, is, if you have brought it forward, how are we going then, assuming things start looking up, to deliver what we were supposed to be delivering in 2010–11 or 2011–12?
Margaret Beckett: You put your finger on a very good question but you asked us, in answering your question, to concentrate on the short term.

Q46 Chairman: What is the answer?
Margaret Beckett: The answer is that at present we have brought forward a lot of funding which we were anticipating using in 2010–11 and that issue will have to be dealt with as we get nearer to that time.

Q47 Chairman: One point which was made by our previous witnesses was that the new HCA has a lot of money from EP and the Housing Corporation. Could you be bringing forward some of that?
Sir Robert Kerslake: That in effect is the money which is being referred to. The Housing Corporation's principal programme was the national affordable housing programme and that is what the Minister is referring to in terms of the money brought forward.

Q48 Chairman: So there is no more hiding around the place.
Sir Robert Kerslake: There is no new money. Money in relation to HomeBuy Direct is money redirected, but other than that it is money brought forward.

Q49 Emily Thornberry: Who is going to deliver the social rented housing? Will you be relying primarily on housing associations to do that? If so, we have already heard evidence today that, given the sales-based cross-subsidy has pretty much dried up and there is difficulty with private borrowing, there seems to be some talk about changing the type of housing which is being delivered, in terms of what rented housing housing associations might be delivering to us. What I want to raise with you is exactly what the definition of social rented housing might be and might we be getting more intermediate housing for rented housing which is going to end up with an element being bought. There are lots of different elements in that question but that is the nub of the evidence which was given before and raised a number of concerns.
Margaret Beckett: May I begin with the issue of whether they are mostly RSLs? As I think the Committee are aware, we are in the throes of preparing to change the regulations so that local authorities can benefit from new build and also so that they can be eligible for and compete for social housing grant. We are changing that balance but obviously that will take some time and, as I am sure the Committee are well aware, the amount of new build that local authorities have been engaged in, which has mostly not been directly built but commissioned by local authorities, has been quite small of recent years. It is quite likely that we will go on looking to RSLs for most of the build, if only because, the reason that that direction was pursued in the first place, which was that if you can bring in private sector money as well—and I take the point entirely about sales, about section 106 and so on changing the picture but it does not obliterate the picture completely—the likelihood is that we will look to that model, partly because they have been doing it and are geared up to do it, partly because it will bring in other money and that gives you more for the amount of public funding available and so on. With regard to changing type, I am not quite sure what you are pursuing here but we are encouraging RSLs to look more at the larger homes and in fact we have set a target for more larger homes. With regard to the issue of changing definition, people are looking, for example some RSLs are looking at the moment, if they have unsold stock, at making them available for intermediate rent so they get an income flow and if that is part of a rent-to-buy scheme then in the longer term that can be an option to purchase and the potential for that money to come back to the RSLs. There is quite a lot going on.
Mr McCarthy: The intermediate rent options are all within the funding envelope that we have for our low-cost home ownership intermediate housing. The money which is set aside for social rented housing remains focused on social rented provision. What we are doing is to continue to develop a range of intermediate options which reflects the changing market conditions. There is no shift in policy or intent about how the social rented programme is spent and it is really important that we are very clear with the Committee.

Q50 Emily Thornberry: It is very important that is made clear because the idea that there is a series of different types of rented accommodation is worrying. We need to have a guarantee that the proportion of social rented housing will remain.
Margaret Beckett: Absolutely.
Mr McCarthy: Yes, it is very important.
Mr Marsh: The overall demand for new housing has not changed. What has changed is people's ability to pay for it and access mortgage finance for low-cost home ownership. Therefore the discussion on increasing intermediate or rent-to-buy housing as an alternative offer to LCHO seems to be a very sensible way of ensuring we can still build new homes which are part of mixed income communities. It is important to recognise that as well as money the Minister has discussed in relation to government funding there remain over the next 12 months plans in the housing association sector to draw down £5.5 billion of private finance. Of that £5.5 billion of private finance just over £5.2 billion is already in place in terms of lending agreements which have been signed. There are issues about the price of money that is being negotiated for additional funds and there are risks in relation to covenant breaches which some associations face. The overall picture of a sector that has substantial attraction to the private finance market remains sound. It is our job to ensure, working with the CML and Government and the HCA, that that is a picture which remains the case for the next six months or next 12 months. This is a sector which has traditionally acted in a counter-cyclical manner that can help meet housing need that otherwise would not be met in an outright market situation.
Margaret Beckett: What this exchange has exposed, which had not quite dawned on me when you asked your series of questions, is that in what I have said to you about the intermediate rented sector and so on,

that is part of the short-term response to the short-term difficulties we are facing. There is no underlying policy change at all, which obviously is what you were exploring and I did not realise that.

Q51 Emily Thornberry: My fault because it was a very long question. It was raised with us earlier that there are huge difficulties for first-time buyers but for those who are wanting to part-own a suggestion has been made that here we have all these banks that we have essentially nationalised, are we not in a position to be able to nudge them in the direction of ensuring that those people who want to part-own are actually given that opportunity? There is a whole tranche of funding available, to housing associations in particular, which may not be available otherwise.
Margaret Beckett: We are in continued discussion with lenders about a whole range of ways in which we can improve the situation which exists at the present time. If I may give you the example of the proposals which we announced yesterday, we had far more bids than we anticipated for that HomeBuy Direct programme, certainly 50% more and nearly getting on for twice as much. To my simple mind this is actually quite an attractive proposition for lenders because what is on offer is a scheme which potentially means that they would be asked to mortgage only 70% of property; up to 30% can be made available through other means.

Q52 Chairman: May we just clarify? On the HomeBuy Direct, when you are talking about demand for the product, which indeed we heard from a previous witness, are we talking about the fact that developers have come forward in rather greater numbers than you expected?
Margaret Beckett: Initially yes.

Q53 Chairman: Which is good news. So that is what we are talking about. We are not talking about lenders.
Margaret Beckett: No, not directly, but, having said that, I keep hearing anecdotally throw-away remarks from people in the sector about the considerable demand there is for such products.

Q54 Chairman: From?
Margaret Beckett: From potential purchasers.

Q55 Chairman: People. Right. So we are still not talking about lenders, which I think was the point Emily was focusing on.
Margaret Beckett: There are three separate different sets of people. On the one hand are the developers who come forward with bids. Then there are the people who might want to access those bids. Thirdly there is the issue of whether the lenders will lend.

Q56 Chairman: I think Emily was asking about lenders and the suggestion which was made towards the end of the previous session that, let us not beat about the bush, Northern Rock should be instructed, nudged, pushed, into providing mortgages on shared equity because there does appear to be some evidence that there may be demand for shared equity, there may be developers keen on HomeBuy Direct and the witnesses were very positive about HomeBuy Direct. They were very positive about everything the Government have suggested, the big thing is not enough, more of it, but that banks are not keen on lending to individuals and therefore they are not taking it up and Northern Rock could and the Government are putting into it so why do they not make it?
Mr McCarthy: May I say something about the lending community? First of all, please stay just for a moment with HomeBuy Direct and the shared equity model where the 30% in this case funded by the Government and by developers is for a shared equity mortgage secured by a second charge. This is important. It means that when individual prospective first-time buyers approach their lenders they will be seeking a loan-to-value ratio of 70%. They will be able to access a mortgage at that ratio across the country from a range of mortgage providers. When we have shared ownership products, which is the new build programme through housing associations, the value of that programme is that it gives a cheaper point of entry. You can buy an initial share from 25% to 75% but the legal nature of that programme is that the owner buys a proportion of the property and not the whole property. Consequently they have been traditionally seeking mortgages of up to 100% on the element that they were buying. So you had reduced loans to value, much sharper loan-to-value ratio challenges. We have seen lenders withdraw from that market and from offering 100% mortgages and we are talking to the CML and lenders about what we can do to encourage them back into lending against shared ownership products. The CML has confirmed that it will support and lenders will support the shared equity products. We may have to shift more of those into that structure but we are also looking to encourage lenders across the piece, whether the Government have an equity stake in them or not, to provide mortgages against shared ownership leases where we actually think they have very good security. There are separate issues which you have to address to the Treasury about government instructions to banks where they have an equity share. This is a very complicated area and they are not going to be wildly keen if we start speculating about what they should do there.
Margaret Beckett: I am instinctively reluctant to give instructions where there is no need.

Q57 Chairman: This illustrates a point that was made in the evidence in the previous session that part of the trouble with shared ownership products in the past has been they are unbelievably confusing. We certainly cannot grasp them and my experience with my constituents is they cannot very much either. To that extent we very much welcome the shift to equity.
Margaret Beckett: I think that there would be great merit in us trying to provide you with a very short simple note about the variety of products available. I have asked the Department to do it but I have not had chance to cast my eye over it.

Q58 Chairman: Or even to reduce the variety since it seems to be confusing people.
Margaret Beckett: I take that point completely except that each of the options which is available now has been put forward because of a perceived and identified need.
Sir Robert Kerslake: Three points really. The first is to say that the different products in part reflect the different circumstances of individuals so some are more accessible than others and whilst HomeBuy Direct is a successful product it does not work for everybody, which is why we have alternatives. The second point is just to reinforce Richard's point that the banks' attitude to the different low cost home ownership products in their widest sense varies between the products. They are more comfortable with the equity loan model, the shared equity, than they are with the shared ownership. We have challenged them on that but nevertheless that is where they have come from. A final point to make is that part of the reason why we went for the HomeBuy Direct model was in response to what the industry was saying to us and they in fact had been running their own schemes because they found it worked in terms of getting potential purchasers. Obviously as the credit crunch has bitten the ability to run their own schemes entirely on their balance sheets has proved quite challenging, hence the model we have now; in effect we helped them and they put resources in as well. So there is some evidence from their own track record of being able to use the shared equity model to sell properties.

Q59 Mr Betts: From the previous witnesses we got a very strong welcome for HomeBuy Direct because people saw it as a simple model which everyone could understand and seemed therefore to attract support. It would be helpful to have a note but the most important thing is not that we understand it but people out in the market understand it. I think very often the people who are trying to lend do not at present. That just comes to the final point that people do not understand. I hear what Sir Robert says about the reluctance of some lenders but they do not understand why the public puts billions of pounds into these banks and then members of the public most in need are unable to access something from them. A bit of pressure on the banks as opposed to a bit of talking to them might be welcome. It might be for the Chancellor to do that and for you to send a message to him Minister.
Margaret Beckett: Yes, there is no doubt that there is quite a lot of pressure being put on the banks.

Q60 Mr Betts: There is real frustration. I drew attention in the adjournment debate only a few days ago to Ms Wilson, one of my constituents, and the horror story she went through and is still going through of six months trying to negotiate a shared ownership package with at some stage not being able to access public funds because they had run out, at other stages not being able to get a mortgage because the circumstances there kept changing and new products came and went with the organisation she was trying to borrow from and the two never came together at one point for her to be able to complete the transaction. There is complete frustration for someone who needs a home and really is in a position to pay for one.
Margaret Beckett: There is no question. I have seen a number of examples of similar circumstances where it has been very, very difficult for particular individuals. The problem is that it has been a very, very fast-moving situation and the thing has not gelled, banks have not known where they were, they were changing. It has been a very complex picture. We all share the Committee's concern that the position is not clearer and we are considering ways in which we can remedy that.

Q61 Andrew George: The environment we are in at the moment is one in which it seems everyone wants the same thing. You have a major opportunity to develop the intermediate market here. Developers are desperate to get some work and lenders want to make sure that they have a reasonably secure environment in which they can lend. The housing associations continue meeting the need which they have on their books. It seems to me that the shared equity or the shared ownership, whichever version you wish to push, seems to be one which is well worth developing. The problem at the moment seems to be, certainly from the earlier session, that the lenders still remain very nervous about this, they are very concerned about the problems of golden share, the problems of people not being able to staircase up to 100% on many schemes and yet the importance of retaining the integrity of a lot of these developments is great, also of course planning permission has been passed, in order to keep land values down, in order for the schemes to stack up in the long term. You hold the card to achieve all that, both on planning and in terms of being able to enable these schemes to come forward. Can you do anything more to encourage the lenders to come in and make these schemes viable?
Margaret Beckett: It is one of the oldest clichés around, is it not? There are all these tremendous challenges but they are bringing huge opportunities. There is no doubt and we are looking constantly at how the environment is changing and what that can offer us in terms of how we can proceed in the future. Equally though I was interested on looking through the written evidence—and I appreciate you have just had oral evidence which may have produced one or two different nuances—of those who have recently been before you and looking down the checklist of things they said it would be really good if the Government did, it looks to me as though we have actually done pretty much all of them and we continue to be in the market for creative ideas which we can pursue. I cannot really say any more to you than that. It is not as simple as it initially sounds but some of it is simpler than it has been in the past.

Q62 Emily Thornberry: May I ask a question about leaseholders, the people who have bought their council flats, owner occupiers, who are now facing major bills largely as a result of the Decent Homes programmes. Are you gathering, have you been

given any evidence as to whether or not they are having difficulties getting second mortgages in order to be able to pay these major bills as a result of Decent Homes work?
Margaret Beckett: I have had no direct evidence on that. I do not know whether this will come out of the research I was mentioning.
Mr McCarthy: No. Obviously this is a matter in which the Department has been engaged with you for some time and no new evidence has been presented to us at the moment about an extreme change of difficulties beyond that which you previously engaged with some of Mrs Beckett's predecessors.

Q63 Emily Thornberry: Certainly in my constituency we are currently gathering evidence and will put it before you.
Mr McCarthy: We will have to reflect on that. The important thing we have emphasised to local government is the role it can play there in assisting people with the provision of loans directly. It has the powers and we have asked local government to look carefully at those cases because it is very much about the nature of the activity undertaken by local government and we have encouraged local authorities to make mortgages available as well to assist home owners in those circumstances.

Q64 Chairman: I just want to put a question which arose out of the previous evidence session where there was a lot of talk about the need for more intermediate renting of housing association properties and a lot of housing association properties will become a kind of mix between market rent, intermediate rent and social rent. This raised for me the issue of whether there ought not to be a review of housing benefit which takes into account this new landscape, since obviously the eligibility criteria for social rent, market rent, intermediate rent in that sort of system would be affected by the housing benefit system as well.
Margaret Beckett: There are only two things I would say about that. One is that, as it happens, there is a review of housing benefit going on.

Q65 Chairman: Is it taking account of the changed circumstances?
Margaret Beckett: I doubt very much it is taking account of the kind of evidence you have just been given. I certainly and probably Peter too would like to take a look at the evidence you have been given this morning because that is not a point which has been put to me previously, though I can well imagine it is something which people are looking at.
Mr Marsh: It is fair to observe that in many areas the gap between a regulated social rent and a local housing allowance is still quite significant. Intermediate rents at or below that level will still attract housing benefit but the interplay between social rent and intermediate market rent progressing on to outright ownership is one that we need to continue to look at as the market changes.

Q66 Mr Betts: I want to look at the various elements of the rescue package. Generally speaking they have been welcomed. We asked our previous witnesses what their views were and whether anything else should be done. A universal request which came from all four witnesses was for Government to implement Crosby more quickly. They felt the delay to the Budget was really very harmful in terms of getting the mortgage market back working again. A specific request was that when it is implemented the recommendations in Crosby did not go far enough and they should not just apply to new lending now. That may be something more for the Treasury to look at but in terms of the housing market the feeling was that that was the fundamental thing you could do to get the housing market moving again.
Margaret Beckett: I completely understand the concern which has been expressed. If I heard you correctly you said that the previous evidence given to you was that the Budget was too long.

Q67 Mr Betts: Too far away. We cannot wait another four months for things to happen.
Margaret Beckett: I take the point and certainly, if they doubted it, we probably would convey those concerns to the Treasury, although I would think they are probably aware of it in their own way. All I would say is that looking at what Crosby recommended and what the Treasury has already said about it, it did not look to me like something which was necessarily going to be terribly simple to do or to do in five minutes. I understand the pressure but it might possibly be a little unrealistic to think that it is something which could be dealt with even before the Budget.
Mr McCarthy: And do remember they have to get very explicit state aid approval which they are seeking at the moment. A very significant action is recommended by Crosby that the Government are now exploring. I can tell you that they are doing that very actively.

Q68 Mr Betts: I suppose most people think that if you can recapitalise the banking system in a weekend you can probably do most things in a weekend. Could we just look at one or two other issues which came up? One interesting discussion we had was about the issue of unsold properties and the fact that housing associations sometimes think that these city centre flats, which there are an awful lot of lying around unsold, may not be very suitable because when they make an allocation to someone it is often on the basis that they have a housing association tenancy, they are off the waiting list, that is where they are going to stay for the next 15 or 20 years, which may not be the best long-term arrangement for a family. However, if we could have a more flexible approach to letting, where say a family of three or four people had a two-bedroom city centre apartment but on the basis that it might be for two or three years as an interim arrangement where they did not lose all their needs-based points which eventually would allow them to get maybe a family house which they really need, that might be something an association could look at. However, they said then they would need the Department, local authorities and associations all to change their approach to lettings and allocations arrangements to enable that to happen.

Margaret Beckett: I would want to look carefully at exactly what they said to you. I appreciate you did not say this, but I know part of the concern about RSLs buying up unsold properties has been whether the mistakes that people identified in the 1990s will be repeated. Will they buy a whole lot of completely unsuitable property which has long-term high maintenance costs and so on? All I can say to you is that my understanding is that all concerned are very mindful of learning that very difficult lesson and that they are being very careful in their approach and that the HCA is encouraging them on the one hand to be flexible with regard to what has been the long-term approach, but on the other hand also to make sure that they are taking into account whether what they had come forward to purchase was actually suitable for their needs.

Sir Robert Kerslake: The key point in terms of purchase is that it has to be the right property in the right place and at the right price. In terms of the RSL taking it on as a purchase, they have to think about the maintenance liabilities and the management of that stock for a long period of time. That is why we have been ensuring that they buy the right stock. What you are describing there is something slightly different, I would say. We just need to see a bit more of the detail of that and reflect on it.

Margaret Beckett: I should have said that there is a regional breakdown of the bids which came in, the properties which came in for HomeBuy Direct and, slightly to my surprise and pleasure, apart from in London there is a high component of houses. It was not just flats. I know the assumption has rather been that there would be all these empty city centre flats but actually there are a lot of houses. I do not know what size they are, that does not emerge here, but they are houses not just flats.

Q69 Emily Thornberry: How much stock have the RSLs bought? You were talking about the caricatures of empty inner city flats but how many empty privately built flats have RSLs actually bought?

Margaret Beckett: The clearing house purchases were running in November at 3,800. I do not know what percentage of that is city flats.

Sir Robert Kerslake: I do not know the percentage of flats and houses. Typically the flat purchases are in London and the south east, whereas the houses have been more regionally distributed.

Q70 Emily Thornberry: It is around 3,000 altogether.

Sir Robert Kerslake: That is the grand total. We can get the breakdown.

Margaret Beckett: The clearing house was for packages of 250 units. There may have been other smaller scale bids by particular RSLs which would just have come through the HCA in the ordinary way and were not part of that particular scheme.

Sir Robert Kerslake: We can give you the breakdown.

Mr Marsh: In the same way that we recognise that there is an opportunity to review the interplay between social rent and intermediate rent, shared ownership and outright sale, there is an opportunity also to look at the operation of lettings and allocations at the same time. That is not a short quick thing to do; it is a very difficult thing to do when we have such a constrained supply of social rented properties, which is the problem we now inherit that the money was put on the table to try to redress. It would be sensible to have that discussion in the context of local authorities' strategic housing role, which is quite separate and independent from the role of the regulator or the HCA in that regard.

Q71 Mr Betts: Is it possible to have a figure of where these properties have been bought, in which parts of the country? Are local authorities putting in bids to buy any properties?

Sir Robert Kerslake: Not that I am aware of but we will check the detail on that.

Margaret Beckett: They could, but I am not aware that they are.

Q72 Chairman: Is it not rather surprising that local authorities have not?

Mr McCarthy: I would suggest not, actually. All local authorities will have housing association partners used to acquiring properties and working directly with house builders. Where local authorities are going to be playing more of a role, as we have seen with ALMOs, is in bringing forward land that they own for development and wanting to do that in a way which retains some stock in their name and using their land to encourage investment by the HCA. That is where you are going to see the direct local authority involvement.

Q73 Mr Betts: Are we getting any bids for those?

Sir Robert Kerslake: Yes.

Mr McCarthy: We have already allocated money to ALMOs directly.

Q74 Mr Betts: Is anything happening to it? I can think of at least one ALMO allocated some money and still nothing has happened to it. One of the problems again is that many of the schemes ALMOs have been looking at depend on an element of sale cross-subsidising the house to rent so that is why they are stalling as well, is it not?

Sir Robert Kerslake: We would have the same conversation with them as we would with the housing associations about how they can adapt the schemes to get them moving. In some senses what we are trying to do is treat all investment partners in the same way whether they are housing associations, whether they are developers, whether they are local authorities. If they have schemes they cannot move at the moment because the balance of rent and sale is not right, we will talk to them about how we can adjust the balance.

Q75 Mr Betts: So they should be getting in touch with you and talking about it.

Sir Robert Kerslake: Absolutely. We have written round to all investment partners last week basically saying we will have an individual conversation with them about their schemes.

Q76 Chairman: May I just wrap up a couple of questions about the financial viability of housing associations which we seem not to have covered? First of all, what evidence is there that housing associations have in place any strategy to cope with the credit crunch?

Mr Marsh: Let us start with some numbers, shall we? There are some 250 housing associations who are engaged as part of development partnerships with the HCA. Of those 250, from our analysis of their business plans, around one in three has been historically reliant on LCHO, shared-ownership sales or other sales to contribute to their underlying surplus position. So it is one in three. Those are largely concentrated in London and the south east. There are some £5.5 billion of planned drawdowns over the next 12 months to match investment from the HCA and of that £5.5 billion £5.2 billion is already in place. Of the 80 which were reliant on LCHO shared-ownership around half a dozen at present are presenting to us more risks than are usual in the housing association sector and that is half a dozen which have risks which need to be addressed and managed in the next six months. That is six out of 250. I do not want to sound complacent as the independent regulator. I think it is important to recognise that means there are over 200 who already have strategies in place for how to manage the situation. Those strategies involve some actions which are difficult in relation to the home building targets, so it is entirely appropriate for a board to say "Until such time as we have completed our conversation with the HCA about the new deal"—and that is a letter which Bob has now sent out and the conversations have started—"Until such time as those conversations have been completed, we wish to hold back on our development appetite". Nobody wants the aspiration of building new homes to lead to lack of security of tenure for existing tenants. We need to look at this question as a regulator from the point of view of existing tenants and future tenants. The discussions with HCA to resolve the LCHO cross-subsidy issue are of paramount importance to give boards the confidence to then re-accelerate the development pipeline together with the conversation we have had about the other aspects of the housing offer between social rent and different forms of sale. The short answer is that there are six on our watch list which are not in intensive care but which are subject to more regulatory scrutiny than is normally the case. This means we will want to see cash flows on a weekly basis and we want to talk to the boards and we want to and are engaging with both their chairs and their lenders to ensure we understand their response to the threats posed to them. I do not really want to talk about individual cases because there are commercial issues in relation to the conversations with banks and lenders but it is important to recognise that there are 200-plus who are well placed and the fundamentals remain sound. The fundamentals are that the amount of debt compared with assets still remains at around 50%, so relatively low-geared across the housing association sector overall, two in three pounds that associations receive in income funded by housing benefit, that rental stream linked to RPI. We do believe that housing associations represent a good place for long-term investment and with long-term interest rates, even with lenders' premiums being sub 5%, given the regulatory framework that the Government established, we think this remains a safe place to invest and that is why we have observed in the last three months £600 million of bond finance being agreed between two large associations and through The Housing Finance Corporation. This situation needs to be read in a balanced perspective. A few have heightened risk but the majority are well placed to take advantage of the opportunities.

Q77 Chairman: I do not want to know the specific housing associations, but of the six are any of them large?

Mr Marsh: Yes, of the six a very small number are medium-sized to large housing associations.

Sir Robert Kerslake: This is an area where the collaboration between the HCA and the TSA has been very, very important. We meet on a regular basis to go through these issues. Our interest as the HCA is to ensure that RSLs keep involvement, keep doing development basically because the need is to keep affordable housing going and the development of new housing. There is a way in which we work with the housing associations which helps them with any issues around viability. For example, if they have significant unsold stock we can help them turn some of that into social rented and intermediate rented or rent-to-buy and that helps with their balance sheet position but it also gives them greater encouragement to do new development. There is a very close alignment here between our desire to keep development moving and the need to anticipate the issues of RSLs. You need to manage those in some difficulties which have been identified but our key task is to work with RSLs on a regular basis—that is why we are going out and meeting all of the investment RSLs—and anticipate the problems before they get to that point.

Q78 Chairman: One issue brought up was about the banks' lending practices which was not in relation to new build but effectively in relation to re-negotiating existing borrowing wherever an opportunity arose. We were given a particular anecdote about a housing association which was trying to reduce its costs by restructuring and the bank took the opportunity to increase the bill threefold so nothing happened. Is the HCA or the TSA responsible? I see the finger is pointing at Mr Marsh. What are you doing to try to get the banks to be more helpful, particularly since they have so much of our money?

Mr Marsh: I entirely agree with you; that is the starting point. There is almost a 50:50 match between historic social housing grant and private lending and the banks are the first secure creditor and they themselves have a long-term interest in the viability of the bodies in which they have invested. In our first week, on the Friday afternoon, we held a session with the CML and all lenders, both current active lenders and lenders who have historic debt in the sector, attended that session. We talked there both about a recent issue that has been in the press around interest rate swaps, but, moreover, practices around re-pricing. Here a balance is needed and I see our role as trying to encourage and facilitate a healthy market. If a lender is making a loss on its current debt portfolio because the price of money and liquidity has changed and their current portfolio is priced at 25 or 30 basis points above LIBOR and it is costing them triple or quadruple that to access funds themselves, we have to understand that there is a commercial pressure in a commercial organisation to find ways of reducing that loss. Our job is to try to mediate between legitimate commercial pressures, which will be applied by a bank at an opportunity that presents itself, and avoiding banks applying such aggressive commercial pressure that it becomes a disincentive for rational behaviour—whether it is a disincentive for rationalisation within a group structure that would have long-term benefits for tenants or whether it is a disincentive to a potential rescue organisation who may want to take on a failing organisation which might find itself in difficulty—in both of those situations tenants do not benefit, lenders do not benefit longer term and neither does the housing association. We wrote to the CML last week, after productive engagements, and I am meeting with them again on Thursday evening, to continue to tread that fine line between facilitating conversations and applying pressure and, where necessary, applying pressure through the Department and Richard's colleagues, through other means the Government have at their disposal.

Q79 Chairman: What might these other means be?
Mr McCarthy: We have asked the TSA to work on a paper with some of my team so that we move from the individual anecdote to some hard evidence. We are represented, through the involvement of Mrs Beckett and me, in various engagements with Treasury with the lenders in terms of the Government's engagement with the lending community overall and our intention is to take this paper and to discuss the evidence presented to us with Treasury colleagues and potentially on through Ministers in the engagement with lenders. We need to move from individual stories to a more rounded position and that has been requested.

Q80 Chairman: Do you have any idea of timescale?
Mr McCarthy: We should have a paper this week which will allow us to engage with Treasury and lenders early in the New Year.

Q81 Mr Betts: One of the issues which came up this morning was that of repossessions and clearly many people are worried, particularly as Christmas is coming up and looking at the next year, about the possibility of unemployment. There was a welcome for two things the Government have done, both the mortgage rescue package, which will help about 6,000 home owners and stop them being repossessed and offer them some alternative form of tenure, and also the changes to the arrangements for people who become unemployed so their mortgage can effectively be paid for them more quickly, after three months rather than nine months, have been brought forward to January now. Both those were welcomed. However, two issues were raised. One was that the amount of finance for the mortgage rescue package may not be sufficient, so it may be that we have to help more than 6,000 people in difficulties. Secondly, the problem of people who do not lose the totality of their income but lose a part of it. Very often mortgages can be supported by two incomes in a family and if one person becomes unemployed that can put them in real difficulties. How can we deal with those sorts of issues which are undoubtedly going to arise in the next few months?
Margaret Beckett: First of all, with regard to the issue of the mortgage rescue scheme, I take the point about whether or not it will be sufficient. Perhaps we could bear in mind that there are basically three areas. One is that if you lose your job and there is no income coming into the family home you are eligible for the support scheme which the DWP has been running but which is now a lot better. Not only is it 13 weeks instead of 39, but also the limit of the mortgage on which you can seek assistance is now £200,000 whereas it was £100,000. Also, we had put some money in to assist with it and as a result of the bank rate coming down that money can stay there and will mean that they will continue to meet an interest charge which was perhaps slightly higher than the standard variable or the routine. Even people who are paying a higher interest charge may still get more help than they would have got initially. That scheme has improved a good deal. Then there are the people who are eligible for the mortgage rescue scheme. These are people in the vulnerable groups who would otherwise trigger the homelessness legislation where a local authority would have to find them other accommodation on the homelessness criteria if they lost their home. It is actually a more restricted group than I think the assumption there had initially been and that is partly why the costs of the scheme are as they are and it is the 6,000. It was entirely the issue of those who fall outside the criteria for both of those two schemes which led to the Government exploring, and we are working now very actively with Treasury, with the FSA and the lenders, to see what scheme can be put together mutually to help people whose income has diminished. It is not for people who are trying to get out of paying their mortgage but people who want to pay their mortgage, people who are trying to continue to do so, people who have every right to expect that in the longer term they will be able to return to paying the full amount but in the short term either one of them has lost their job or lost their overtime or whatever and they have had a sharp drop in income. That is a scheme which we think will have wider application potentially and on which we are working now with the lenders.

Q82 Emily Thornberry: Which could include leaseholders.
Margaret Beckett: Interesting question.
Chairman: Which I am sure you will be looking at.

Q83 Emily Thornberry: Which I was looking at.
Mr McCarthy: The intention is that the work on it will apply to all people who have a mortgage on their home who have an income shock and that income shock is not covered by the benefits we have of the reduction in base rate, who have a sustainable position but need some help in the short term, hence the proposal announced by the Prime Minister to assist lenders to roll up interest for a period of time.

Q84 Mr Betts: There might be some people whom you could help with this scheme who otherwise would be better off going on benefits and getting their mortgage paid by that route which would not be better in the long term for them.
Margaret Beckett: Apart from my very real concern for people who through no fault of their own would be in real difficulty but did not come within the confined parameters of the existing scheme, there was also a thought that it would be a crazy thing to have a perverse incentive for people to make themselves unemployed if they do not need to do so.

Q85 Mr Betts: Do you have any idea of the timescale for when this is going to be brought in?
Mr McCarthy: We cannot announce that yet because we are working on both the practicalities of the operation, the need to engage with all lenders, which is extremely active at the moment I can assure you and the right legal framework. I hope that ministers will be in a position to announce that shortly.
Margaret Beckett: May I just say one other thing which may or may not be in the Committee's mind. As you know, part of the concern that we had was about the impact on confidence of the fear of repossession which still seems to be extremely strong. I suspect one of the reasons for that is because, as I understand it, when we were in this position last time in the 1990s nothing or very little was done to help people to avoid repossession. There was some money to help RSLs buy up properties which had been repossessed and which were a drag on the market, which is how we got into the position of not buying necessarily suitable property, but there was nothing to help the individual or the family to try to prevent repossession. It is that sort of folk memory perhaps which is doing harm now and that is something we want to try to overcome.

Q86 Mr Betts: Do we have cooperation from the lenders now and they are being responsible, because obviously these schemes are a final safety net but in the meantime we should be making sure that people are getting proper service from the lenders, proper alternatives offered.
Margaret Beckett: I cannot recall whether I said this to the Committee last time or not, but when you realise that the average cost to a lender of pursuing a repossession all the way through is about £35,000, it seemed to us, and was one of the reasons why we felt incentivised to come forward with some of the proposals to the lenders, that it might be in their interests too to avoid incurring those costs to no useful purpose and also with the outcome of having people who are potentially good customers, who have been before and probably will be again, whom they are not supporting.

Q87 Andrew George: Is it possible for me to ask a question about another side of the same coin, that is what your market intelligence is telling you about the impact of all this on the private rented sector both from the point of view of those that are repossessed and therefore evicted as tenants of buy-to-let property or the fact that there are more properties coming into the market and therefore the impact on private rent levels.
Margaret Beckett: I do not think we have much in the way of evidence yet. Although there is this very, very high level of fear of repossession, it is only something like 0.16% which has actually gone ahead. It may be a bit early.
Mr McCarthy: I can give you one very important piece of information which is tucked away in the PBR announcement which is that the Ministry of Justice is looking at extending the minimum level at which the courts will require notice to be given to a buy-to-let tenant when their home is repossessed. We are trying to focus on the tenant and not the person who was the speculator, who bought the property. We are looking to extend what is the current minimum period of two weeks to seven weeks. That is action which has been made by Government in response to looking across the piece at who could be most affected individually as an occupier in this way.
Margaret Beckett: I had not fully appreciated you were talking about people involved in such properties but part of the idea of that is not only to be fair to the tenants, who sometimes in the past have found themselves evicted completely out of the blue, but also to give space for people to focus on the facts of the case, where it may well be that the tenants have assiduously been paying their rent and therefore there is an income stream. There may be a dispute between the lender and the investor, but there is not necessarily a dispute between the lender and the tenant. That also may give scope for realising where mutual interest lies in the long term.
Mr McCarthy: We are aware of some lenders who are then at the present time sticking with the tenant and actually going long beyond that and enabling them to go on doing that.

Q88 Mr Betts: There was a story in the press a few weeks ago about a couple of lenders who were probably not quite mainstream and thought they had found a way round. They were evicting people who had not paid their mortgage without going to court by doing it rather quickly. Is there a loophole there that action has been taken to try to stop up?

Margaret Beckett: I am only aware of one case. One could not say it is a loophole. The law has not changed but the Ministry of Justice are looking at that.
Mr McCarthy: Yes, that is something they are actively reviewing. It is more complicated than the media reports would lead you to believe, but there is a surprise! They are being looked at by MoJ.

Q89 Chairman: You mentioned that land values were falling and housing associations were making use of that. Do you actually have numbers of RSLs who have purchased land at lower value and/or councils? If you do not have it now, can we have it subsequently?
Mr McCarthy: No, we will have to ask about that.

Q90 Chairman: We have quite contradictory evidence about whether land values are really falling. If land values fall too much owners do not sell. They are like home owners; they hang on to it.
Mr McCarthy: You will have a mixture of behaviours out there and there is very strong evidence from the property sector and advisers about land values falling and we can share with you the data which we can obtain. It is a hard area in which to get hard data. That is largely accepted. It will mean that in some cases land will not be put on the market to be sold.

Q91 Chairman: Precisely.
Mr McCarthy: In other cases people need to sell land because they are forced to generate cash. One of the advantages of the HCA is their ability to play into that market.
Sir Robert Kerslake: Entirely right. The key point to make is that this is a moving picture and the extent to which people are acquiring land will change over time. We may well see some of that accelerating in the next few months.

Q92 Chairman: If you do have some hard data, we would like to see it.
Sir Robert Kerslake: Yes.
Mr McCarthy: It is more about future opportunities.
Chairman: Thank you all very much indeed. It has been a very productive morning. We almost certainly will be returning to this issue in the New Year. Thank you.

Written evidence

Memorandum by G15 (CRED 05)

1. Introduction

G15 is a group of the 15 largest housing associations in London. We are social businesses, operating not-for-profit to deliver social and economic improvements into London communities. We house around 1 in 10 Londoners—some 700,000 people, and manage around 410,000 homes. G15 develops most of London's new affordable housing each year.

This paper considers:

— Achievement of the Government's house building targets.

— The financial viability of housing associations.

— Further measures to help existing and prospective homeowners.

Consideration is given in the context of the housing association sector's unique place in the housing market and our significant achievements to date. Our submission ends with G15's vision for maintaining supply through new models and new partnerships.

2. Executive Summary

— Housing associations have a unique place in the housing market—trusted partners of Government, committed for the long term, not for profit, able to take advantage of market uncertainty and attractive to investors.

— Housing associations have achieved tremendous success over the last 20 years—investing £65 billion of non government money in new supply, trebling government's own investment of £30 billion and reducing grant rates by providing cross subsidy from surpluses on shared ownership and outright sale.

— The cross subsidy model has run its course—sales income, currently a vital source of income, has reduced, causing associations to refocus on management of their current exposure.

— Housing supply will reduce unless bold measures are taken.

— New partnerships should be encouraged between house builders, housing associations, local authorities and the Homes and Communities Agency, sharing land cost, sales risk and supply chain efficiencies; and providing an integrated management service across all tenures.

— A new model is needed using government money to kick start a national house building programme—moving from mixed tenure to mixed income, retaining the home ownership aspiration, transferring public land to trusted partners, bringing forward planned Government investment through grant and public equity, and encouraging private investment once the model has been proven and market confidence is restored.

3. Housing Associations' Place in the Housing Market

As social businesses housing associations have a unique place in the housing market compared with other providers:

— We are trusted partners of Government with shared objectives, shared values and a track record of delivery.

— We are committed for the long term—as housing associations are funded through capital grant and long term debt they are not vulnerable to short term stock market volatility. This enables associations to focus on the long term needs of the communities where they operate, and take a long term view of the property market.

— We are not for profit distribution—our surplus is continually recycled and reinvested into our social objectives.

— We are able to switch between tenures and take advantage of market uncertainty—when house prices rise associations are able to provide cross subsidy from their outright sale and shared ownership operations. When prices fall associations can increase investment in their core affordable rented operations.

— We are attractive to investors—despite current uncertainty, investors see associations as a strong credit, with strong asset backing, government support and solid future cashflow.

4. Historic Context

The independence of housing associations, enshrined in our rules and memorandum/articles of agreement, was further underpinned by the 1988 Housing Act which granted the ability to raise private finance to invest in the provision of new affordable homes.

During the 1990s housing market crash the sector used its new found borrowing powers to undertake a significant programme of countercyclical investment in new homes, boosted by Government assistance through the Housing Market Package.

Over the last 20 years the sector has raised £50 billion in private loans and accumulated surpluses of almost £15 billion, together some £65 billion of non government investment into affordable housing. Government's own capital grant investment in housing associations totals £30 billion, so independent borrowing and surplus generation by housing associations has trebled the amount invested.

Over the same period Grant rates for new affordable housing have reduced, partly through competition and partly through Government efficiency drives.

Housing associations have delivered reduced grant rates by cross subsidising new affordable rented provision with surpluses on shared ownership sales, and more recently through expansion into the outright sale market.

The credit crunch has brought to a standstill housing associations' ability to cross subsidise new homes. This calls into question the ability to meet Government supply targets without increased Government assistance.

5. The Financial Viability of Housing Associations

Over the last 20 years housing associations have borrowed significant sums and reduced dependence on government grant, in the case of some G15 members to as low as 30% of our total investment, but this has been achieved by increasing dependence on market sales.

The financial impact of this change is illustrated in the Housing Corporation's Global Accounts 2007—the consolidated accounts of the sector, which report:

— Reducing surpluses for traditional associations—down 30% in three years. Our surpluses are used to provide cross subsidy for new homes, so lower surpluses will lead to lower output.

— Increasing pressure on large associations—interest cover down from 107% to 92%, gearing up from 51% to 59%. Tighter lenders ratios will restrict sector borrowing capability going forward.

— A mismatch between capacity and growth—almost a quarter of the sector's surplus is produced by small, non developing associations. Access to this capacity could be encouraged through partnership working and further consolidation.

— Capacity in the South, none in the North—a surplus of £335 million in the South and a deficit of £64 million in the North. This will drive Northern associations Southward and limit development in the North unless a different funding model is developed or consolidation is encouraged.

— Increasing capitalisation, increasing sales—the sector's overall surplus of £271 million becomes a deficit of £1.1 billion adjusting for sales and capitalised major repairs. In the current market, sales and capitalisation dependency is high risk, and failure to realise sales could lead to covenant breach.

— The overall capacity of the sector is negative, with 47% of associations reporting positive capacity and 53% reporting negative capacity. For those associations who have positive capacity, continued investment in new homes is likely to remain a key social objective. Those with negative capacity are likely to have other priorities.

6. Current Financial and Economic Outlook

The current outlook for associations, given the pre credit crunch position reported in the 2007 Global Accounts and the current economic climate, can be summarised as follows:

— Corporate lenders are exercising caution—some continued lender appetite remains, but only to existing partners, not unlimited in amount and not on the terms associations have enjoyed previously. The bond markets are a potential source of new finance, but uncertainty exists regarding availability and price.

— Increased sales exposure—a significant percentage of housing associations' development pipeline has been built for shared ownership and outright sale, further increasing sales dependence since 2007.

— Limited ability to cross subsidise—a marked slowdown in sales means no cross subsidy for the current development pipeline or new supply.

- Short term focus on annual budgets and lenders covenants—budgets for this year will have been set in less challenging times. Between now and the end of this financial year, associations could face some difficult decisions to ensure that expenditure is covered by income; they will be reluctant to invest in new housing starts and further consolidation is likely to be necessary.
- Use of balance sheet capacity for tenure conversion—homes which were originally built for outright sale or shared ownership are being converted into market/intermediate rent. As a consequence they will consume balance sheet capacity which would otherwise have been used for new development.
- Impact on lenders ratios—retention of homes which were built for full or part sale will increase the sector's gearing, reduce its interest cover and reduce borrowing and investment capability.
- Reluctance to invest in mixed tenure development—where associations have spare capacity they will be cautious about investing in new mixed tenure development where homes will be offered for sale in a falling market. Instead, building long term land banks will be seen as a safer investment.
- Slowdown in Section 106 development—as house builders hold back on new starts, Section 106 opportunities will reduce.

In summary, housing supply will reduce in the medium term unless new models are found and new partnerships developed. To ensure the greatest chance of success, urgent action is required.

7. Further Measures to Help Existing and Prospective Homeowners—The G15 Vision

G15 shares Government's vision of delivering three million new homes by 2020. The current economic climate demands a courageous but coordinated response. With the support of trusted housing association partners, government should take the first step, bringing forward planned investment to kick start a national programme of house building.

G15 believes that new partnerships and new models are needed. New models should be sufficiently flexible to be applied to new and existing stock across all tenures.

7.1 *New Partnerships*

New partnerships between house builders, housing associations, local authorities and the Homes and Communities Agency should be encouraged. New partnerships should:

- Pave the way for an upturn. The credit crunch creates an opportunity for housing associations to work with the HCA and local authorities on key regeneration projects, developing the masterplans, building the physical and social infrastructure, making a start with social rented and intermediate market homes and creating serviced land available for sale to house builders, housing associations or joint venture companies. By creating serviced land with appropriate infrastructure land will be de-risked, which will make it more attractive to house builders and create greater long term value for investors.
- Share the carrying cost of land. A joint venture approach to existing land holdings could allow house builders to reduce their exposure, realise some value and maintain short term shareholder confidence. It will also release land for development.
- Share sales risk. Joint venture partners should decide together when to build and when to sell.
- Share supply chain efficiencies—a considerable benefit to affordable housing providers and the public purse if extended across all tenures.
- Provide an integrated management service across all tenures with a long term commitment to service quality and sustainable communities.
- Develop new models which benefit and protect all parties.

7.2 *New Models*

A new housing model should have the following features:

- It should take advantage of reducing land values to create long term public/private partnerships.
- It should create mixed communities by stimulating a new intermediate rented sector and offering a range of rents (affordable, intermediate and full market) to people on a range of incomes.
- It should not encourage home ownership for those who can barely afford it, or create personal or institutional dependency on profits from short term house price inflation.
- It should refocus on providing those homes which are currently in short supply—family housing for low cost and intermediate rent.
- It should offer people the option but not the obligation to buy some or all of their home when it suits them, and the option to move from ownership into rent if circumstances change for the worse.

— It should see government taking the lead by investing first and transferring public sector land to trusted partners, with greater volume and efficiency being delivered as economic conditions improve, investor confidence returns and people exercise their option to move into full or part ownership.
— It should be accompanied by a re-examination of the nature of government investment, separating future investment into two elements—grant subsidy, which is needed to deliver affordable rents, and equity, which is needed to fund the product. Once spent, subsidy cannot be returned, but it can be continually reviewed and adapted to suit changing individual circumstances. Equity can anticipate a share in future gains and losses, it can be repaid, it can be recycled and reinvested, and it can be sold.
— In the longer term, government equity could be replaced or enhanced with tax credits to encourage private investment, but the first step needs to be taken by a patient investor with a commitment to increasing housing supply across all income groups.

Housing associations should play a critical role in delivering new models and partnerships as we can deliver without the costs falling on the PSBR, and we have the track record of managing affordable rented housing alongside other tenures.

8. Summary

Housing associations have been the trusted partners of Government for many decades. We have a track record of delivery and innovation, with £65 billion of non Government money being invested into new affordable homes. We have a unique place in a challenging market, but the current cross subsidy model for affordable housing supply has run its course, and new partnerships and new models are needed to replace it.

New partnerships and a new model will offer a wider group of people greater hope, greater choice and greater mobility. The housing association "third sector" is ready to deliver a fourth way, but the fundamentals need to be challenged first.

October 2008

Memorandum by London and Quadrant Housing Group (CRED 06)

L&Q of course fully support the recent G15 submission to you but David Montague our CEO, has asked me to write to you with some further thoughts on actions the Government, working with the RSL sector could take to increase the supply of affordable housing whilst also helping to stimulate the housing market.

The Government of course want quick affordable housing supply and the demand will increase as people find it more difficult to remain in home ownership. Some mortgage rescue schemes will help but our view is that over the next few years Local Authorities are going to be under sever pressure to rehouse displaced families.

The obvious solution once we have found new ways of organising our own development programmes (which must be our first priority) is to embark on a volume street property purchase programme.

What are the benefits?

— Instant supply of housing—it takes around four months to acquire and prepare for occupation a street property compared to around two years for an average new build scheme. Complex regeneration schemes can take even longer.
— RSL's have worked hard over the years to develop out mono tenure rented schemes which were expensive to maintain and to an extent became stigmatised as social housing. Whilst market rent and intermediate rent as part of an affordable housing scheme will no doubt help, residents that move into a street property have instant existing support networks and become part of an existing balanced community. We think that ideally there should be no return to mono tenure for new build schemes as it will threaten balanced communities and undo much of the good work that RSL's have undertaken over the past 10 years or so to relieve poverty hotspots.
— A street property programme in terms of total costs is usually more cost effective grant wise than market delivered new build. This may ease the pressure on grant rates.
— The homes are very popular with residents and overall because of the dispersed nature of the homes can give rise to lower housing management costs.
— Family housing is where the demand for affordable housing is at it's most acute—especially in London. At present giving the housing market there is an abundance of supply of reasonable quality family homes some of which could be upgraded to meet decent homes standards.

— With the anticipated slow down of new build and the take up of Government cash a volume street property programme would accelerate spend and given that street properties require on average spend of around £25k to bring them into affordable housing use this will provide a much needed and quick boost to the construction industry particularly small building firms who are going to be severely affected by the market slow down.

— Because Street property programmes are single house purchases it could be easier for more RSL's to access private funding. Large new build schemes are private finance hungry and often can only be undertaken by large RSL's. Street property programmes are more incremental in the use of private finance and can be tailored to the financial capacity of organisations.

— Targeted street property purchase of larger family homes can help ease RSL's own transfer demands and free up accommodation for smaller families on council waiting lists. It can positively help to reduce overcrowding directly and indirectly.

— The product can be easily adapted for LCHO when credit markets ease. The old DIYSO product was much more popular with residents than new build LCHO with the right targeting and grant rates.

There are of course always some downsides!

— Often street properties can attract a higher long term maintenance cost although RSL's over the years have managed this through improved asset management.

— Less Eco efficient than new build so therefore only likely to be a short term fix in terms of the current housing market.

— No housing gain for the Government but at present and for the near and foreseeable future the demand for housing generally is likely to reduce in practical terms as the market tightens.

I hope that this gives you some further ideas for the future and of course L&Q is already embarking on its own self funded street property programme which we use to ease transfer demands from our own tenants. A volume programme supported by the Government would however have a much greater impact and most importantly help to give immediate relief to an ailing housing market also providing much needed affordable housing where the demand is we feel bound to increase as a result of the economic conditions that are presently with us.

October 2008

Memorandum by the Intermediary Mortgage Lenders Association (CRED 08)

Introduction

1. The Committee announced this brief inquiry on 14 October, requesting evidence by 31 October. The focus is on three specific areas:

— Achievement of the Government's house-building targets, both for market and for social housing.

— The financial viability and ongoing business of housing associations.

— Measures to help existing and prospective homeowners affected by the credit crunch.

2. IMLA is pleased to be able to respond. IMLA is a member driven lender trade body focussed upon intermediary based mortgage lending. Some 70% of UK mortgages are sold through intermediaries and IMLA members are active in supporting this market. Its 28 members include specialist lenders, banks and building societies and its product coverage includes sub-prime, self certificated and buy to let mortgages. Given this our main focus in this response will be on the third of these issues.

3. This submission has been prepared by Peter Williams Executive Director of IMLA in consultation with IMLA Directors. The limited consultation reflects the tight timescale.

Housing Supply

4. In our view the Government has rightly been seeking to address the underlying long term demand and supply position in England. The output of new homes relative to the increase in population and households has been inadequate for some years and not least in Southern England. This has contributed significantly to increased affordability pressures and the difficulties first time buyers have had in entering the market. Both borrowers and lenders have had to adapt to this—bigger deposits and tighter household budgets for the former and increased lending terms and more mortgage innovation by the latter. However it is worth noting that the proportion of 100% mortgages remained low compared to the late 1980s housing boom (currently close to 0 and before the credit crunch 2–3%).

5. The current downturn is clearly impacting upon housing supply. Although there was a total increase of around 200,000 homes in England in 2007 it is likely that the output in 2008 will be well below 100,000. This is below the government's estimate of the 240,000 homes per annum that are required over the medium

to long term to help ease affordability pressures. The credit crunch has thus impacted upon supply and made the achievement of the supply targets more challenging. Much, of course, turns on the depth and length of the downturn and that is still subject to speculation.

6. Offsetting this is the reduction in demand. Consumer confidence has fallen and it is already clear that the demand for mortgages has gone down. There is some evidence to suggest inward migration to the UK is falling and there will be more outmigration. This is significant because increased immigration was a material factor in higher household numbers and the estimated demand for new homes.

7. Falling house prices may temporarily assist some households but this re-adjustment will not solve long term affordability problems, not least because reductions are currently being matched by tightening credit conditions.

8. The government has moved to support continued housing output through its £200 million scheme for buying homes from developers and through backing HomeBuy Direct (a joint shared equity scheme with developers). It has also opened up bidding for social housing grant to the private sector. However it is clear from house-builders that though this support is welcome it will not prevent a serious contraction in output and the impact of that will be felt widely. Section 106 schemes, through which house-builders secure planning permission and also contribute to affordable housing objectives, are being curtailed. Around 60% of social housing output in 2007 was on Section 106 sites. With a contraction in development overall, and in Section 106 applications in particular, an important source of supply and cross subsidy for the social housing sector (including low cost home ownership) is lost. The implications of this are considerable both in terms of the numbers of new affordable homes being built and the impact it has on the financial viability of the associations involved.

9. In the short term and outside of Section 106 schemes the programme for building new social homes for rent will continue though associations will increasingly be constrained unless grant levels are increased. Private finance for these schemes has also been impacted by the credit crunch with funding costs increasing and the funds available reducing. We return to this issue in the next section.

10. Low cost home ownership (LCHO) is also part of the social housing output and an important part of affordable housing supply. Again output is falling and there is some evidence to suggest there are fewer lenders prepared to offer high % advances to borrowers seeking to part-buy such homes. LCHO sales have been falling reflecting both mortgaging difficulties and a reduction in demand. Some associations now have a stock of unsold LCHO homes. This puts an increased financial burden on the associations and in some cases will require action to allow "changes of use" to either social or market renting.

11. In recent years the proportion of new homes being built as flats has increased significantly reflecting the push for higher densities and increased output. A proportion of these new homes have been bought as investment properties in the Buy to Let sector.

12. Currently Buy to Let lending has been substantially reduced partly because of overall credit conditions but also because a number of the main lenders are non-banks and they are part of a sector which has not been supported via either the government's recapitalisation scheme or the Bank of England's special liquidity scheme. We return to this point later.

13. The recently published Rugg and Rhodes Review of the Private Rented sector has aired the possibility of increased regulation for this sector. Clearly at a time when home ownership levels are falling, the private rented sector assumes greater importance. Any increased regulation will have to be approached with considerable care given this situation.

14. The Government should be commended for its continued drive to increase housing output and through that to help reduce affordability pressures. Having set out to secure a significant and long lasting increase in house-building there is obviously concern now it is clear that objective cannot be met in the short term (over the next three years). It is still too early to say how this will work out over the medium to long term. The reduction in demand and fewer households will offset the shortfall to a degree but it is likely there will be increased demand for social housing and for market renting. It will be essential to carry forward current work on improving the planning system and regional coordination so that when the upturn begins England will not be faced by a sudden spike in house prices.

Housing Associations

15. The housing association sector has grown significantly in recent years reflecting increased grant funding, continued access to substantial private finance at very favourable terms and a steady stream of stock transfers from local authorities. The credit crunch is impacting upon the sector in a number of ways but it remains fundamentally strong in terms of both assets and capacity.

16. Mention has already been made of the downward pressure on development programmes with associations cutting back on new LCHO schemes and the flow through to reduced cross subsidy for social renting. It has recently been suggested that the development model in use in recent years by large and medium sized associations—cross subsidy— is now broken and must be replaced by one based around higher grant rates and with a focus on social renting.

17. The credit crunch has impacted directly on the development process in the way described above. In recent years associations have also developed a partnership approach with developers, sharing risk and profits. However such joint ventures must now be approached with caution given the vulnerable financial position of some developers.

18. Perhaps less obvious has been the contraction in the market for funding social housing. Over the last five years the strong competition between lenders has driven both the margin on lending to associations very low (0.25 basis points above LIBOR/Base rate) but also the terms of that lending had become less demanding in terms of cover ratios and covenants. The upshot of this and in advance of the credit crunch a number of lenders had withdrawn from active participation in this market (worth around £40 billion and with eight to nine major players).

19. With the onset of the credit crunch in 2007 the number of active lenders to the sector fell further and the terms of lending were tightened. In recent months there have been only three major lenders still active in the sector funding new business though most lenders have continued to consider support for their best customers. However as the financial squeeze has continued so even those three lenders have reached their lending capacity limits for 2008 with the upshot that very little new lending is taking place.

20. This clearly poses problems although it is important to note three key facts:

- There are significant loan commitments outstanding so that much of the planned programme of development for 2009–10 and 2010–11 is already funded. Terms may be re-negotiated but there is a degree of certainty.
- Given the rise in rates and the tightening of terms there is some evidence that a number of the lenders who had withdrawn from the market are beginning to consider lending again.
- Bond based financing is an alternative to debt from lenders. With low margins it has proved difficult in recent years for bond finance to compete but with "better" margins this is now possible and there has been a recent bond issue although the investment market has since closed again.

21. As this suggests the funding market is quite volatile. Logically long term lending to "low risk" associations (state regulated, grant supported and backed by housing benefit) is attractive but the fact is the return is quite low. In the current environment where lenders need to rebuild their balance sheets and undertake business that is as profitable as possible there are now other opportunities for relatively safe lending but with higher returns. We have moved from a surplus of funds to a shortage of funds and lenders can be choosier.

22. In 2007 an English association became insolvent and the banks involved triggered the moratorium arrangements under the 1996 Housing Act. This event heightened lender awareness of the risks associated with lending to this sector. It is now clear that lenders are tightening their assessments of associations looking more closely at governance and finance and that they have begun to discriminate between them in terms of pricing and terms.

23. We can thus observe a reduction in funds and a tightening of terms and pricing. This will put additional pressures on budgets and viability at the association level and up the case for increased grant funding. Given the 2008 Housing and Regeneration Act and the current changes in the investment and regulation regimes with the creation of the Homes and Communities Agency and the Tenant Services Authority the government will need to keep a close eye on the association sector, the effectiveness of the new regulation and investment regimes and funding levels. Associations are vital to continued supply and although government is keen to encourage a diversity of provision the reality is that this sector is in overall terms strong and capable. The government has invested heavily in it over the last decade and a half and should now be ready both to draw upon it but also to support it in order to secure its own goals.

Measures to Help Existing and Prospective Home Buyers

24. IMLA has noted the measures the government has taken to help existing and prospective home buyers. These include:

- Increased funding for advice agencies.
- Improvements to the Income Support for Mortgage Interest regime (for one year a higher £175k mortgage limit and a reduction in the waiting time to 13 weeks from 39 weeks—but entitlement to ISMI will be for two years only for those on the job seekers allowance).
- A funded mortgage rescue scheme aimed at 6,000 most vulnerable households.
- The recently announced Pre-Action Protocol which sets out the steps lenders must have taken before a court will consider agreeing a possession order.
- A one year stamp duty holiday for homes under £175k.
- £300 million of funding to support HomeBuy Direct a shared equity scheme with home builders.

25. All of these measures have some merit although IMLA would question a number of them. In addition with a shrinking mortgage market and a home ownership market in transition there are questions as to the scale and scope of the interventions. Certainly by comparison with the USA the UK government interventions remain limited.

26. The extensions to the ISMI scheme are important and helpful but the scheme still remains restrictive. In the last housing market downturn research revealed only 25% of those in mortgage difficulties got access to ISMI—reflecting its focus on those out of work (rather than reduced work) and with very limited savings and income (full entitlement is for those with less than £3,000 savings). The £175k limit will limit usage and of course payments are based on a defined standard rate rather than actual payments. For borrowers in the non prime market with mortgages priced off LIBOR there will be a considerable gap between the standard rate on which their ISMI payments are based and the actual rate they are due to pay. Finally, we note the Department of Work and Pensions has proposed limiting access to the scheme to two years for those on the job seekers allowance. We are unaware of any impact assessment of this restriction and given a possibly sustained recession we would question its appropriateness.

27. The new measures around low cost home ownership both in terms of entering and staying in the sector are welcome in certain respects but they further complicate what is already a confusing landscape of products and programmes. Sadly government's efforts to simplify this market have failed and it is now becoming more complex by the month making it ever hard for borrowers to choose and others to advise.

28. The CLG mortgage rescue scheme is currently being developed. It offers home owners in difficulty a range of options including sales of equity stakes through to becoming tenants. These options are helpful and IMLA is fully supportive of them (one of our members has seconded a member of staff to assist its development). The scheme is understandably aimed at the most vulnerable but in our view that it is too restrictive in both scope and scale. Possessions in 2008 may reach 40,000. As this begins to suggest the scheme could find there will be many applicants who will not be eligible and that the scheme will be very bureaucratic given its narrow focus. In the last recession the government set up a mortgage rescue scheme aimed at helping some 20,000 households. In the event some 1,800 were assisted and most of these were via one scheme operated by the Bradford and Bingley Building Society.

29. IMLA has suggested a market based scheme would be far more effective using routes already in place with lenders through asset management companies and potentially providing an equivalent of the Business Expansion scheme type arrangements that were in place in the early 1990s. These provided incentives to acquire and hold property and allow former home owners to remain as tenants. This could be structured to avoid the abuse that is evident in the sale and leaseback market and reach far more owners in difficulty.

30. In the USA the government is providing support to help home owners in difficulty restructure their mortgages and to remain in their homes. In our view the priority should be to prevent home owners getting into difficulty rather than dealing with the consequences and here we would highlight the difficulties many "non prime" borrowers will be facing now and in the coming months.

31. The "non-prime" market in the UK is small in comparison with the USA (though different definitions are used) but it is still significant with perhaps 10–15% of borrowers in 2007 in this category. Prior to the Credit Crunch non-prime borrowers included Right to Buy applicants, divorcees, foreign nationals and those with weaker credit histories as well as the self employed. This market developed on the back of the application of sophisticated credit assessment techniques and has been central both to the sustained growth of home ownership and the continued health of the "prime" home ownership market. Around 80% of non-prime borrowers would have relatively "minor" credit problems (eg, a county court judgement for unpaid debts or limited arrears on a loan).

32. Any borrower getting into difficulty in the "prime" market has been able to remortgage into the non-prime sector—paying a premium but securing a mortgage and thus sustaining their home ownership (somewhere over 100,000 borrowers have migrated to non-prime from prime each year). The lenders into this market consisted both of major banks and building societies but also a number of specialist lenders typically funded via the wholesale markets and securitisation.

33. Over the last 12 months the number of lenders to this market segment has contracted sharply. There are now very few sub prime mortgages available in the market and almost none at the more extreme end of the debt problem spectrum (up to three to four county court judgements and none in last three months etc). Clearly part of the reason for this is lenders have reduced their appetite for risk as well as reflecting the fact that the appetite to buy such mortgages in any subsequent securitisation has fallen sharply.

34. However it is also important not to lose sight of the effects of the government's current rules around its recapitalisation scheme and the Bank of England's limitations on the special liquidity scheme both of which have been aimed at helping ensure the solvency and liquidity of the firms involved. As mentioned earlier the non-prime market has been developed in part by specialist lenders, non-banks, to use the correct terminology. These firms are fully regulated by the FSA and comply with the rules of the Mortgage Conduct of Business regime. These firms are funded via a varying mix of balance sheet support from a parent body, whole loans sales (ie, the firm originates mortgages, packages them up and sells them down to other lenders) and securitisation (where loans are originated, packaged up and sold to investors).

35. With the effective closure of the securitisation and whole loan sales markets over the last 12 months these specialist lenders have been forced to curtail lending. Some have gone out of business, others are simply doing no new business and managing their existing mortgage books. This has meant that existing borrowers of non-prime mortgages are finding it difficult to remortgage unless they have significantly improved their credit standing. Any borrower coming to the end of their current mortgage will move instead to the lender's reversion rate which may be significantly higher.

36. The current interventions in the banking system are directed at deposit taking institutions. This is understandable and most welcome given the need to protect savers and overall confidence. However, unlike in the USA, non-banks have been excluded from accessing the scheme and this impacts both upon the competitive landscape and their capacity to support and sustain a range of home buyers. The failure to address the plight of these borrowers and lenders is a great weakness and one which does pose significant additional problems going forward.

37. The intervention has distorted the market, denying non-banks access to sources of funding. This leaves them unable to refinance and reduce interest rates for their existing borrowers. It will inevitably lead to greater financial difficulties and ultimately repossessions. As a result, some of the most vulnerable borrowers coming off fixed rates are faced with high reversionary rates, and are unable to re-mortgage due to the reduced number of non-bank lenders.

38. IMLA's view is that urgent attention needs to be given to this market and that non-banks should be allowed to sell high grade assets into the special liquidity scheme (thus easing their capacity to lend/remortgage) and that where appropriate they should also become eligible for capital support.

39. Much is made of the need for a flexible mortgage market. The non-prime and non-bank sector has been part of that flexibility. The future mortgage market in the UK may look very unlike the one we see today given possible regulatory and structural responses to the downturn. However it is vital that government helps manage the transition between the market we had until recently and the one we will have in the future not least for the several hundred of thousands of borrowers in the non-prime market and who in some respects might be judged more vulnerable to the downturn. Moreover we must not lose sight of those who would have been "prime" but because of tightening credit conditions are now excluded from that market.

40. The mortgage market in 2008 has seen a much reduced volume of loans, a contraction in terms of the number of products, a tightening in terms of loan conditions and in some segments of the market a sharp increase in costs (eg, any LIBOR linked lending). At present our expectations for 2009 are that the market will continue to contract unless it is possible to increase the flows of mortgage finance. The outcome of the Crosby Review is important here and this should be published by the time this evidence is given. Our hope is that the report may set out ways of improving and restarting the securitisation market.

41. Given the difficulties it should be no surprise to see an increase in mortgage arrears and possessions though these remain low both in historic terms compared to the last recession and in relation to the total number of mortgages. There may be 40,000 repossessions in 2008 compared to 75,500 in 1991 and although up on 2007 (26,200) this will still represent significantly less than 0.5% of all mortgages. At present our expectation is that the number will increase in 2009 though much turns on the impact of the pre-action protocol and other measures the government has taken alongside any further cuts in interest rates and the actions of lenders who have increased their support to home owners in a variety of ways.

42. IMLA is of the view that increasing the flow of funds for the mortgage market is a pressing priority as well as improving ISMI through further changes to eligibility, the size of the mortgage covered and the standard rate. In the previous recession mortgage interest tax relief helped dampen the impact of high interest rates. With LIBOR still around 1.5% above base rate cost pressures continue albeit we now expect base rate to be cut significantly.

43. Sustainability is thus important alongside access to home ownership. Clearly entering home ownership will be more restricted in the future given a smaller mortgage market and tighter terms. Consideration has to be given to further developing intermediate schemes such as shared equity and to reforming the current arrangements which are complex and confusing. In our view government needs to give urgent attention to this matter.

Concluding Remarks

44. The credit crunch has had a severe impact upon the UK's housing and mortgage markets and the consequences are still working their way through the system. The severity of the impact is evidenced in the way it has undermined the business models used by house-builders, housing associations and lenders and on which policy has been built. Both market approaches and policy will need reconsidering in the light of this but it is still too early to say how fundamentally these must be redrawn and what the best options are going forward. The government will need to work closely with all these parties to ensure we build the most appropriate framework going forward. IMLA is ready to play its part in that and not least reflecting its special skills in relation to the intermediary and specialist mortgage markets and the non-banking sector.

October 2008

Memorandum by Three Rivers District Council (CRED 10)

The Committee will consider the likely effectiveness of the measures which the Department for Communities and Local Government is taking to deal with the credit crunch, with particular reference to:

- achievement of the Government's house building targets, both for market and for social housing;
- the financial viability and ongoing business of housing associations; and
- measures to help existing and prospective homeowners affected by the credit crunch.

Achieving the Government's House Building Targets

- The LA is still trying to maintain its housing targets, but it is finding it difficult.
- Land prices are plummeting.
- RSLs that can buy land will do cheaply, but will not submit plans to redevelop until the market picks up.
- Very few projects are approaching for planning for market sale of housing.
- Local authority are seeing RSLs provide more socially rented accommodation rather than shared ownership or market sale as they are aware that people are having problems obtaining a mortgage.
- Developers are approaching Local Authorities regarding housing they cannot sell on the open market and offering it to Local authorities or trying to gain their support in trying to get grants from the Housing Corporation. However, we are not able to accept an offer as the homes are not to the required standards of Code of Sustainable Homes.

Financial Viability of Housing Associations

- RSLs are struggling as they have to assess their financial commitments in each of their projects, in the current climate.
- This local authority has helped a RSL with legal costs to help a project go through the planning process.
- Developers are approaching RSL's to off load their excess properties in the chance they will be acquired. However, once RSLs talk to Local authorities it is hard to accept the offer of homes which are not considered suitable.
- There has been a lack of new projects coming from RSL due to the current climate.
- Finally, RSLs are looking at intermediate rented accommodation in order to generate people to eventually get onto the property ladder.

Measures to Help Existing and Prospective Homeowners Affected by the Credit Crunch

- Staff had seen an increase in people approaching the Homeless Unit stating that they have been declared "bankruptcy". These homeless families were eventually housed under the act, due to their unfortunate circumstances.
- Staffs have had training on debt counselling in preparation of being able to determine people financial circumstances as they will be required to assess a person "recklessness" as part of the Government measures in the "mortgage rescue schemes" which will come into effect from January 2009.
- Working closely with Lea Valley Homes which are bringing out new Low Cost Home Ownership schemes in the next few months. They are currently piloting Rent to Buy scheme and are attending a conference regarding the "mortgage rescue" scheme, and how they will play their part, in this process.

1. This local authority is still trying to maintain our social housing building targets, however we have found that market housing has reduced in numbers from previous years. We are able to attain our 30% of affordable housing on sites which were already discussed. However, we are unaware when building will start on these projects, as developers are waiting for the market to improve.

Some RSL's have stated difficulties in the credit crunch, whereas before the credit crunch RSL's had money to fund ambitious projects.

2. We have to cut prices on land values and in return RSLs are having to provide us with more social housing than first stated, due the lack of people obtaining a mortgage, and therefore they are unable to sell housing in the current market and shared ownership is showing the same problem. The Credit crunch has

allowed RSLs to provide more social rented housing and the possible use of intermediate rented schemes to allow people in the long run to acquire home ownership. There is this benefit for Local authorities to receive more social rented accommodation.

3. We have been selling land at the purchase price of £1 to allow affordable housing to be provided. On an elderly development site, we will give the land at a purchase price of £1 to develop the site, which will give us 45 elderly properties on this site for socially renting.

On a current scheme we agreed to a decrease the selling price on the land for a new development, to allow the RSL to proceed with planning submission, as soon as possible.

4. Some RSLs have stated that they can buy land now and then they will wait until the market picks up. They are able to get land cheaply at the moment as land prices are plummeting.

5. The financial viability of the RSLs is beginning to show. Most RSLs are performing an economic appraisal on projects coming through; some are having problems with funding, for example: they are not able to pay for legal costs are part of the section 106 agreement and therefore they have to go to Board Members to agree funds to proceed with projects. One project had taken a year to proceed due to several economic appraisals and once the planning application was in, they were unable to proceed with the planning application as they were unable to pay for the legal costs. We would have to wait until the project went before the Board Members in December 2008 for the RSL to consider further funds. It was agreed that TRDC would pay for the Legal costs to help the RSL out, on the understanding that they would pay us back once the project goes to the Board Members in December 2008, to acquire further funds as it was supported by this local authority.

6. At a meeting with RSLs they have all complained about the grant levels for the East of England Region being very low compared to London and this means that there projects are not viable and therefore they are not able to proceed. They are now trying to appeal to the Housing Corporation for more flexible when applying for funding on their projects.

7. Developers are trying to apply for grants from the Housing Corporation and asking the local authorities to support their application, but we are unable to, even though the accommodation would be for homeless families. They are not of the required Code of sustainable homes standards.

8. Measures to help existing and prospective homeowners affected by the credit crunch, involves staff are being trained on debt management, as there has been an increase in people applying for bankruptcy and approaching as homeless and seeking assistance. This has helped staff understand how people can fall into debt and then they can make the necessary enquiries. This is hoping to help them assess applicants regarding mortgage rescue measures which will come into effect from the Government in January 2009. It will be the Local Authority who will assess peoples priority need and financial situation to see if the where "reckless". If applicants showed signs of recklessness then it is unlikely that they will be assisted by CAB and through the mortgage rescue scheme.

9. This local authority is working with Lea Valley Homes to provide products such as Rent to Home Buy. Lea Valley Homes are currently piloting a scheme announced by the CLG in July 2008 aimed at helping prospective first time buyer who are unable to access the housing market. They are currently trying this new scheme is Hoddesdon which is currently New Build HomeBuy and will be converted to rent to HomeBuy. Applicant will rent a property for a maximum of three years and half the rent will be ring-fenced towards their purchase of that property. They may then buy the property using 50% of their rent paid as the deposit, however if they do not wish to buy they can continue to rent and they will lose the 50% of the rent paid to use as a deposit.

10. There has also been an increase of people applying to the Housing Register as compared to last year and this is due to the fact that people are facing difficulties and therefore applying for social housing. We have seen an increase of repossessions, mortgage arrears and rent arrears from private tenants, and bankruptcy.

Housing Register applications received in the six months from 1 April 2007 to 30 September 2007 compared to the number received from 1 April 2008 to 30 September 2008.

	2007	*2008*
April	65	85
May	55	85
June	69	55
July	58	78
August	71	78
September	53	57
Total	**371**	**438**

10. RSLs are getting more interested in "intermediate affordable housing", which is "housing at process and rents above those of social rent, but below market price or rents and which meet the criteria set out above. These can include shared equity products (eg Home Buy), other low cost homes for sale and

intermediate rent". RSLs are looking at allowing people to remain in intermediate rented accommodation for a period of three years, and then look forward to moving them into low cost home ownership or shared equity product.

October 2008

Memorandum by West Midlands Local Government Association and West Midlands Regional Assembly (CRED 11)

This submission focuses on the first of these points of inquiry.

1. A Short Summary

1.1 In brief the submission comprises:

- The Regional Planning context.
- House prices changes in the West Midlands Region 2000–07.
- The effect of the credit crunch on the West Midlands Housing Market since the second half of 2007.
- The Credit Crunch and the longer term Implications for Strategy and Financial Planning.
- West Midlands conclusions for the short run.

2. Regional Planning Context

2.1 The West Midlands Regional Assembly has submitted its Regional Spatial Strategy Phase 2 Revision in December 2007. This is with the Government Office of the West Midlands for consultation until 8 December 2008. The Preferred Option accepts a growth target for new housing to 2026 of 365,600 new homes. The target is subject to review especially to establish whether further growth is possible or necessary in the latter 10 years to 2026.

3. West Midlands Housing Market and Recent Changes[1]

3.1 The achievement of the Government's housebuilding targets, both for market and for social housing are likely to be affected by the current market conditions. During the second half of 2007, the housing market in the UK started to experience a downturn, the impacts of which are now being keenly felt. Crucially, the downturn has led to a reduction in activity and investment, not only in the housing market, but also in the wider economy.

3.2 It is necessary to view the recent decline in the wider context of house price rises over the last 15 years. Data from the Regulated Mortgage Survey shows that average house prices in the West Midlands have increased every year since 1992.[2]

3.3

Table 1

CHANGE IN HOUSE PRICES AND HOUSE SALES IN THE WEST MIDLANDS AND ENGLAND, 2000–07

	2000		*2007*		*Difference 2000 to 2007*			
Area	*Mean house price*	*Total Sales*	*Mean house price*	*Total Sales*	*Mean house price*	*% change*	*Total Sales*	*% change*
West Midlands	£84,294	101,778	£175,314	110,341	£91,020	108.0	8,563	8.4
England	£110,589	1,084,979	£222,621	1,185,044	£112,031	101.3	100,065	9.2

Source: Land Registry, 2008. House prices.

3.4 Table 1 shows that between 2000 and 2007, the average property price in the West Midlands increased 108.0%, compared to a 101.3% increase for England as a whole. The number of sales also increased, by 8.4% for the West Midlands and 9.2% for England.

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1 Based upon West Midlands Regional Assembly. Annual Monitoring Report 2007 Regional Housing Market Summary pg 7ff.

2 Royal Bank of Scotland, 2008. Update on Trading and Capital. http://www.rbs.com/content/media_centre/trading_update.pdf

3.5 In the West Midlands, the highest mean house prices are found in Stratford-on-Avon (£275,218) and Malvern Hills (£266,987). The mean house price in the latter has increased by £139,026 over the period, the largest increase in the region.

3.6 In contrast, mean house prices are lowest in Stoke-on-Trent (£103,601) and Sandwell (£132,580). Both of these districts have seen high rates of house price growth (142.3% and 136.4% respectively), however, the low base means that this equates to difference of £61,000 in the case of Stoke-on-Trent, and £76,485 for Sandwell.

4. Start of the Housing Crisis—"Sub-prime" and the "Credit Crunch"

4.1 The current housing downturn was initiated by events in the United States (US), with the collapse of the sub-prime sector.

4.2 The lack of confidence in the banking industry has translated into a lack of confidence in the housing market.

4.3 With a narrower range of mortgage products available, fewer first-time buyers have been able to secure credit for house purchases. As a result, demand for houses has decreased. Potential homeowners have been put off making a house purchase, while those looking to move home have opted to delay their decisions.

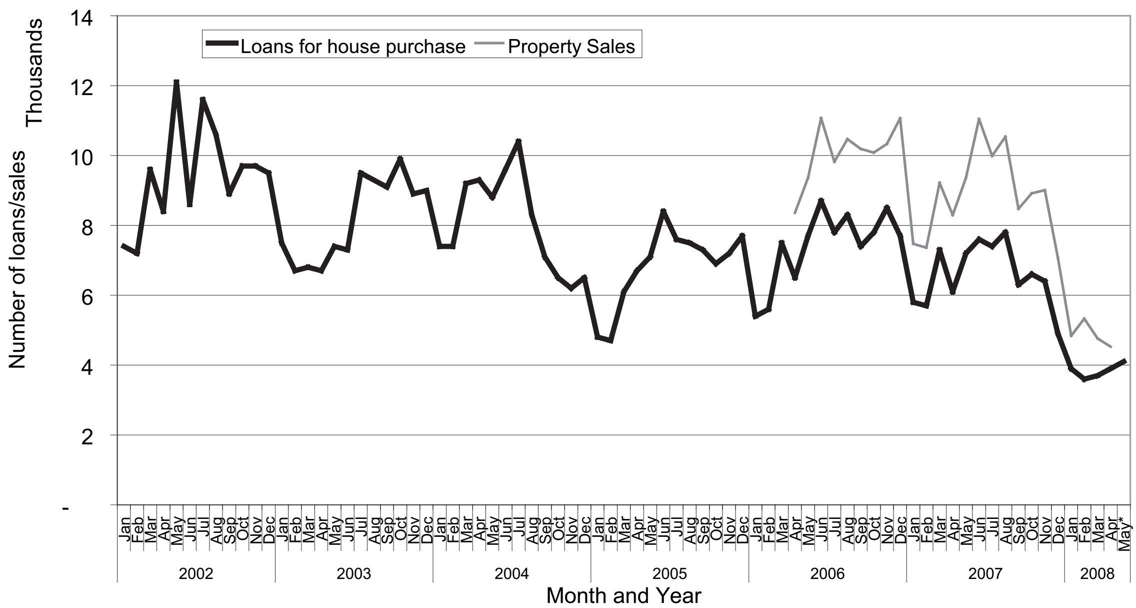
4.4 Several datasets provide an indication of this decline in activity. Data from the Council of Mortgage Lenders (CML) shows that the number of loans for house purchase declined markedly between October 2007 and February 2008, with signs of a slight recovery in April and May 2008. Although part of this is a seasonal effect, Figure 1, below shows that, at the start of 2008, the number of loans in the West Midlands is far below the equivalent values for the same months in previous years. Overall, the number of loans approved in the first five months of 2008 is just over 40% fewer than at the start of 2007.

4.5 As a result of the lack of availability of mortgages and the uncertainty experienced by first-time buyers, demand for property has decreased causing the number of house sales to drop. Figure 1 demonstrates that, when compared with the same month in 2007, there were 3,768 fewer sales in April 2008.[3] It is worth noting that although the pattern of property sales closely matches the number of approved loans, the number of sales is higher as approximately one-fifth of sales are paid for using cash.

4.6

Figure 1

NUMBER OF LOANS FOR HOUSE PURCHASE, JAN 2002 TO MAY 2007, AND NUMBER OF PROPERTY SALES, APRIL 2006 TO APRIL 2008 (WEST MIDLANDS)



* House sales data is based on sales entered on the Land Registry database by 20 June 2008. However, due to delays in the registration of property sales information on the number of sales in May 2008 was incomplete, as such it has not been included.

Source: Council of Mortgage Lenders, 2008. and Land Registry, 2008.

[3] Note that May 2008 data is not used for the comparison because, due to delays in the registration of house sales.

4.7 Data from the CML provides other indicators of falling activity in the housing market.

From 2006 to 2007:

- the value of loans for house purchase in the West Midlands fell from £10,866 million to £10,094 million;[4]
- the number of loans to first-time buyers fell by 11.0% to 29,200;[5]
- average first-time buyer borrowing increased from 3.22 to 3.31 times income. This compares with 2.36 times income in 2000;[6] and
- the proportion of income spent on interest payments increased for first-time buyers, from 16.9% to 19.4%. This is highest proportion since 1991, and compares with lows of 10.5% in 1996 and 11.8% in 2002.[7]

4.8 As a result of stricter lending criteria, 100% mortgages and 100%+ mortgages have disappeared. Indeed, many lenders have now reduced the loan-to-value (LTV) ratios they are willing to consider for potential customers. In the West Midlands, first-time buyers had, on average, borrowed 90% of the value of their property in each month between May 2005 and November 2007. Since that time the median LTV ratio has fallen to 87% in May 2008[8] reflecting the fact that lenders are less willing to take-on first-time buyers unable to provide large deposits.

4.9 The fall in demand for property, brought about by the lack of affordable credit and the uncertainty felt by potential homebuyers, has resulted in house price falls in some areas and for some property types. According to the Nationwide Building Society, the average house price started to fall in October 2007, and by June 2008 was 6.3% lower than in June 2007, although there has been some suggestion that the rate of decline is starting to slow.[9]

4.10 Data from the Land Registry shows a similar, slightly delayed[10] pattern, with the average actual price paid for property peaking in October 2007 and subsequently falling (Figure 2). Prices have now fallen to the point where they are lower than for the same period in 2007. In April 2008, the mean house price in the West Midlands was approximately £2,300 below the price in April 2007, while in May 2008 it was slightly over £3,750 below value for the equivalent month in 2007.

5. The Credit Crunch and the Longer Term Implications for Strategy and Financial Planning

5.1 The period covered by the RSS Phase 2 time horizon is to 2026. It is reasonably safe to say that the major part of this period, and especially the early years will be overshadowed at least, probably dominated, by the effects of the banking and mortgage crisis which has now broken upon the markets. For this reason it is inappropriate to attempt to estimate the rate of achievement in new house building or the strategic priorities against which it should be put by merely looking back at past trends, and investment strategies born in very different market conditions. Even strategies drawn up in the period of growth may no longer be relevant or in touch with reality as it now appears.

5.2 However some points will remain more reliable. Examples of these are the demographic requirements for housing, though even here difficulties in housing supply will have some impact upon new household formation. Thus the overall housing requirement projections can still be taken as broadly valid. The migration issues will be subject to both policy and economic climate, so that variable and its relationship to Regional strategy will need some reconsideration.

5.3 Equally key goals of the West Midlands RSS remain as rational and significant in an economic downturn as in a period of growth. However the way the RSS policies can be met may need reworking to cope with the wider economic climate and the specific problems of the housebuilding sector and funding home ownership.

5.4 Many other variables will however be impacted. Thus the rate at which liquidity and confidence return to the financial markets will be slow and subject to national and international policy aimed at detoxification of banking liabilities. The process of creating new clean systems for mortgage funding will take time to build up. These are sometimes referred to as "Quaker Banking" with known savers, operating in spatially close housing market areas where risk and liability are closely managed within the savings and liquidity built up after isolating toxic debt accounts.

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[4] Council of Mortgage Lenders, 2008. Gross mortgage lending by type of advance. [online] last accessed 7 July 2008 at URL: http://www.cml.org.uk/cml/filegrab/1ML1.xls?ref=4623

[5] Council of Mortgage Lenders, 2008. First-time buyers; lending and affordability. [online] last accessed 7 July 2008 at URL: http://www.cml.org.uk/cml/filegrab/2ML2.xls?ref=4624

[6] Council of Mortgage Lenders, 2008. First-time buyers; lending and affordability. [online] last accessed 7 July 2008 at URL: http://www.cml.org.uk/cml/filegrab/2ML2.xls?ref=4624

[7] Council of Mortgage Lenders, 2008. First-time buyers; lending and affordability. [online] last accessed 7 July 2008 at URL: http://www.cml.org.uk/cml/filegrab/2ML2.xls?ref=4624

[8] Council of Mortgage Lenders, 2008. First-time buyers; lending and affordability. [online] last accessed 7 July 2008 at URL: http://www.cml.org.uk/cml/filegrab/2ML2.xls?ref=4624

[9] Nationwide Building Society, 2008. http://www.nationwide.co.uk/hpi/historical/June_2008.pdf

[10] There is a lag between the information provided by the Nationwide, which is based on an earlier stage of the house purchase, and the Land Registry data, which is based on actual prices paid.

5.5 The time taken for the confidence to return is likely to be a key feature in the period up to 2016 the mid way point in the RSS plan period, as will be the size and operational characteristics of the post—recovery mortgage market.

5.6 Associated with this process will be the effect on the housing building and construction sector. That capacity is being lost is evident. The full extent of the contraction is not yet apparent. Over a period of a few years the contraction will then leave the industry with a smaller skill base and a limited capacity to retrain, re-equip and mobilise for a higher rate of development. It will therefore take time to build up to completion rates which were taken as the norm in 2007 and were then under pressure to rise. The use of foreign contractors and foreign labour may help to mitigate this loss of capacity, however the recent trends underpinned by a fall in sterling and greater demand in Eastern Europe has eroded the supply of labour from this source, a trend that is likely to continue for the foreseeable future.

5.7 The role played by affordable housing will change. The levels of shared ownership/ shared equity in new schemes seem unlikely to continue as before. Social rent can be expected to become dominant. If the pent up demographic requirement is not met by post recovery housing supply then there will be an upward price pressure, moderated by the size and new approach of the mortgage industry. The importance of funding social rented housing during this period will be very significant in ameliorating potentially serious pressures in communities and the economy. It must be noted here that the dominance of social rent within the National Affordable Housing Programme could potentially significantly change the outputs from the programme, as social rent is more expensive to deliver per unit than shared ownership / shared equity products.

5.8 The growth in the buy-to-let market has meant significant recent growth in the number of units in the private rented sector, easing pressure on the public rented sector. The availability of credit has encouraged a raft of amateur investors to enter the market. As the cost of finance increases on re-mortgaging and the possibility of capital growth disappears, there will be contraction in this sector as investors withdraw, unlikely to return given the more stringent credit controls.

5.9 There is also the possibility of a backlash against certain types of housing ie apartments (particularly in city centres), given the nature of this stock and their bespoke design in certain instances to maximise investment return rather than occupiers needs/demands will mean there will be a strong resistance from developers/banks alike to this type of development over this timeframe. Apartments have formed a record high proportion of new stock, this has buoyed the number of new build completions and is another reason why housing numbers will fall as a result of the credit crunch, as this type of scheme, often consented will fail to be delivered.

5.10 The wider economy is also a backdrop where the key features are changing from those against which the Government's Housing Green Paper 2007 targets for house building were developed. These will need a more comprehensive re-assessment through the RSS and Single Integrated Regional Strategy process than can be projected here. However the severe drop in house sales will gradually and cumulatively freeze labour mobility degrading industrial performance across many sectors. In the West Midlands Region the effect of this on the operation of the Regional Economic Strategy is important.

5.11 The use of public capital funding will need to consider where best and most effectively to intervene to address the most serious effects of the West Midlands regional economic conditions and to help reinforce and bolster the recovery in a variety of sectors as their ultimate post recovery position becomes clear. Given these major trends and the still uncertain outcomes or timescales the long term strategic planning process for Spatial Strategy and for the strategic regional deployment of public funding over the next 10 years has to reflect a sensitivity to these current and future circumstances.

6. West Midlands Short Run Conclusions

6.1 It is clear that in light of the rapidly changing market conditions, the West Midlands Region needs to respond to the most pressing aspects:

- ensure affordable housing is continued to be delivered and at the necessary rates and in the areas required;
- enable householders to maintain ownership (ie mortgage rescue packages) throughout the difficult economic climate;
- give support to RSLs, to ensure they maintain capacity to deliver; and
- give support to the homebuilding industry, to ensure value skills are retained for when the economic climate improves.

November 2008

Memorandum by the Northern Housing Consortium (CRED 13)

1. We welcome this timely inquiry by the Communities and Local Government Committee exploring the impact of the credit crunch on housing markets across the country and are pleased to submit a response. We look forward to working with Government and other partner agencies to identify new ways of working to ensure that the housing market is able to survive the economic downturn; our members are working on many innovative solutions and we feel confident that within the right policy framework progress can be made.

2. The main elements of our response are listed below and more detail is provided on these in the body of our submission:

— The measures announced by Government are welcome and provide a useful foundation on which to build.

— The economic picture is still evolving and we need to be flexible in our policy response to ensure that our approaches are "fit for purpose".

— A one size fits all approach is neither useful nor likely to be successful—regional markets do differ and we need flexibility within our intervention approaches to ensure that we are responding effectively.

— There is a need to review the phasing of our approach to the overall government targets to ensure our delivery activity is adding value at this moment in the cycle.

— We welcome the commitment ongoing support for regeneration.

— With the move to the Homes and Communities Agency we urge for a review of current targets and investment plans over the next two years to test their "deliverabilty".

— We need to take a long term and responsible view on the promotion of tenure options.

— We need to consider housing markets in a more holistic sense and not simply focus on new build targets.

3. The Consortium were pleased that the Government has recognised the need to act to ensure a range of policy tools and interventions were in place to both support vulnerable households and to maintain momentum within the wider housing market. However, the proposals and initiatives launched by the government are only part of the answer and should be seen as a temporary intervention that will help those at the bottom of the housing market in the short term. We still face the challenge of improving liquidity and credit access and rebuilding consumer confidence over the long term.

4. Taking the specific announcements in turn, our commentary is as follows:

Raising of the Stamp Duty Threshold

5. We welcomed this announcement as it moved the threshold from £125,000 to £175,000. Average house prices across the three Northern regions range between £147,000 and £166,000, therefore, on the surface, the raising of the threshold should help make house purchasing more affordable. It should be noted, however, that this averaging of house prices does mask much higher prices within the regions. Furthermore, the threshold level does not take into account income levels and a key barrier to home ownership—accessing mortgages.

£300 million shared equity scheme

6. The government clearly sees the merit in attempting to boost access to home ownership to those first time buyers who have not been able to get onto the housing ladder and to support the construction industry by maintaining a supply of potential buyers. However, the second quarter of 2008 saw over 56,000 first time buyer mortgages offered—and whilst this is a declining trend (down from nearly 100,000 for the previous year), the £300 million shared equity package will only help 10,000 new first time buyers over the next two years—so comparatively small scale. Furthermore, there is a wider principle around the merit of promoting home ownership to potentially marginal owners given the current economic climate. If we accept the rationale that home ownership is the tenure of choice—and it should be informed choice—then a more attractive route is the development of rent to buy schemes. However, there are a variety of approaches being taken by providers in offering rent to buy schemes and some offer more attractive terms for the renter/purchaser. A good practice "Understanding Rent to Buy" leaflet for potential customers would be of benefit and allow customers to ensure they are armed with the right questions to solicit the information they require to make informed choices.

£200 Million Mortgage Rescue

7. The Government's intervention to put in place support structures that can be accessed by vulnerable households is to be applauded. We know that the repossession action can have an immensely damaging impact on family life but also can negatively impact on wider housing market transactions. The NHC has been working with our Members to understand the scale of the problems facing them and is working with several projects to pilot mortgage rescue schemes. Whilst the finances announced are welcomed, they cannot be the only solution—the figures alone suggest that as the Council of Mortgage Lenders are projecting 45,000 repossessions during 2008, 12,000 mortgage possession actions were issued in the three Northern regions in the second quarter of 2008 alone (clearly not all of these will result in repossession but it does provide an indication of the scale of the challenge we face), and the mortgage rescue proposals will directly support only 6,000 households. We will need to work creatively with our Members to put in place wider support proposals.

A more general point around repossession is the increasing trend we see of private sector tenants losing their home despite being up to date with rent payments (and not in any breach of their tenancy) due to the landlord defaulting on mortgages. We are working with our members to understand the (potential) scale of this incidence.

£200 Million to Purchase Unsold Stock from Housebuilders for Affordable Homes

8. We welcome the principle of this proposal as it will ensure that, at a time of great stress within the social housing system—and with the delivery of affordable housing impacted upon by the general downturn amongst private developers—new social housing supply is being maintained.

However, we do feel that there is potential to revisit the mechanisms of this approach and facilitate a more market responsive instrument.
A regionalised operating framework rather than the national clearing house approach would allow strategic decisions to be taken regarding the place, price and standards formula—and that HCA at a regional level should have flexibility to set these standards. Clearly the allocation of funding at a regional level needs to be addressed.

Regeneration Schemes

9. We welcome the welcome the Government's intention to work with RDA's to support critical regeneration schemes. The embedded market renewal and regeneration activity taking place across the North is crucial to rebalancing our housing markets and economic aspirations and the current credit crunch can jeopardise the success and impact of these schemes. We look forward to working with government, the RDAs and the HCA to explore the range of possible interventions.

Bringing Forward Affordable Housing Funds

10. The government's intention in supporting the housing market and ensuring that social housing delivery does not dry up is admirable. However it is still a difficult climate in which providers are seeking to operate. Whilst we have seen developers keen to offload unsaleable properties, we have not seen a similar level of land coming to the market place.

The Consortium has been commissioned by the Housing Corporation to undertake a research project exploring means of facilitating land assembly across the North to deliver affordable homes. Residential land valuations across the North have risen by over 400% in the past decade meaning public sector delivery bodies frequently find themselves out manoeuvred in open market competition. Whilst some of this valuation spike is fuelled by "hope" value, there is a long way to fall for residential land values to become more affordable for the public sector. We need to open up new methods of accessing private sector land, make public sector land subject to more strategic valuation assessment and disposal strategies and find ways by which risk can be shared amongst the delivery sector. Our research recommendations address these issues including the use of land options, reform of the Surplus Public Sector Land Registry, early use of equity investment stakes by the Homes and Communities Agency to purchase land.

Whilst the stretching delivery targets remain in place, we do feel it is important that we consider the phasing of these targets and have a short and medium term investment and delivery plan—at a regional level. Whilst on paper there may not been much headroom for manoeuvre by HCA in the first two years of operation given the volume of committed programme, we urge this to be subject to timely review to allow new initiatives to be considered and funded.

SUMMARY

11. The government is to be applauded for taking action to support the housing market but we do feel that there is potential to make this support more flexible and fit for purpose at a regional level—otherwise we run the risk of prioritising absolutely delivery over strategic place-shaping—a decision that may present significant risk in the longer term. The political focus on home ownership as the primary tenure of choice needs to be reviewed as clearly we face marginal homeowners experiencing the devastating consequences of repossession (and the wider social impact). It will be interesting in the coming months and years to assess if there is a shift in this focus—and whether this is led by Government policy, financial institutions reverting to more sustainable mortgage lending levels, or whether consumer confidence in the home ownership promise has been shattered.

Government policy, even in this period of economic pressure should address all aspects of the housing market—including regeneration, and existing stock and not just focus on new delivery.

November 2008

Memorandum by The North West Housing Forum and 4NW (CRED 15)

1. Whilst welcoming the measures announced between July and September 2008 to meet the challenges in the housing market, there are concerns about the level of impact that these will have in addressing these current market conditions. This is for a number of reasons including the sheer scale of the problem, something that could not have realistically been foreseen in the early days of the credit crunch. Furthermore they do not address some of the fundamental issues in terms of access to lending; whether home ownership should remain the key priority; and whether the already challenging targets for delivery are realistically achievable in the current climate.

2. We do however welcome this inquiry, and the chance to respond. We also look forward to future opportunities for working together to not only make these initiatives work, but to identify new ways of working which will help the sector respond to these difficult market conditions.

3. The following bullet points summarise the main aspects of our response. Further comments on the individual measures are outlined in the subsequent paragraphs.

- The measures are welcomed, and we would urge Government to build on these with a long term commitment to housing.
- Whilst outlining concerns around the likely impact of the individual measures we do recognise that these need to be considered as an overall package.
- There is still room for innovation, and adding to this package, and we welcome opportunities to present Government with proposals for new ways of working.
- We do believe that the measures need to be more regionally focused/administered.
- To meet our ambitions will require a short, medium and long term approach.
- The challenging targets for new build must be revisited in the current climate.
- We cannot undermine our strategic and spatial priorities in the push to deliver numbers.
- Can we really continue to push owner occupations as the tenure of choice?
- The housing market is about more than new build, and the existing stock is a key part of this, particularly in the North West region.
- A continued commitment to regeneration is welcomed.

4. Increase in the level at which stamp duty will apply from £125,000 to £175,000: This had been long called for by the banking and building industry, and was initially welcomed. However this is unlikely to have a significant impact as: access to mortgages has become a major issue; and there appears to be a reduced appetite to taking on a mortgage in the current climate. Certainly there does not appear to be any early indications that this has impacted on the slow down in the housing market. Furthermore we need to be mindful that in many regeneration areas in the North West, despite house price increases over recent years, properties remain significantly below the national or indeed regional average, and therefore this will have little or no impact in these areas.

5. £300 million shared equity scheme: It is too early to assess the take up and therefore impact that this is going to have. An initial concern however is that this could perhaps confuse the shared equity/homebuy/part ownership etc market further. With the plethora of schemes now available, it is becoming increasingly difficult for first time buyers to understand the options that are available to them, and which product is actually the best for their needs. This also compounds the view that we need to get more people into home ownership, potentially increasing the number of marginal home owners, whilst resources could be more effectively directed to ensure that we have the right supply of good quality rented homes in both the social and private sector. It is also not clear whether the money for this initiative, which we understand is to come from existing Regional Development Agencies' budgets, will need to be repaid back to the Agencies at some point after the first five years.

6. £200 million mortgage rescue scheme: Whilst well intended, this will only address the problems of a maximum 6,000 households across the Country, and we do have concerns in that it this will not work for many of those in the greatest need ie recent buyers finding themselves in negative equity and finding difficulty in securing a new mortgage deal. Furthermore the expectation is that the scheme will be administered through all Local Housing Authorities, and we have real concerns around the capacity to deliver this. This could possibly be addressed through a regional approach/vehicle, but this will require further explorations. There are a number of other issues which we have not had the time to investigate fully but will require further considerations including: What is the appetite for this from Housing Associations? Should this not have a more strategic approach than simply being linked to homeless prevention? Are there potentially moral issues arising around causes of arrears?

7. £100 million investment for Support Mortgage Interest: We welcome the temporary reduction in the waiting time from 39 to 13 weeks for all new working age claimants, and the increase in the capital limits from £100,000 to £175,000. Unfortunately however this does not come into force until April 2009, and this seven month delay from the initial announcement could potentially put many more households into financial difficulties.

8.£400 million boost in spending for social housing providers [to enable them to provide more affordable housing schemes by bringing forward funding]: This underlines the Governments commitment to the provision of new affordable housing, however the success or otherwise of this will be dependent on Housing Associations willingness and ability to continue delivering new affordable housing programmes at a very challenging time. All the indications are that there will be a significant slow down, and that the targets set previously will be difficult to meet. Indeed we would urge Government to revisit these targets which were set during a very different economic period. It is crucial that we remain committed to our strategic and spatial approach to new build, and there are real dangers that the rush to meet targets results in the development of non strategic sites which could put other housing markets at risk.

9. We also need to understand what is meant by the "limited flexibility" given to the Housing Corporation with regard to efficiency targets. The North West region has responded well to past efficiency targets, however there now needs to be a recognition that the current system of funding is fundamentally broken, and rather than flexibilities in this system we need to be looking to new ways of working. Indeed the new Homes and Communities Agency offers us real opportunities to do this. Cross subsidy (between properties for sale and social rented) is no longer a real option, and there is a real danger that if we do not revisit the basic principles of how the subsidy system works, many Housing Associations will be unable to keep developing. Discussions are already ongoing in the region to identify new ways of working, ensuring that Housing Associations, and indeed ALMOs, are well placed to continue to work with Local Authorities to meet the strategic housing need in the region.

10. There is also the likelihood that by bringing forward monies from later years we will see reduced budgets for affordable housing in 2010–11. The concern here is that this could be seen as a knee jerk reaction to assist in meeting the targets set out in the Housing Green Paper, which will leave us with a reduced allocation at a later stage when perhaps the economic climate will be more conducive to an increase in house building targets.

Support for the most critical regeneration areas

11. We welcome this acknowledgment that regeneration schemes are an important part of the overall aim to ensure a fair housing market for all, and this will be of particular importance to this region. As a region we will be working closely with the Homes and Communities Agency and the Regional Development Agency to identify these critical areas in the North West Region. To enable us to do this both realistically and effectively however we need to understand the finer detail. To date there appears to have been no more than an initial statement around "working with the Regional Development Agencies to support the most critical regeneration schemes with the most potential to transform their communities".

12. A great deal of time and investment has already been put into regeneration in the region, particularly in housing market renewal areas. These areas have seen investment through acquisition and clearance which in turn has enabled both new house building and crucial improvements in private sector stock. It is crucial at this time that this investment is not undermined, indeed we need to build on this to ensure the long term regeneration and sustainability of these areas.

£200 million to purchase unsold stock from housebuilders for affordable homes

13. This measure is certainly very welcomed, and at a time when house prices are falling, and developers are eager to broker deals where a considerable number of properties can be bought up at a significantly reduced price, this offers some very real opportunities to increase the supply particularly of social rented homes. The main concern that we have is around the "clearing house" approach, and specifically that this is managed on a national basis. A press release from Communities and Local Government on 16 July 2008 confirmed that more funding could be made available "should the properties be in the right place, at the right price and offering good standards". It is the place element of this statement where we have concerns.

There is a danger that the price will dictate rather than place, and if large amounts of public monies are to be spent in this way then it is crucial that the properties meet both local and regional priorities and need. We do not believe that this can be achieved through a national approach, and hope that with the regional focus of the Homes & Communities Agency a more strategic approach can be adopted, which will ensure that this initiative does indeed provide us with properties of a sufficiently high quality in the right places.

New proposals to tackle rural housing shortages

14. We welcome these announcements in recognition of the specific problems facing rural areas. The North West is a very diverse region, of which our rural communities are a key component. The proposals have not as yet been considered in terms of regional impact, however our Regional Affordable Housing Group will be looking at this in more detail over the coming weeks and months.

Access to Lending

15. Mortgage products now on offer have greatly reduced over recent months, with the need now for larger deposits to access the best deals available. Responses to help alleviate the increasing cost of borrowing have included reductions in the Bank of England base rate, however many lenders are failing to pass these cuts on to customers. More needs to be done to ensure that these measures do indeed benefit borrowers, and we would question whether the Governments should be doing more to force this issue, particularly as they now have public money staked in the industry. Indeed the Government should consider how they can use this part nationalisation of banks to support the access to funding for both buyers and developers.

Data/evidence

16. Whilst it is still early days in terms of gathering data, there is strong evidence emerging as to the impact the credit crunch is having on housing both in this region and across the rest of the Country. Members in the North West are reporting a significant slow down in new developments, with instances where there has been a total shut down on some sites. House sales have almost ground to a halt in many areas, although there are still some areas reporting activity at the top end of the market. The value of properties continues to fall, and whilst this has made more properties affordable, it has left many with real problems of negative equity. Additional evidence also emerging is around the mounting pressures on both local authorities and housing providers as they deal with increasing number of homeless applications, and a rise in mortgage and rent arrears.

17. This mixture of statistical and anecdotal evidence supports the need for continued investment in the housing market to ensure that we meet our local, regional and national aspirations. As a region we continue to gather evidence on what is a constantly changing situation and will use this to support our approach to the housing markets in the region. We are happy to provide the Committee with any supplementary evidence that we are collecting to support the inquiry.

General approach

18. We welcome the recognition by Government of the serious impact that the economic climate is having on the housing market. In the North West we are developing a Housing Strategy for the region based around a growing economy, therefore we also recognise the severity of the situation if we are to meet our long term priorities and aspiration. To support this we believe that our strategies and actions must respond to the economic climate in the short, medium and long term. Whilst it is crucial that we do not lose sight of our long term ambitions, either nationally or regionally, this must be realistically managed initially over the next 12 months, and then the following period until we come out of this economic down turn. This must include looking at the role the existing stock has to play as part of the overall package of measures. We should also take this opportunity to consider how we have got to the current position, and what measures need to be put in place in the long term to prevent this happening again.

19. Whilst we have voiced some concerns around the impact of individual measures, we do accept that these need to be considered as part of a wider package, and as a region we remain committed to developing new ways of delivery that will add to this package of measures. We welcome any opportunities for sharing our approach with Government as these develop.

Conclusion

20. We would once again reiterate that we welcome the Governments commitment to providing the resources and tools to address the current housing market conditions. It is crucial that that Government stands strongly by this commitment, housing need has not disappeared because of the credit crunch, and

indeed in many cases this has been exacerbated. We do believe that there is stronger role for the regions to play which would ensure that we do not just continue to build new homes and provide new social housing, but also that they are in the right place to meet the strategic aims at both a local and regional level.

October 2008

Memorandum by the Retirement Housing Group (CRED 17)

Summary

— The housing market is a continuum and first-time buyers are an essential element, enabling other sellers to move up, while the availability of options for elderly owner-occupiers to move to specialist accommodation, if they wish, is crucial to releasing under-occupied family sized housing.

— There is a market for homes for elderly people who do not move home because choices are not available to them but most of them cannot move because of the freezing of the mortgage market as a result of the "credit crunch", which prevents mainstream buyers from purchasing their existing homes.

— Retirement housing developers are not immune from the problems of the mainstream housing market: a number of them are experiencing significant financial problems and some have withdrawn from this sector of the industry.

— The Crosby Review of Housing Finance is crucial to our sector of the housing market. The Council of Mortgage Lenders has proposed a system of support for them to raise new bonds or mortgage instruments. We support this proposal, without which the potential that Baroness Andrews has identified cannot be fulfilled.

— The measures taken by the Government and the Bank so far to restore liquidity in the housing market, alhough welcome, have focused on assisting first time buyers and do nothing to relieve the blockage in housing chains beyond the bottom end of the market. Older owner occupiers are being denied the opportunity to move into accommodation that better meets their needs.

Background

1. The Retirement Housing Group of the Home Builders Federation consists of retirement housing developers and housing managers, both RSL and private sector. Its ex officio members include representatives of the charity, the Elderly Accommodation Counsel, and the Association of Retirement Housing Managers. The Advice and Mediation Service (AIMS) of Age Concern is also represented. Its members are therefore involved in the building, management and provision of advice on housing for sale and for rent for people of retirement age and over. Such housing ranges from lifestyle properties for the active, newly retired through to warden assisted housing with community facilities and design modifications through to very sheltered housing with high staffing levels and many additional services and facilities.

RHG's Response

2. We would particularly wish to address the first question and third questions raised by the Committee, viz the achievement of the Government's housing targets for both market and social housing and measures to help existing and prospective homeowners affected by the credit crunch.

3. The housing market is indivisible and is a continuum. First-time buyers are an essential part of the housing ladder, enabling other sellers to move up, while the availability of options for elderly owner-occupiers to move to specialist accommodation, if they wish, is crucial to releasing under-occupied family sized housing into the market for families and younger people.

4. Currently all the elements in the housing market chain are frozen by the effects of the credit crunch on mortgage supply. The Council of Mortgage Lenders has said that new mortgage lending will fall from £108 billion in 2007 to £40 billion this year and, more importantly, they anticipate zero net new lending in 2009.

5. It is therefore worrying to see the comment of Baroness Andrews in the Housing and Regeneration Bill in the House of Lords on 7 July when she said:

> "I know that the housing market is in difficult times. Frankly, though, one of the arguments I would put to the housebuilders is that there is a market for homes for elderly people, who have proportionally far more wealth than they have had before, with the equity in their existing homes, but who do not move home because choices are not available to them. I say to those housebuilders: think about that market, and about the social homes you could build that would appeal to people who at the moment are stuck in larger, inappropriate houses. I do not buy the argument that this is not an economic benefit to house-builders themselves".

6. The reality is that, although most elderly owner occupiers will be downsizing and will not need a mortgage, the prospective purchasers of their existing home (or others further down the chain) will certainly do so. Without a sale, an older person cannot move to a more appropriate home. Moreover as house prices fall the elderly vendor will not have sufficient capital from the sale to invest in future payments for the service charges in housing with care.

7. Contrary to popular belief, retirement housing developers are not immune from the difficulties that mainstream housebuilders are facing as a result of the credit crunch and a likely recession. A number of them are experiencing significant financial problems and some have withdrawn from this sector of the industry.

8. There is a wide range of providers of housing with care, both for sale and for rent, which should be encouraged to expand to offer the range of choices the Department has repeatedly said it is seeking, most clearly in its National Strategy for Housing in an Ageing Society. In a speech on 26 February to the Age Agenda Conference 2008 Baroness Andrews said:

> "We will need more specialist housing in the future, offering more choice across the spectrum—from retirement housing to nursing homes…We need a new positive vision for specialised housing for older people as somewhere that more people aspire to live in later life and which will match their lifestyles. We need more good quality specialised housing of different types to promote greater choice".

9. This range of housing with care can be made available if the housing market is functioning. However, like all other participants in the market, it is suffering because of the shortage of mortgages.

10. The Crosby Review of Housing Finance is crucial to the entire housing market, including this sector. The Council of Mortgage Lenders has proposed a system of support for them to raise new bonds or mortgage instruments. We support this proposal, without which the potential that Baroness Andrews identifies cannot be fulfilled.

11. The measures taken by the Government and the Bank thus far to restore liquidity in the housing market are welcomed. However, many of the initiatives are focused solely on assisting first time buyers and do nothing to relieve the blockage in housing chains beyond the bottom end of the market. Hence, older owner occupiers are being denied the opportunity to move into accommodation that better meets their needs. The constraint on the ability of an older person to move into more appropriate housing is such that they feel an increased sense of isolation and vulnerability, reducing the sense of wellbeing and resulting in deteriorating health conditions—with a consequential cost to the public purse.

12. The Government's objective is to ensure a decent home for all sectors of the community, including older people. It is important therefore that the Government ensures the provision of good quality housing in the right place and at the right time, responding to the aspirations, changing lifestyles and needs of older people. It is important that every effort is made to deliver a range of housing choices for older people and that they are able to exercise that choice, particularly when one considers that by 2026 older people will account for almost half (48%) of the increase in the total number of households, resulting in 2.4 million more older households than today.

Memorandum from Bovis Homes (CRED 18)

Summary

- The current housing market downturn in UK, originally triggered by spin off consequences resulting from the sub-prime housing market problems in the US, has now reached unprecedented depths in terms of price and volume reductions and requires decisive Government intervention to halt, and then reverse, the downward spiral of falling mortgage finance, output reductions, house price falls causing sharply falling land values and declining consumer confidence.
- Significantly reduced volume output by the house building industry is a direct consequence of the market downturn; no industry can afford to carry excessive stock—quite simply UK housebuilding is a market based industry and no housebuilder will continue to build what they cannot sell. Volume reductions, if perpetuated over anything other than the short term, will mean the Government housing targets of 240,000 net additional completions by 2016, leading to an additional three million homes (2006–20) will not be met—industry capacity is being stripped out which it will not be a "quick fix" to recover.
- Housing target delivery delays will cause significant direct and indirect costs to the wider economy; it threatens to undermine the achievement of other public policy objectives, such as the provision of affordable housing, and will exacerbate social issues arising there from.
- UK housing market problems can be distinguished from US housing market problems—in the latter case there was well documented evidence of over supply—in UK the reverse is true—there has been clear evidence (Barker review, etc) for a number of years of housing under supply, partly responsible for the extended period of house price inflation which ended in 2007, and which led to the upwards revision of Government housing targets (see above). Failure to unblock housing

delivery issues urgently will only ensure that underlying unmet demand becomes pent up; in turn threatening another "boom" period of rapid house price inflation as cyclical market recovery occurs.

— Government housing package measures announced in September are welcomed but, in view of a continuing deterioration in the housing market and in the economy generally since then, they should be extended and supplemented by new policy initiatives. It is now the case that falling house prices, leading to widely reported significant land value reductions from a 2007 peak, has seriously undermined the viability of many planned and approved major residential development schemes, to an extent that means they cannot be implemented. Chief amongst required new policy initiatives therefore is that Government (and local authorities) must urgently reduce the costs and regulatory burden placed upon the industry. It must undertake a major reassessment and scaling back of all aspects of policy and regulation which add to costs and which are ultimately not transferable to house purchasers—typically such costs include affordable housing provision, code for sustainable homes requirements, Section 106 revenue contributions to education, healthcare, recreation, public transport, community infrastructure, etc—and which therefore have to be recovered against land values. This issue is now a major delivery blockage as falling house prices which has led to sharply reduced land values, in many instances, no longer permit schemes to proceed, regardless of marketability considerations.

Housing Market Conditions

1. The housing market downturn is without precedent. Mortgage approvals for house purchase have already fallen 75% in under two years, compared to less than 60% reduction in the last housing market downturn in the late 1980s. Similarly, house prices fell 13% in the whole of the last downturn, whereas they have already fallen by 14% with almost all experts predicting further falls into 2009.

2. New homes account for approximately 10% of total housing market transactions, so the fortunes of the new home sector are largely determined by the market as a whole.

3. RSL's are also heavily dependent on the fortunes of the housing and mortgage markets; a substantial majority of affordable housing is delivered through Section 106 agreements on private housing sites, so the flow of affordable housing has been hit by the downturn in market house building.

Housing Targets

4. The Government's target for England is 240,000 net additions to the housing stock per year by 2016, three million additional homes between 2006 and 2020. Housing targets reflect long term demographic changes—as a society we are living longer, population is increasing, household size is falling—by and large such changes are unaffected by credit crunch issues. Indeed emerging demographic information strongly suggests that the Government targets will need upwards revision.

5. House building numbers in England are set to fall steeply, possibly below 100,000 per year, over the next couple of years. Private and affordable housing numbers will fall. It is increasingly unrealistic to expect that any recovery in the housing market will permit the above housing targets to be achieved in the anticipated timescales. Target timescales should thus be revised, but not the targets themselves. The plan making system introduced in 2004, at regional level via RSS's, let alone local level via LDF's, already fails to plan for the currently required target of 240,000. Any attempt to cite the current market downturn as an opportunity to revise targets downwards should be firmly resisted; there is clear evidence that sustained failure over the past decade and longer to supply housing to meet accepted demand has exacerbated house price inflation, eroding affordability and denying access to the housing ladder by increasing proportions of first time buyers.

Credit Crunch

6. The housing industry has to achieve two essential requirements:

— a competitive profit margin and return on capital from development, so that investors are willing to invest in house building companies; and

— residual land values sufficient (a) to exceed any current or alternative use value and (b) to persuade land owners to sell their land to residential developers.

7. The credit crunch has seriously damaged both profit margins and land values.

8. Government should intervene to arrest this vicious downward spiral. Because the mortgage famine, which lies at the root of the housing crisis, is being driven primarily by an unprecedented crisis of confidence among banks and investors, it can only be solved by Government intervention. If funding is restored, and consumer confidence returns effective demand would stabilise and begin to lift housing transactions, which would in turn put a floor under prices, and so begin a spiral of recovery which would lift private house building and affordable housing provision.

9. Whilst the housing industry is experiencing unprecedented high levels of cancellations and declining net reservations, site visitors numbers have fallen far less dramatically. This is evidence that underlying demand remains quite strong, but is being more than offset by mortgage finance issues and eroding consumer confidence.

10. Falling demand has caused all national housebuilders to cut back severely on house building. The industry simply cannot afford to build properties it is unable to sell as this would lead to a prohibitively costly build up of unsold stock and work in progress. Many have stopped building on live sites, and not started many potential new sites.

11. The fall in volumes has been accompanied by falling new home prices. Although developers are able to mitigate the impact to some extent through extremely tight cost controls such reduced margins are unsustainable for any length of time.

12. Falling volumes and falling prices have also resulted in sharply reduced land values. In consequence many planned and approved major residential development schemes are no longer viable.

13. The Government should take urgent steps to minimise the fall in house building for a number of reasons. It will reduce the shortfall of housing delivery against already announced housing targets; it will help retain skills capacity within the industry; finally, the greater the downturn in house building, the greater the direct and indirect costs to the wider economy.

Current Government Housing Package

14. A viable home building industry is essential. UK's need for very large numbers of additional homes over the next decade or more is a fact that must be addressed by any government. Therefore it is critically important for economic and social reasons that the industry's capacity to build homes is preserved as much as possible. The more capacity that is lost, the more the economic and social damage that will be done by housing shortages in the future.

15. The Government has already announced a range of measures to help the housing market, including a number targeted at new home building generally welcomed by the industry.

16. The measures of direct benefit to private home builders have been:

- An additional £100 million to expand the Open Market Homebuy scheme for purchases of new build properties.
- £200 million Housing Corporation funding for RSL's to buy stock units from home builders.
- £300 million for a new HomeBuy Direct scheme.

Further Measures

17. Reduced house building has impacted upon delivery of affordable housing to an extent that the CLG's existing Affordable Housing targets are not likely to be met and its three-year programme funds will not be fully spent. Therefore additional funding from later in the CLG's three-year programme could be brought forward to assist house builders and social housing providers deliver additional housing numbers. Future funds targeted at private housing may also begin to boost housing numbers. At present, the industry's priority is to reduce unsold stock levels. Once these are reduced, the focus of new measures should shift to helping house builders continue building on sites that would otherwise stop production, or start sites that would not otherwise start. It needs to be emphasized that social housing does not recover land value. Housing Corporation grant levels currently only permit construction costs to be recovered. Thus, without a change to grant funding rules, once the current developer stock overhang is sold no social house building will take place where land value is not recovered.

18. Government has a number of other policy aspirations which involve new housing, including affordable housing, community infrastructure, climate change, and lifetime homes. The policy and regulatory costs imposed on residential development by these policies have increased substantially in recent years, and are set to increase even more dramatically by 2016. These costs, which in the main are not recoverable by way of increased selling prices, pose a major threat to the viability of many, if not most, housing developments. If not reassessed, these costs will make it impossible to achieve the Government's housing targets.

19. Affordable Housing—58% of affordable housing in 2006–07 was delivered through Section 106 agreements on private housing sites, up from 31% in 2001–02. Even where Housing Corporation grant is available, there is still a very substantial element of "subsidy" out of land value. Affordable Housing contributions are a pure cost to development as they do not in any way enhance the sales value of the open-market dwellings on a site. Land value recovery (see paragraph 17 above) should be permitted via Housing Corporation grant to permit social housing to continue being provided.

20. Community Infrastructure—as well as affordable housing, many local planning authorities typically require housebuilders to meet a range of other demands through a Section 106 agreement over and above what is strictly necessary to enable the development to go ahead such as contributions and/or provision of

public open space, education, transport and highways, community works and leisure, health facilities, etc. Such contributions/provision does not provide a direct benefit to home buyers on a particular site and they will usually not result in any increase in sales values. Therefore they too are a direct cost on the development, to be funded out of the land value.

21. Climate Change—the costs of achieving the Government's zero-carbon target by 2016 will be substantial. Research for CLG and EP estimated that the cost of achieving the energy requirements of Code Level 5 (zero carbon is Level 6) would be between £19,000 per plot for an apartment to £25,000 for a detached house. Home buyers will pay only a modest premium for such dwellings, a view supported by research. Therefore most of the additional cost will have to come out of land values.

22. Lifetime Homes—the Government has indicated it will consider imposing Lifetime Homes standards on new housing some time after 2010. This would add directly to housing costs. It is unlikely these standards will bring any sales price premium, so the additional cost and reduced development value will have to come out of land values.

23. Cost constraints of this sort are frustrating the delivery of schemes now. Government should show decisive leadership and announce that, pending a full scale review and scaling back of the policy and other regulatory burden which is adversely impacting upon housing delivery, currently "blocked" schemes should expect to receive/negotiate (on a site by site basis), reduced Section 106 requirements for "off-site" contributions. By reducing such non-essential costs in this way, the current blockage can be removed thus allowing scheme viability to be restored. This measure coupled with other measures already announced and which are capable of extension, can provide a short term boost to housing delivery.

October 2008

Memorandum by Natural England (CRED 19)

Executive Summary

Natural England believes that it is important to maintain high environmental standards for new housing during the current economic downturn. In particular:

- Attention should be focussed on the preparation and review of spatial plans and their associated development briefs or masterplans to ensure that appropriate sites and high quality schemes are in place when the housing market recovers.
- Recent advances in the environmental quality and resource efficiency of new housing should be maintained and standards should not be lowered for short term expediency.
- Multi-functional green infrastructure should continue to be provided as an integral part of the creation of sustainable communities.

1. Introduction

1.1 Natural England is a statutory body created in 2006 under the Natural Environment and Rural Communities Act and charged with the responsibility to ensure that England's unique natural environment, including its flora, fauna, land and seascapes, geology and soils are protected and improved.

1.2 Natural England's purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.

1.3 Natural England welcomes the opportunity to submit evidence to this Inquiry.

1.4 Natural England engages in the spatial planning system to protect and enhance the natural environment. We are a statutory consultee on spatial plans (regional spatial strategies and local development frameworks) and many development proposals; and we are actively engaging in the Growth Areas, Growth Points and proposed Eco-towns to ensure they deliver high quality, environmentally sustainable development.

1.5 Natural England recognises the need to put in place measures to address difficulties in the housing market resulting from the current economic downturn. We note, but have no comment to make on, the package of measures put in place by the Government to assist the delivery of new housing. Our evidence is focussed on the need to maintain high environmental quality standards during the current economic climate and to focus effort on strategic planning to ensure that sustainable communities can be effectively delivered once the market recovers.

2. Long Term Strategic Planning

2.1 The current economic downturn provides an opportunity for regional planning bodies and local planning authorities to focus attention on plan-making and to put in place, or review, regional spatial strategies and local development frameworks to set the long term framework for development. With fewer planning applications likely to be submitted, local authorities should be able to switch resources away from development management to plan-making. In this way, allocated housing sites can be effectively and swiftly delivered when the housing market recovers.

2.2 Developers and other stakeholders should also take the opportunity presented by the downturn to actively engage with planning authorities and jointly progress Area Actions Plans, masterplans or development briefs for identified housing sites, in consultation with local communities. This will ensure that all stakeholders are committed to the delivery of allocated housing sites and should speed up the processing and implementation of planning applications once the market recovers.

3. Environmental Quality

3.1 The creation of high quality places where people want to live is a fundamental component of the Government's housing policy. The current economic circumstances should not be used to reduce the costs of delivering new housing by lowering environmental standards. New homes are likely to be in place for at least 100 years. They should be built in the right place, avoiding environmental assets such as protected sites, habitats and species. In addition, they should be built to last and be able to adapt both to the changing needs of families and the impacts of climate change.

3.2 Natural England believes that the quality of new housing needs to be substantially improved, both in terms of design quality and resource efficiency. Government commitment to achieving high quality sustainable housing (as set out in *Planning Policy Statement 3—Planning for Housing* (2006) and *Supplement to Planning Policy Statement 1—Planning and Climate Change* (2007) has been substantially strengthened in recent years and it is imperative that it is maintained during the economic downturn. Natural England's views on housing are set out in our attached policy: *Housing Growth and Green Infrastructure* (2008). In addition, Natural England has, together with the other statutory environmental agencies, set out its views on the environmental quality of new housing in *Environmental Quality in Spatial Planning* (2005).

3.3 Natural England supports recent initiatives such as the Code for Sustainable Homes which aims to improve the environmental performance of new housing. In times of rising fuel costs, energy efficient measures are likely to become more important to householders concerned about the running costs of their homes. The Government should grasp this opportunity to encourage developers to build homes to higher levels of the Code on new developments. The Government should also ensure that the Code is swiftly incorporated into Building Regulations so that developers operate on a level playing field. Measures should also be taken to improve the energy efficiency of existing housing stock.

4. Green Infrastructure

4.1 Natural England promotes the concept of green infrastructure- networks of multi-functional green space that provide a wide range of environmental and quality of life benefits. Green infrastructure includes private gardens, parks and other open spaces, allotments and woodlands. We believe that the provision of green infrastructure is as important as the provision of "grey infrastructure" such as roads and sewers and should be an integral part of the creation of sustainable communities throughout England. This view is endorsed in Planning Policy Statement 12 *Local Spatial Planning* (2008) which defines green infrastructure[11] and states that it is the role of spatial planning to orchestrate the necessary social, physical and green infrastructure to ensure sustainable communities are delivered.

4.2 Green infrastructure networks should be identified in regional and local plans and strategies and designed into all major development and regeneration schemes from the outset. Focussed green infrastructure strategies should set out the strategic networks at regional or sub-regional scales with local development frameworks setting out policies to ensure the delivery of green infrastructure as an integral part of new development and local networks designed into area action plans, masterplans and site development briefs.

4.3 Planning obligations and the proposed Community Infrastructure Levy are an important mechanism to fund green infrastructure and local authorities must continue to negotiate with developers to ensure that green infrastructure is provided and funded alongside other types of infrastructure and community facilities.

4.4 The Growth Areas are leading the way in the development of green infrastructure, with Thames Gateway already well advanced in the preparation of its green infrastructure guidance. The River Nene Regional Park (within the Milton Keynes/South Midlands Growth Area) has recently won a Royal Town

[11] Green Infrastructure is defined as a "Network of multi-functional green space, both new and existing, both rural and urban, which supports the natural and ecological processes and is integral to the health and quality of sustainable communities".

Planning Institute award for its approach to green infrastructure. Natural England is working in Growth Areas, Growth Points and influencing the proposed Eco-towns to ensure green infrastructure is delivered as an integral part of new sustainable communities. We have also provided advice to Eco-town promoters and planners on green infrastructure.[12] Research for Natural Economy North-West (a joint programme by the Regional Development Agency and Natural England) has demonstrated the economic benefits of green infrastructure with the region's environment generating an estimated £2.6 billion in Gross Value Added and supporting 109,000 jobs.[13]

4.5 It is especially important during difficult economic times that people have access to natural green space. The importance of green space to health has been recognised in a range of recent studies which have shown that contact with and appreciation of nature can contribute to people's health and wellbeing and reduce stress. Indeed, a Mori Poll in 2004 showed that 74% of adults agreed that being able to use a local park or public open space was important for their general health.[14] Natural England promotes Accessible Natural Greenspace Standards (ANGSt[15]) as part of its approach to green infrastructure and it is important that these standards are incorporated into new development and not weakened in an attempt to reduce costs. Other initiatives such as the Green Gym run by the British Trust for Conservation Volunteers, which has developed over 50 examples of such schemes, also make a valuable contribution to improving health and wellbeing.

Memorandum by the Regional Development Agencies (CRED 20)

SUMMARY

We summarise below the main points made in this short submission:

- The economic impacts of the credit crisis on housing are now part of a wider economic slowdown that is affecting all economic sectors and employment, as well as housing. Measures to address housing need to be complemented by interventions to support the wider economy. The RDAs have reported to the Treasury on how the regional economies have changed, how existing policies are working and whether further actions are required. (Section 2 below).
- The current joint review of key regeneration projects by the RDAs and the HCA will look at regeneration schemes in the regions, assess the extent to which they may be at risk, and formulate a position on how the regional and national funding partners can ensure the viability and momentum of key projects. (Section 3).
- The short-term responses to the issues in the housing market must be consistent with long-term strategic objectives. These are set out nationally in the Housing Green Paper; the RESs recognise the importance of improving, tenure choice and type of housing in supporting economic regeneration and growth. (Section 4).

1. INTRODUCTION

1.1 This paper has been prepared on behalf of the eight Regional Development Agencies (RDAs) and the London Development Agency, coordinated by One NorthEast, to provide evidence for the Communities and Local Government Committee's inquiry into how the "credit crunch" affects the Government's housing policies.

1.2 One of the reasons the RDAs were set up was to help manage major market failure at a regional level. The RDAs have provided regional leadership to support local economies during difficult times and help businesses survive and re-orientate. Coal closures, contraction of car manufacturing, foot-and-mouth and recent flooding have all required dramatic and timely RDA intervention.

1.3 The current economic downturn is clearly having major impacts on regional economies and businesses. The problems first revealed through housing markets have now resulted in a much broader economic slowdown, of which the housing market is one of many sectors impacted. The RDAs are committed to working with Government to help businesses navigate the economic downturn and diversify into new products and services and will work to ensure that the regions emerge with competitive and more robust economies.

12 *The Essential role of green infrastructure: eco-towns green infrastructure worksheet*. TCPA, Communities and Local Government, Natural England, 2008.

13 ECOTEC (2008) The economic benefits of Green Infrastructure: the public and business case for investing in Green Infrastructure and a review of the underpinning evidence; and ECOTEC (2008) The economic benefits of Green Infrastructure: Developing key tests for evaluating the benefits of Green Infrastructure.

14 Royal Commission on Environmental Pollution 2006.

15 No person should live more than 300 metres from their nearest area of natural green space of at least 2ha in size.

2. The RDAs' Role in Supporting the Wider Economy

2.1 Alongside the impacts on the housing sector, the wider economic impacts of the credit crisis are now becoming more pronounced, with negative growth in economic sectors and a consequent impact on Gross Value Added (GVA) and employment, as well as housing. They therefore require an equally important raft of interventions to those being brought forward to address housing issues.

2.2 The RDAs believe they can work most effectively by focussing on direct interventions that could assist in addressing the wider economic impacts. Current interventions range from the provision and delivery of key development and regeneration sites and supporting infrastructure, as well as other important support measures, including funding, training and initiatives to promote places to new business and tourists. The RDAs have the potential to address certain barriers presented by the credit crisis which restrict business investment and growth. One measure being pursued by a number of RDAs is the Regional Infrastructure Fund, which support regional infrastructure delivery to facilitate private investment in businesses as well as housing.

2.3 The RDAs are broadly supportive of the Government's proposed interventions to help ensure that housing goals are still met during this time of economic uncertainty (the establishment of the Homes and Communities Agency (HCA) is a significant opportunity in this regard). However, this must not be done independently of the equally important measures necessary to achieve regeneration and growth objectives, which are also vital components for delivering the Government's long-term goal of sustainable communities.

2.4 In the RDAs' view, success in promoting economic growth depends not only on restructuring our economy, but also creating an environment which offers people attractive places to live with expanded choice of decent and affordable housing. Issues affecting regional economic competitiveness not only relate to housing supply and affordability, but also the quality of the housing offer and their localities, and accessibility to business and employment opportunities, key services and amenities.

2.5 Given the aforementioned links between the economy and housing, the RDAs are committed to working with the HCA and its predecessors—English Partnerships and the Housing Corporation—to ensure that the interventions put in place complement those for housing. Specific involvement in housing-related interventions currently include working with Regional Housing Boards (RHBs) and sub-regional housing delivery structures, including Housing Market Renewal Pathfinders, Growth Point initiatives and significant mixed-use development and regeneration projects.

2.6 Each RDA has reported to the Treasury on how the regional economies have changed, how existing policies are working and whether further actions are required. The reports set out a framework for discussion in each region. The outcome of this exercise will feed into a comprehensive programme of work, and will inform the Government's work in the run up to the Pre Budget Report which is expected to outline further steps to support the economy.

2.7 Throughout these processes it is important that national Government and regional bodies understand the experiences of businesses and communities. It is also important that businesses are clear what support is offered by Government and by regional agencies.

3. Key Regeneration Schemes

3.1 As part of its response the Government has commissioned a joint review of key regeneration projects. This review was prompted by the departments for Business Enterprise & Regulatory Reform (BERR) and Communities & Local Government (CLG), and is being undertaken by the RDAs, HCA and its predecessor bodies. It will look at regeneration schemes in the regions and assess the extent to which these schemes may be at risk, or are already affected by the changing economic circumstances. The review will also formulate a position on how the regional and national funding partners can ensure the viability and momentum of key projects that, at a regional level, offer best value for money and have the most far reaching impacts.

3.2 The joint review will provide a vital indication of the regional impact of the credit crunch in terms of real projects, jobs and communities. The RDAs feel that this is an important and holistic aspect of the Government's response, and welcome it as a positive measure to ensuring regionally significant economic and social regeneration schemes, and the communities which they aim to benefit, are not put at risk during these challenging times.

3.3 The RDAs again emphasise the importance of taking this holistic view to the current economic challenges. Housing is certainly important, given the number of people currently excluded from the housing market due to the tightening of the credit market, and has implications in terms of the wider economy. For example, a significant number of jobs are supported by the housing and related construction industries. However, as the recent global share crisis has demonstrated, the real economy is vulnerable too, as are local jobs and communities. The RDAs understand the Government's current emphasis on housing, but an appreciation of the importance of mixed-use schemes in providing jobs, social infrastructure and affordable homes to communities is also important.

3.4 A joint report will be produced by HCA/RDAs and is due to be submitted to the National Economic Council on 2 November 2008.

4. Ensuring Short-term Interventions are Consistent with Long-term Objectives

4.1 Although short-term interventions are clearly required in the housing market in response to the credit crunch, the RDAs would underline the importance of any such interventions being consistent with the long-term objectives for the economy. Clearly, housing has an important role to play in supporting the regional economies and the RESs outline a number of long-term objectives for housing that will help to support prosperity and the growth of competitive economies.

4.2 It is vital to ensure that plans for housing provision (in terms of numbers, tenure choice type and quality) meet the needs of each region's economy and the people who are likely to live there. Therefore interventions should ensure that housing has a role in supporting economic growth and regeneration, with some key principles in mind:

- The short-term responses must remain consistent with the achievement in the longer term of sustainable economic growth in regions envisaged in the RESs. Long-term sustainability must continue to be the underlying guide.
- The potential for new housing to support economic growth can be maximised if development is focussed in locations which are well linked, predominantly by public transport, to existing concentrations of employment and activity, and to major economic development and regeneration opportunities.
- Existing housing could also play a significant role if they are in areas which are well linked to economic development and regeneration opportunities or could be linked through the improvement of transport infrastructure, and are improved to help attract and retain people. This could cover all types of housing area, including Housing Market Renewal Areas, and other areas which could be improved to appeal to a wider range of markets.
- Maintaining government investment in affordable housing is essential for supporting the ability of employers to attract and retain staff. It is important however that this is affordable housing in its widest definition and includes not only social rented products but products that allow routes into part and full ownership.
- Continued commitment to, and a public-sector lead on, adequate levels of infrastructure provision will be vital to sustain growth of housing and employment. Although not all RDAs will pursue Regional Infrastructure Funds, all RDAs believe that regional infrastructure should be funded adequately and coherently.

October 2008

Memorandum by Tom Parkinson (CRED 21)

Summary

It is currently possible for tenants in the UK to be evicted without any notice when default on the part of the landlord causes their home to be repossessed. The evidence below details:

- the circumstances in which eviction without notice can occur;
- why the issue is relevant to this inquiry; and
- why closing the loophole in the law that allows for eviction without notice is of extreme urgency if thousands of families and individuals are to be spared from abject misery.

1. My Own Experience of Eviction Without Notice

1.1 Two years ago, court appointed bailiffs arrived at my door and forced myself and my housemates to leave the house we had paid the rent on for the previous year and a half. We had no idea that our tenancy was insecure. After desperate negotiation and with great reluctance, the bailiffs granted us one hour to remove our belongings.

1.2 Our landlord, who had previously lived in the house, had not paid the mortgage for several months, we had paid him the rent but he had simply pocketed while getting himself further and further into mortgage arrears.

1.3 About six months previously we had, by pure chance, discovered that he had defaulted on the mortgage so we contacted the mortgage company to request that they notify us if it happened again. This they agreed to do.

1.4 The landlord owned another home and a business that appeared to be healthy. He showed all the signs of being solvent and, after a frank and open discussion, he showed us proof from the mortgage company that he was no longer in arrears. We had good cause to think that his defaulting was a one-off. Furthermore, the promise from the legal department of the mortgage company to tell us if it happened again meant that we assumed we had good cause to feel that our tenancy was secure.

1.5 In the event, though, neither the landlord nor the mortgage company gave us any indication at all that we were about to be evicted.

1.6 The estate agent who oversaw the eviction told us that our situation is common. He regularly finds that a repossessed property has sitting tenants who are unaware that the eviction is pending. All of them are exactly the same circumstances as ours. A few days prior to our eviction he had overseen the eviction three young women, one of whom had a baby. The landlord—who had similarly pocketed their rent, failing to tell the women that the house had been repossessed—was their uncle.

1.7 As tenants we had a right to be a party at the repossession hearing. After our eviction we were told by the court that, had we attended the hearing, repossession would likely have been delayed by several weeks in order to allow us to find alternative accommodation. Of course, we had no idea that the repossession hearing was taking place.

1.8 In summary, tenants have a legal relationship with the landlord and the landlord has a legal relationship with the mortgage company. If the property is repossessed and the landlord is taken out of the picture, the security of tenancy—established in law for all other cases—disappears. This is the only situation wherein fair notice does not apply. In every other context—homeowners, council tenants, private renters, even squatters and excluded occupiers—there is a well-defined legal right to a fair notice period before eviction. These protections are an essential safeguard against destitution making it extraordinary that in one—far from exceptional—circumstance, they do not exist at all.

2. Tenancy and Recession

2.1 The last few years saw a huge increase in the buy-to-let mortgage market. Encouraged by fast rising property prices, mortgage availability, tenant demand and media success stories, many more private individuals have become landlords. In 2007, 2.5 million homes were rented from private landlords: an increase of 40% in six years.

2.2 Many of these landlords will have had their financial security threatened by the credit crunch. Like anybody else, part time landlords can get into difficulty when they lose their jobs. But, having borrowed heavily to finance the ownership of a second property, such new landlords will often be particularly vulnerable to recession—and especially to the tightening up of loan terms in the frozen mortgage market. (Indeed, the recent nationalization of Bradford and Bingley was in large part forced because the bank was exposed to the buy-to-let investors who are already showing increasing rate of defaulting and then handing back their keys.) Anecdotal evidence from a local estate agent concurs that buy-to-let properties are being repossessed at a vastly disproportionate rate.

2.3 The remit of this inquiry is to discuss "measures to help existing and prospective homeowners affected by the credit crunch". Naturally, you will want to assess the urgent situation for homeowners facing repossession. But when owners of multiple homes, used as buy-to-let properties, face repossession, the situation for their tenants is even more desperate—because of their distinct powerlessness to do anything about it, and their lack of any effective right to be forewarned. If, as I assume, your enquiry is to focus on the repossession of those homes which will cause most misery in the credit crunch, then it must consider measures to protect private tenants from repossession.

2.4 To the extent that the new rules announced by the Prime Minister on 22 October 2008 give all properties greater protection form repossession, tenants of private landlords will also be more secure. But the changes do nothing to protect tenants in the circumstances outlined in section one.

3. The Effects of Eviction Without Notice

3.1 Eviction is normally subject to at least four weeks' notice, if we had been granted that, we would have been spared devastating misery. At the risk of stating the obvious, our enforced and summary homelessness plunged us into a period of intense hardship, the intensity of which would have been mitigated exponentially by a period of notice. This in spite of the fact that the three of us were young, healthy and capable men with a large social network of friends we could call on for help.

3.2 Those most vulnerable to eviction without notice are often the least able to cope with its impact. The effects of homelessness have been well documented elsewhere but it is essential to bear them in mind when considering this issue.

3.3 The legal department of the mortgage company acted in a way that—having thought deeply about it since—can only be described as immoral. They were acting within the law though, and they were under no legal obligation to give us any more time or assistance—even though we had asked them to keep us informed. There is no more compelling case for legal protection.

3.4 The relationship with our community was idyllic, every one of our neighbours had been in our house over the previous week. We freely shared access to our garden and our neighbours to the right, and the neighbour to the left—the Imam of the local mosque—entertained our guests the previous night by singing

Sufi songs. The whole community was more cohesive and happier on account of such neighbourliness. A huge amount of energy was invested in cultivating it. It's destruction was just one of the incalculable things destroyed in an instant by the eviction.

4. Conclusions and Recommendations

4.1 Both mortgage companies and bailiffs should be legally obliged to inform tenants of impending repossession with a fair notice period.

4.2 The costs of obliging mortgage companies and bailiffs to inform tenants of impending repossession are insignificant compared to the misery and destitution caused by eviction without notice.

4.3 In our case, we were simply unlucky to have found ourselves with a crooked landlord: nothing would have altered his actions. My continued ire, however, is reserved for the lawyers of the mortgage company who reneged on their agreement to keep us informed if our landlord defaulted on his mortgage again.

4.4 The only people who can be legally evicted without notice are those who play no part in the circumstances that cause the eviction.

4.5 Eviction under any circumstances is a tragedy, to evict without notice is unconscionable. In all cases it should be incumbent on the mortgage company (or whoever is serving the eviction) and the bailiffs to prove that they have served notice and without that proof, eviction should be illegal.

October 2008

Memorandum by the Construction Products Association (CRED 23)

The Construction Products Association represents the manufacturers and suppliers of products to the construction industry. Through its major company and trade association members it represents more than 85% of the £40 billion industry in the UK.

Of the three issues raised in the Call for Evidence for this Inquiry, the Association only wishes to comment on the first point—achievement of the government's housebuilding targets, both for market and for social housing.

Summary

- Private sector housing starts are much lower than anticipated and numbers are expected to continue to fall for another two years, severely undermining the government's housing targets.
- Despite the government's efforts, liquidity is still expected to be a problem for sometime, which will, in turn effect the pace of recovery for the house building market.
- Falling house prices and unemployment are also impacting on the housing market.
- Fewer new build private houses result in fewer social houses being built due to Section 106 agreements.
- Manufacturing capacity in some of the key sectors relevant to house building is being reduced and could be lost for ever.
- Government's target of three million new homes by 2020 now seems unrealistic.
- A clear definition of what the government means by zero carbon is urgently needed.
- However the construction products industry is already manufacturing a wide range of products that help deliver more energy efficient homes.
- Credit crunch will hinder the zero carbon homes target as research and development budgets will be squeezed.

Private Housing

1. The government's targets for private housebuilding were set in a totally different economic environment and the measures the government has taken over the last 12 months have been more directed to minimising the impact of the credit crunch on the private housebuilding industry rather than aiming to meet any pre-determined long term target. Given the speed and severity of the downturn this objective seems inevitable and appropriate.

2. The key issue that had to be addressed is restoring liquidity to the capital markets, and the government has taken a positive lead in this. The scale of the problem appears to be such that this will not be resolved quickly and therefore a more cautious lending regime seems likely to be in place for some time. This will inevitably impact on the availability of funding and the pace at which the housebuilding industry can recover.

3. Other factors have also now come into play, in particular increasing unemployment and falling house prices. Against this background it is hard to see how the steps the government has taken to try to revive the market in the short term through various shared ownership schemes and the temporary raising of the level of the stamp duty threshold will make any significant difference to the level of new housebuilding.

4. Against this background, the Association's latest forecasts for the construction industry for the period 2009–12 which were published at the beginning of October, point to a further fall in private housing starts in Great Britain from the 110,400 we estimate there will be in 2008 to 95,000 in 2009, the lowest figure since 1954. In 2007 the figure was 181,400. We are forecasting the start of the recovery in 2010 and the figure is expected to rise to 132,000 by 2012, but still 27% below the level in 2007.

Social Housing

5. The impact of the reduction in private housing has also been felt in the social housing sector because of the dependency on Section 106 agreements to deliver this form of housing. As a result the number of social housing starts in 2008—estimated to be just over 24,000—is well below what might be expected in order to meet the government's target of 45,000 social housing starts by the end of the current Comprehensive Spending Review period in March 2011.

6. In September the government announced a £400 million boost in spending power for social housing providers to deliver 5,500 more social houses over the next 18 months by bringing funding forward, but this will not increase the overall level of social housing starts over the whole period. Without a dramatic recovery in the private housebuilding industry (which we are not expecting in the short term) we cannot see how the figure of 45,000 will be reached by 2011, and the Association is forecasting just over 34,000 social housing starts in that calendar year.

7. Over the period to 2011 the amount of additional social housing available will increased as a result of the government making available £200m for the purchase of unsold private houses for use in the social sector. To date some 2000 have been acquired in this way with the prospect of some additional purchases in the future. Unless the funds are available significantly, and there is no sign that this will be the case, this will go only a very small way towards bridging the gap between the forecast levels of new build and target for 2011 and the intention that the social sector should provide 50,000 new homes annually thereafter.

Meeting the Government's Overall Housing Targets

8. The government's overall target to build 240,000 homes a year in England by 2016 was always going to be challenging, requiring a higher level of private housing starts than had ever been achieved other than in two years during the 1960s. Given the exceptionally low base that the industry will experience both this year and next we cannot see how the resources will become available in such a short period of time to reach that target.

9. Housebuilders have had to shed large numbers of skilled craftsmen that it will not be easy to bring back into the industry, and in the manufacturing sector capacity is being taken out in key sectors like bricks and blocks. Some factories are being mothballed but it will still take at least six months to re-commission these once the companies are confident that there is a sustained recovery in demand. Many other factories are, however, being permanently closed and will never be re-opened. As a result there is concern about the capacity in some product areas to meet levels of demand if the recovery is too rapid.

10. Looking further ahead, the government has a longer term target of three million new homes by 2020. The short fall in supply in these early years is raising the requirements in the later years of this period to even more unrealistic levels and without some dramatic turnaround in the industry's fortunes and the ability of the planning system to provide sufficient land with planning permission—something that it has failed to do in the past—this longer term target also now seems unrealistic.

11. From the product manufacturers and suppliers point of view these long term considerations are very important. Investment decisions about bringing on new capacity have to be taken well in advance of the need and the return on that investment is spread over a number of years. Most of the major UK product manufacturers and suppliers are now owned by overseas companies and decisions about investment in the UK are in competition with potential for investment in other countries.

12. This Association has welcomed the government's decision to set long term output targets in a number of key areas such as housing and school building. Such targets have, however, to be credible and reviewed if the circumstances change. Our concern is that if government maintains its commitment to targets that are no longer credible if will lose the confidence of the companies to invest in the UK, and future targets will not be taken seriously.

Zero Carbon Homes

13. The other major government target is that all new homes should be built to a zero carbon standard by 2016. This is a target that no other country in the world has achieved or, to the best of our knowledge, has even aspired to. As an aspiration, however, it is something that the Association has supported and worked closely with government and our industry to see how it can be achieved in a cost effective way. What is absolutely critical, however, is to have a clear definition of exactly what is meant by zero carbon, and it is disappointing that the government will not be issuing a consultation on this until later this year, nearly two years after the setting of the target.

14. A key element for the manufacturers and suppliers is to know whether "zero carbon" applies to individual units, or whether having achieved the maximum energy efficiency from the built fabric of the property, a range of means (for example exclusively onsite generation through to offsite generation with a private wire or via the National Grid) can be developed to ensure that the residual amount of energy that is required is zero carbon. The details in these decisions will be crucial in determining where the focus of product innovation should be directed for energy generation.

15. Despite the absence of a clear definition, progress has already been made in trying to meet this target. The construction products industry has made a considerable amount of investment in research and development to show what can be achieved and how this might be done in a cost effective way whilst still providing people with homes they can afford and want to live in. For example, a number of prototype low carbon and zero carbon homes have been built at the BRE Innovation Park at Watford, whilst much has been done to improve the performance of energy and heat generation through the development of micro CHP technology and various forms of renewables.

16. The credit crunch has certainly not helped what was already an extremely challenging ambition. The uncertainty surrounding the 240,000 target inevitably extends to whether government will still require these homes to be zero carbon, whatever the definition. The sharp fall in property prices means that any additional costs associated with creating a zero carbon home will constitute a higher proportion of the selling price of the house. At the same time, the dramatic downturn in the market and the profitability of both housebuilders and manufacturers inevitably puts a squeeze on budgets for the research and development of the products and solutions needed to meet this requirement. It also makes it more difficult to fund the building of prototypes in order to help us better understand the performance of low and zero carbon homes.

Conclusion

17. No-one could have anticipated the speed, severity, and widespread impact of the credit crunch and the consequences for housebuilding in this country. It is still too soon to be sure that the situation has stabilised or to understand the full impact of these unprecedented events. Once we feel more confident to do this, it is important that government re-assesses the targets it has set in consultation with the industry so that we are confident that the targets we are aiming for, whilst challenging, are realistic and will encourage manufacturers and suppliers to make the investment in innovative and new products and solutions, as well as the necessary capacity to ensure the volumes of all the construction products that are needed are available.

October 2008

Memorandum by UNISON (CRED 25)

1. Introduction

UNISON welcomes the opportunity to respond to the Committee's enquiry into the likely effectiveness of the measures which the Department for Communities and Local Government is taking to deal with the credit crunch, with particular reference to:

- achievement of the Government's housebuilding targets, both for market and for social housing;
- the financial viability and ongoing business of housing associations; and
- measures to help existing and prospective homeowners affected by the credit crunch.

UNISON is the largest housing union in the UK, with members working in a wide variety of positions in housing departments in local authorities, ALMOs, RSLs and across the supported housing sector. Our members are drawn from all tenures and, as with the population at large, many of our members are home owners. Along with others, we have campaigned for many years for a better and more mixed affordable housing deal for those on low and modest incomes.

In terms of headlines, UNISON believes that there is a significant danger that the measures that were announced at the beginning of September to address the impact of the credit crunch on the housing market and social housing could be made to look inappropriate and inadequate as a consequence of ever worsening conditions. Of course, our members hope that the situation does not deteriorate further. But, we do believe that the government needs to have measures in place to deal with worsening conditions.

We note in particular that:

(i) Council for Mortgage Lenders forecast that repossessions will be approximately 45,000 this year alone, whereas the government's Mortgage Rescue package only offers help for the 6,000 most vulnerable over two years.

In addition to being limited in terms of the number of people it will help, the scheme is also shut off to "those who have acted recklessly or irresponsibly", those in negative equity or people who have taken a second charge on their property. With some forecasts predicting that the number of households facing negative equity will rise to two million homes, and little detail out there about how reckless and irresponsible are to be defined (will it include people who simply brought with an off the shelf mortgage product when the market was at its peak?) such qualifications seem arbitrary and ill thought out. At the same time we note concerns that that there is a gap between what has been announced (sale and rent back, shared ownership, or shared equity with a housing association) and what housing associations are able to offer now—on the ground.

(ii) Such has been the scale of the house price boom and the reliance on two incomes to support purchases, the extension of Income Support for Mortgage Interest claims to £175,000 looks like an inadequate measure for many parts of the country, particularly during a period of rising unemployment.

This measure is only forecast to help 10,000 people. It won't, for example, help those who have relied upon two salaries to buy a home, if one person loses their job. And it won't help those who are facing repossession because of a second charge on their property.

(iii) Those who sought to get a foot on the housing ladder at the height of the boom are now increasingly vulnerable to rises in interest rates as their fixed rates and discount rates come to an end.

(iv) In the current climate the housing association business model looks increasingly unsustainable, which has significant consequences for the government's housing targets.

(v) Although councils are now entitled to bid for grant from the additional money that the government has brought forward from the affordable housing programme, it is not clear that they will be able to bid on a level playing field.

We believe strongly that the aim of policy makers in these uncertain times should not be to repair the current system and return it to how it was before the sub-prime crisis first emerged in 2007. Instead the aim should be to create a more stable framework, in which there are more and better affordable options, in which owning and renting are seen as equal tenures, there is less of a sense that home ownership as the only game in town and there is more independent advice to people looking for a home.

In terms of immediate measures, we believe that the authorities need to take the following steps:

— a further cut in interest rates needs to be introduced as a matter of urgency;

— the government must explore new business models with the housing associations to ensure that they can adapt to a new operating environment in which they can no longer rely on cross subsidy from homes built for sale and part ownership. This might, in the short term, entail the government taking equity stakes in housing association developments or an increase in the level of grant per unit;

— bring the borrowing rules used in the UK into line with those used across the rest of the European Union. The rest of Europe uses the General Government Financial Deficit (GGFD) to measure levels of public borrowing. On this measure, widely accepted by economists and markets, Britain's debt level would be below the average of the core group of 15 European countries. Britain's current debt is well within the 60% target threshold of GGFD established under the Maastricht Treaty;

— the sale and rent back market should now be subject to statutory regulation, in line with the recent recommendations of the Office of Fair Trading, but with full compensation for those who have been victims of abuse; and

— the government should take immediate steps to bolster its package of measures for homeowners affected by the credit crunch. It should also explore, with the banks and building societies, a short term moratorium on re-possessions, as has been proposed by Barak Obama for the USA. Systems would clearly need to be devised to prevent such a moratorium from resulting in moral hazard. But, in the short term this could prevent a further cycle of repossessions, house price falls and bad debts, if the current situation deteriorated further. We note that since the Committee announced its enquiry the Civil Justice Council has issued its pre-action protocol. Whilst this is welcome, we note that it does not fundamentally alter existing rights and obligations.

2. Implications for Housebuilding Targets

The Housing Green Paper "Homes for the Future: More affordable; More sustainable" set ambitious targets of three million new homes by 2020, two million by 2016. To achieve this a new target of 240,000 additional homes a year (compared to the prevailing rate of 185,000 new homes a year) was set including 70,000 more affordable homes a year by 2010–11 of which 25,000 per annum would be shared ownership and 45,000 new social rented. New housing needs new infrastructure, roads, community facilities, schools, primary and secondary healthcare facilities and the plans envisaged that rising land values would contribute to the cost of creating that infrastructure through Section 106 agreements.

	Started				*Completed*			
	Private Sector	*RSL*	*Councils*	*All*	*Private Sector*	*RSL*	*Councils*	*All*
2007								
Q1	39,170	4,060	50	**43,270**	38,450	6,010	90	**44,540**
Q2	38,940	3,740	70	**42,760**	38,490	4,600	170	**43,260**
Q3	38,630	4,000	30	**42,660**	33,950	4,680	60	**38,680**
Q4	33,900	3,710	50	**37,660**	41,210	6,810	30	**48,050**
2008								
Q1	28,410	4,300	90	**32,800**	29,940	7,000	60	**37,000**
Q2	28,380	5,840	130	**34,350**	31,560	5,620	140	**37,320**

Figures published by CLG show significant reductions in the number of starts and completions in the private sector. At this stage RSL starts appear to be "holding up" but the increase envisaged in the Green Paper has not been achieved.

In this context it is vital that the government steps in. The recent announcements from the government that it is to relax its borrowing rules to fund investment is particularly welcome in this respect. Borrowing to invest in housing in the current context can be good for the millions in housing need and good for jobs and skills. Because of multipliers, such investment will also be good for the wider economy.

We believe that increased borrowing and investment can be a combination of local authority borrowing and investment in council housing and central government borrowing to boost the Affordable Housing Programme.

One option being pursued by government involves buying unsold stock from developers to rent as new social housing. UNISON urges caution on this front. It is essential that new investment does not dilute obligations in terms of design standards, environmental objectives and the goal of achieving mixed and sustainable communities. These may be extraordinary times, but government should not be diverted from Aneurin Bevan's maxim that "we shall be judged for a year or two by number of houses we build. We shall be judged in 10 years time by the type of houses we build".

3. The Financial Viability of Housing Associations

The credit crunch has impacted on housing associations in a number of ways.

- there are fewer lenders in the market; lending policies have changed and margins have increased;
- the "credit crunch" and the accompanying reduction in mortgage availability (some lenders now classify shared ownership mortgages as sub-prime) has resulted in reduced sales for associations developing properties for shared ownership and low cost home ownership;
- some associations rely on "asset sales" to cross subsidise new development and/or cover "core costs";
- housing associations are finding it increasingly difficult to raise cash for building, privately and from their own resources;
- most social landlords expect their counterparts to be hit by large financial problems in the year ahead;
- a third of social landlords contacted in a survey by Baker Tilly (and reported in Inside Housing) have not made contingencies for dealing with the crisis; and
- six of England's major developers of social housing relied on sales to stay in the black during 2007–08.

The business model upon which housing targets (since demoted to ambitions) were premised is clearly now broken. In its place the government need to give greater recognition to the role that all providers can play in a mixed economy for social housing. And we need innovative ways of delivering the extra grant needed for each housing association home to make good the private finance shortfall.

To such ends we believe that the government should review and evaluate a range of options and proposals to restore the vitality to the housing association sector including—a funding model premised on higher government grant and no cross subsidy and/or separation of future investment into two elements—grant and equity (as suggested by the G15 housing associations).

The aim has to be to ensure that housing associations play their full part, alongside other providers, in delivering the affordable, decent homes that we still desperately need despite the current difficulties in the housing market.

4. Help for Home Owners

As suggested above, we have serious concerns that the scale of the help on offer is not up to the challenge that a significant number of homeowners face. And with many of the banks now in receipt of government/ tax payer support, the relationship between the lender and the debtor has changed for a significant number of mortgage holders.

We note with alarm the example referred to in the uncorrected transcript of the Treasury Committee's evidence session on the economics of the housing market (14 October). This refers to a young working couple with two children coming to the end of a two year deal with Northern Rock. Not only do they have to deal with the subsequent increase in the mortgage repayments, but the interest on an additional loan that the building society had pressed on them increases from the mortgage rate to 15%.

We suggest that in this context the government need to be innovative in their response and sensitive to the position that many may find themselves in. Barack Obama's call for a three month moratorium on repossessions in the USA is one response which warrants careful examination for its potential in England and the wider UK, if conditions deteriorate further.

In the short term the government needs to bolster the measures that were announced on 2 September 2008. As the (uncorrected) evidence from Richard McCarthy to the Committee on 13 October made clear, the Government does not expect the Mortgage Rescue Scheme to go live until January 2009 and the changes to ISMI do not take effect until 1 April 2009.

Figures published by the Council for Mortgage Lenders show that in the first 6 months of 2008 actual repossessions rose by 41% to 18,900. Given that increase UNISON believes the new ISMI arrangements should be introduced earlier than 1 April 2009 (certainly from 1 January 2009) and that further work be undertaken to assess how ISMI might be adapted or other schemes devised to reflect the needs of two-income households (where one loses their job but both incomes are needed to meet the mortgage) and those who face repossession because of a second charge on their homes.

We note that the FSA and the CML have codes of conduct regarding treatment of people who are struggling with their mortgage –setting out options and good practice in terms of extended loan periods, change of mortgage type and capitalisation of debt. And that each lender will develop their own policy accordingly. While UNISON agrees that the decision on whether to accept these options must rest with the borrower, the decision on whether to offer these options must not be "optional" for the lender unless it can be demonstrated to the satisfaction of the court that they are solutions that are not practical given the individual circumstances of the borrower.

We are also concerned that the proposals announced by the Government on 2 September 2008 only apply to those to whom the local authority would be likely to have a statutory duty under the homelessness legislation. This excludes all childless couples and single people under the age of 65 unless they are likely to be regarded as "vulnerable" due to disability, mental ill health etc. They also excludes tenants of landlords who default on their mortgages who under the current legal framework may not discover that they have lost their home until the day they are evicted.

UNISON is concerned that new policies have not been developed for these groups.

For example, shouldn't it be the case that the option of moving from 100% ownership to either shared ownership or shared equity also be available to couples or single people with incomes of less than £60,000 (as it is for first time buyers)?

Tenants of landlords facing repossession face particular difficulties. First they may have no notice that the property may be repossessed and secondly there is no mechanism for the property to be transferred to another landlord enabling the tenant to remain.

Where a lender is intending to seek a possession order they must first establish whether the property might be tenanted and if it is give the tenant sufficient time to find alternative accommodation or seek to transfer the property to an RSL.

Firm rules and procedures need to be established to ensure that both the lender and the landlord act responsibly towards the tenant.

October 2008

Memorandum by Gentoo Group (CRED 26)

Summary

- The Government's targets for new housing provision are unlikely to be met without a significant shift in political and financial will to fund it.
- Volume build has been achieved before but with much heavier public subsidy and lower build standards.
- The market conditions for new build housing are extremely difficult with the result that many schemes have been put on hold.
- Housing Associations are having to constantly monitor financial ratios and covenants but remain viable.
- Innovation is required to unlock the affordability problem and new products are being proposed to address this.
- The mechanisms by which effective demand and supply are brought together are currently frozen.
- The requirement to spend a high proportion of income to be able to afford owner occupation negatively impacts on the quality of life for many.

1. Introduction

1.1 Gentoo Group welcomes the opportunity to respond to the Communities and Local Government Committee inquiry into Housing and the Credit Crunch. The following response represents the views of Gentoo Group, which comprises the following companies:

Gentoo Group Limited
Gentoo Sunderland
Gentoo Construction
Gentoo Homes
Gentoo Ventures

2. General Comment

2.1 The so called credit crunch has had a range of effects on the housing industry. From the Group's point of view this has had particular effects on the following areas:

- Supply of housing for sale and a drop off in effective demand (ie able to purchase).
- The ability to cross subsidise from sale to rental properties.
- Capital lock up in new developments.

2.2 Across all tenures the market positions are now very different. The social rented sector continues to see high levels of demand and low turnover. There is evidence of increasing demand for market rental properties as an alternative to accessing owner occupation. There is a long term demand for owner occupation but this has been severely restricted by more stringent mortgage conditions and a lack of confidence that has resulted in a greatly reduced turnover of properties.

2.3 Within the Group there is a mixed tenure portfolio which is insulating the Group from any immediate financial pressure. The Group's development plans have had to be temporarily scaled back however until such time as sale prices and demand picks up.

3. Specific Comments

3.1 In relation to the specific discussion questions the Group will respond as follows:

3.2 *Achievement of the Government's housebuilding targets, both for market and for social housing*

3.2.1 The Government's housebuilding targets were always ambitious. The intention to increase supply stated in the Barker Review of Housing Supply and in the Housing Green Paper would see build rates achieving levels not seen since the 1970s. Of critical importance in this is an understanding of the supply side of new housebuilding. Since the 1950s the majority of housing supply in England has come from private building peaking in 1968 with 203,320 completions. In more recent times, ie since 1991, private housebuilding completions peaked in 2007 with just 152,090 completions. Unless something significant therefore happens to massively increase the housing association or local authority supply side, it is difficult to see how a 250,000 a year figure can be achieved.

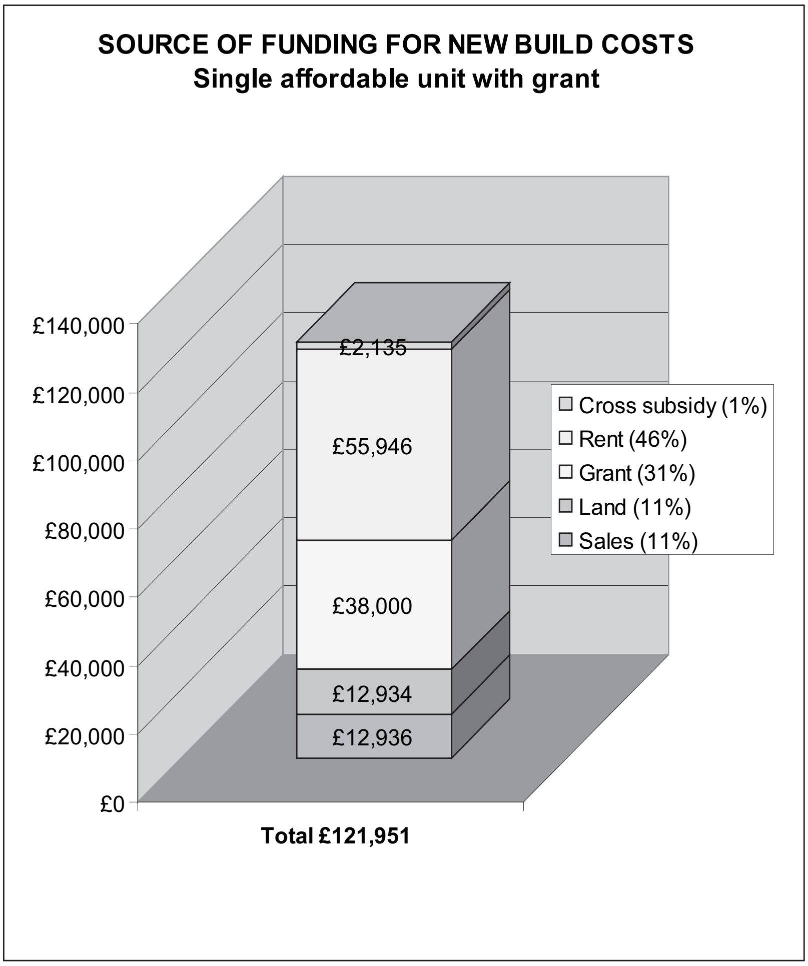
3.2.2 This is not to say it could not be done however. England has seen public sector build rates in excess of 100,000 units per annum as the norm before. Between 1946 and 1979 England saw annual completion rates of public housing in excess of 100,000 units in 26 of the 34 years. It was only in the 1980's that public sector build rates began to fall rapidly such that we now regard completion rates in excess of 20,000 per annum as significant. High volume build rates were clearly a political and funding priority in historical times but would take a further significant political and funding shift in current times to re-create anything like build rates that this Country once regarded as the norm.

3.2.3 There are further issues to consider however, in discussions on volume build. The current build standards are much more stringent than when volume building previously took place with corresponding effects on unit costs. Without flexibility on the revenue side to accommodate the cost elements it is difficult to see how anything like the volumes previously seen could be achieved.

3.2.4 From the Group's point of view there is consistent high demand for an affordable housing product. The issue is simply that the build cost is not met by the revenue generated to finance it. On the affordable rented side the build costs are still in excess of revenue, given the combination of rising costs, restricted revenue through target rents and diminishing grant rates. The cost tower (figure 1) shows the average costs for Gentoo new build property. Even with a grant rate of £38,000 per unit there is a shortfall that has to be met from a combination of core business cross subsidy, land and property sales. This is not a sustainable position in the long term.

Figure 1

GENTOO NEW BUILD COST TOWER



In addition, for the private sale market, there is a limit to what the market can command price wise and the current market down turn has made formerly viable sites unprofitable, resulting in them being mothballed.

3.2.5 A further illustration of difficulties facing developers when building new affordable housing is the shortfall in finance over a 30 year period when looking at rental income.

- The average build cost shown in the cost tower above is £121,951.
- The shortfall over a 30 year period when socially renting is £68,048 (using an assumed interest rate of 6% and a weekly rent of £80), inflating by 2.5% each year thereafter.
- To fund this new build unit over 30 years, with no profit would require a market rent of £148 per week—an increase of 85% over the social rent.
- This means that an affordable rent only funds 54% of the rent required to pay back the original build cost even with NO PROFIT for the housing provider.

3.2.6 In terms of the scale of the Group's new build activity there are plans to build out 3,600 new properties for a mix of rent and sale over the next ten years. However, the sale elements of this programme are under threat given the current market conditions. As a proportion of the whole programme relies on sale to cross subsidise the rental element, there is therefore also a knock on effect to the rental elements of the programme. In short, until the market stabilises and begins to pick up, the majority of schemes within the overall programme will have to be halted thereby delaying the overall delivery profile.

3.2.7 In summary there are now major difficulties facing the achievement of the Government targets for new build housing. Part of this is market based in that there is little current incentive to build in a declining market. Part of this is simply down to income and expenditure in that previous funding streams to enable new affordable housing provision are no longer viable or achievable.

3.3 *The financial viability and ongoing business of housing associations*

3.3.1 Having taken a view of the current economic climate it is also fair to say that the overall financial position of the Group has remained healthy. The Group is continually monitoring and revising its financial projections. Having taken a pessimistic view of the potential to sell new build homes, the Group has been able to continually meet its financial covenants. However, should the market deteriorate further then as with most Housing Associations we may look to renegotiate the loan covenants with lenders. That said, the RSL part of the Group continues to perform strongly in terms of its KPI's. The Group's wider business activities are all monitored as part of the Group's business planning, risk management and financial appraisal mechanisms. The key financial ratios of gearing and net interest cover are also monitored as a matter of course, as are the loan covenants with the Group's principal lenders. Where there have been concerns over particular commercial developments these have been appraised on a case by case basis and in some cases have been put on hold where there may be a risk to the viability of a particular scheme. The Group's monitoring has included sensitivity analysis to a range of sale and market scenarios such that the Group's exposure to risk at any time can be controlled.

3.3.2 There has been recent concern that an increasing number of RSL's are balancing their books through property sales with six of the top 20 providers of social housing reporting a combined total of £129 million through surplus on the sale of fixed assets in 2007–08. Steve Douglas, Chief Executive of the Housing Corporation has also gone on record to say that they are watching a number of housing associations very carefully. The reality facing housing associations is that they have to keep their business portfolios in balance, ring fencing and protecting the social housing assets whilst balancing the risk elements of their commercial dealings.

3.3.3 A particular issue the Group is facing in the current credit crunch is the capital lock up associated with new development schemes. The Group has mitigated against exposure to large, capital intensive schemes through limiting the number underway at any time. The Group underpins these schemes through gap funding, while maximising alternative funding through sales and market rental options. Sales to investors have also fallen off due to restrictive lending criteria, which have further exacerbated the lack of activity in the housing market. Indeed, lending rates need to improve to at least 2007 levels for private purchasers and investors as a step towards kickstarting some movement and activity in the housing market.

3.4 *Measures to help existing and prospective homeowners affected by the credit crunch*

3.4.1 The Group has had a particular concern over the issue of access to the housing market for some time. This has been articulated with the former housing minister—Caroline Flint and with senior civil servants within the CLG. There is a wealth of evidence that indicates there is a large section of the population who are finding it increasingly difficult to access the housing market through the three tenure options of affordable rent, market rent and owner occupation and have an acceptable standard of living. Even in the current market downturn, medium term house price inflation has dramatically outstripped earnings leading to increased mortgage to income ratios required to access owner occupation.

3.4.2 The Group has looked to model the impacts of this and in Sunderland this has led to the picture illustrated in figure 2.1. On a simple traffic light system where green is equal to less than 30% of disposable income on housing costs, amber is between 30% and 50% of disposable income on housing costs and red is greater than 50% of disposable income on housing costs it becomes clear that large sections of the population are excluded on affordability grounds from certain tenures. Affordable rented housing is the most affordable tenure but the reality is that this is severely restricted due to a combination of low turnover and priority based on need rather than affordability. This situation is not specific to Sunderland and is replicated across England as seen in figure 2.2. Put simply, people not currently in the housing market are finding it increasingly difficult to get a foot on the housing ladder. It is also essential to address the negative impact that the rising cost of housing has had on people's standard of living.

Figure 2.1

HOUSING AFFORDABILITY ANALYSIS IN SUNDERLAND

ASHE percentiles	*Gross earnings at each percentile point in Sunderland*	*Monthly Net Income*	*Total in each percentile grouping*	*Average Social Rent*	*Average Private Rent*	*Owner Occupation**
				£247	£485	£770
10%	£5,822	£485	9,300	*51%*	*100%*	**159%**
20%	£9,616	£673	9,300	*37%*	*72%*	**114%**
25%	£11,344	£784	4,650	*32%*	*62%*	**98%**
30%	£12,965	£864	4,650	*29%*	**56%**	**89%**
40%	£15,242	£1,003	9,300	*25%*	*48%*	**77%**
60%	£20,162	£1,276	18,600	*19%*	*38%*	**60%**
70%	£22,644	£1,415	9,300	*17%*	*34%*	**54%**
75%	£24,502	£1,510	4,650	*16%*	*32%*	**51%**
80%	£26,768	£1,650	4,650	*15%*	*29%*	*47%*

Key: % of net income	
0–30%	*In italics*
30–50%	*In italics*
50–100+%	**In Bold**
Likely to be eligible for Government Support	*In Italics*

* Average monthly repayment for a Flat/ Maisonette in Sunderland at £112k on a 25 year repayment at 6.5% interest, no deposit.

Figure 2.2

HOUSING AFFORDABILITY IN ENGLAND

Ave House Price in Eng (Land Reg Data Sep 2008)	*Deposit (15%)*	*Interest Rate*	*Monthly Payment*	*Income Required (Housing Costs at 30% of Net Income)*		
				Monthly	*Annual (Net)*	*Annual (Gross)*
£168,814	£25,322	6.5%	£980.30	£3,267	£39,189	£56,303

3.4.2 The situation is equally bleak in England as a whole. As the table above suggests a relatively high income is required to afford an average house price (even with a 15% deposit). Indeed, ASHE (Annual Survey of Hours and Earnings) data suggests that less than 10% of individuals could realistically afford a property without using more than 30% of their income on housing. The situation is similarly bleak if looking at household income (ie potential for two incomes), with ONS statistics suggesting only the top quintile group would be able to access housing at a reasonable proportion of income.

3.4.3 Given the affordability scenarios there is a need to think creatively around the models of access that can be generated to assist people into the housing market who otherwise cannot afford to do so. The Group is currently working on two models that have been discussed with civil servants with a view to feasibility and market testing in the coming months. These models are aimed at improving access to housing, whilst also allowing individuals to have a good quality of life. These are described as follows:

3.4.4 Homestart

Homestart is a scheme that produces Housing "Graduates"—people who are ready and able to buy their first home and all that goes with it. It includes a savings plan linked to a home with a reasonable rent which allows what we call the "Trapped Generation" to live independently whilst saving to invest in their own future. It effectively guarantees that they save for a deposit.

Initial modelling has worked on the basis of a monthly fee payable by the occupant, part of which effectively acts as rent and part of which acts as saving. Within four years it would be possible to first of all be adequately housed and secondly to save up to a £12,000 bond (on the basis of a £500 month fee half of which acts as rent, half as a savings bond) which could be carried forward as a deposit for a new home.

3.4.5 "Donk"

The Group are currently exploring another solution for those unable to access housing at present (currently being called "Donk"). This model would negate the need for a deposit and mortgage, while giving the feel of owner occupation (the ability to acquire equity in your home). The model also reduces the risks for the purchaser associated with a traditional mortgage by allowing them to fix their housing costs for five years and offers increased flexibility to reflect changing personal circumstances.

The model works on the basis of the property owner holding the mortgage, with the customer living there for the payment of a management fee whilst also giving the opportunity to purchase an equity stake of between 1% and 4% on annual basis. This will provide the opportunity to gain a foothold on the housing ladder and invest in an equity share that could then be used to move on into the housing market.

3.4.6 For both of these models there would be a subsidy requirement against the rental element but it would introduce a significant element of churn into the housing market. Homestart effectively assists seven households over a 30 year period. The "Donk" model increases churn by introducing a new financial product which will help people access housing. This would then stimulate turnover in the housing market and enable a larger number of people to gain access to subsidised housing than would otherwise be the case in a typical new home capital subsidy model.

3.4.7 In terms of wider support and assistance the Group would support the further development of mortgage rescue and assistance measures announced recently by Government. The reality of re-possession is that people are simply moved within the housing market often with an increased burden on an already pressurised affordable rented sector. Measures that allow people to stay in their own home but effectively switch tenure must therefore be supported.

October 2008

Memorandum by the East Midlands Regional Assembly (CRED 27)

The Communities and Local Government Committee has resolved to undertake a brief inquiry into the Government's response to the effect of the "credit crunch" on its housing policies.

The Committee will consider the likely effectiveness of the measures that the Department for Communities and Local Government are taking to deal with the "credit crunch" with particular reference to:

— Achievement of the Government's house building targets, both for market and social housing.
— The financial viability and on-going business of housing associations.
— Measures to help existing and prospective homeowners affected by the "credit crunch".

In view of the role and responsibilities of the East Midlands Regional Assembly, this submission will focus on the first of the three lines of inquiry, specifically "the impact of the credit crunch on the achievement of the Government's house building targets, both for market and social housing".

1. Summary of Submission

1.1 Targets for the next five years for market and social housing are unlikely to be achieved as a result of the downturn in the housing market.

1.2 However, history suggests that the housing market may rebound strongly once the overall economic situation improves and Regional Planning Bodies and Local Planning Authorities need be planning for this recovery now.

1.3 It is unlikely that housing delivery can increase sufficiently over the medium to longer term to meet the Governments overall targets for new homes by 2016 and 2020.

2. Background

2.1 The "credit crunch" and ensuing economic downturn has fundamentally affected the housing market. The climate for house building has now changed beyond all recognition, for both private developers and builders of social housing.

2.2 Consequently, current economic conditions are certainly very different from that at the time of the Government's announcement of the Housing Green Paper and associated house-building targets.

2.3 Specifically, house buying has decreased with potential buyers discouraged by both a limited access to credit (mortgage products) and the (rational) expectation that the next house price movement will be downwards.

2.4 Consequently, housing developers have substantially reduced or halted the construction of new housing. This situation will continue for the foreseeable future.

2.5 In order to give an assessment of the impact of the "credit crunch" on Government's house building targets, these issues should be fully considered and the national targets should be disaggregated to fully understand the national and regional implications.

3. Targets Set Out in the Housing Green Paper (July 2007)

3.1 The Housing Green Paper set a national target of delivering 240,000 houses per annum by 2016, to provide an additional two million new homes between 2006 and 2016 and three million new homes between 2006 and 2020.

3.2 There is little reason to suggest at this point why building rates should not rise to 240,000 per annum by 2016 given the country has achieved much higher rates in the post war period.

3.3 However it is very unlikely that delivery will increase sufficiently over the medium term to meet the overall targets for additional new homes by 2016 and 2020.

4. Targets Set Out in the East Midlands Regional Spatial Strategy (Proposed Changes Issued by the Secretary of State, July 2008)

4.1 The Secretary of State has proposed an increase of the Regional Assembly's house building target for the East Midlands of 20,418 per annum to 21,750 per annum over the period 2001 to 2026. This was against the advice of the Regional Assembly.

4.2 The Secretary of State has also included interim build rate targets for each local authority for the periods 2006–11, 2011–16 and 2016–26. This was against the advice of the Regional Assembly.

4.3 Considering past trends, given that the region delivered just over 22,000 new homes in 2006–07, the overall regional target may still be achievable over the longer term. However, the usefulness of past trends is now challenged in light of the current environment.

4.4 However, it is now clear that much of the period up to 2026 will be characterised by the effects of the housing market downturn. Therefore, in the short term, development will be well below these levels. As a result, the Secretary of State's proposed house building targets for 2006–11 are unlikely to be achieved.

5. Targets Set Out in Local Area Agreements (LAAs)

5.1 A number of Local Authorities in the East Midlands that have either Growth Area or Growth Point status have agreed targets with Government for housing delivery within LAAs.

5.2 Given the short term nature of these targets, it is very unlikely that they will be achieved and Local Authorities may therefore need to re-negotiate these targets.

6. Targets for Affordable Housing

6.1 The Housing Green Paper also set an affordable housing target of 70,000 per annum by 2010–11. Although the Government has made significant additional funding available through the Housing Corporation (soon to be the Homes & Communities Agency), achievement of this target requires significant additional investment from the commercial banking sector and developer contributions from Section 106 Planning Obligations.

6.2 In a buoyant housing market this would have been challenging enough. In a falling housing market the target looks increasingly unrealistic.

6.3 However, there is the opportunity for Government to support the purchase of unsold private stock by Housing Associations for affordable housing, as happened in the early 1990s.

October 2008

Memorandum by The Council of Mortgage Lenders (CML) (CRED 30)

Executive Summary

Mortgage market developments post-credit crunch

— The mortgage market has become dysfunctional, and this underlies the problems the government's housing policies are designed to address. It also puts in place a limit on the effectiveness of those policies in the absence of effective measures to promote a fully functioning mortgage market.

— The UK mortgage market is suffering as a consequence of the unique, protracted global disruption to wholesale funding markets and to inter-bank lending.

— Demand in housing and mortgage markets has also been dropping away as consumer confidence has ebbed and perceptions of likely future falls in house prices have encouraged a cautious attitude.

What more needs to be done?

— Given the above conditions, efforts to maintain housing supply targets, promote the viability and activity of housing associations and to protect homeowners may be of limited effect unless the underlying problems affecting the funding of the mortgage market are addressed. The Crosby report may recommend such a plan, which could take the form of government guarantees for new mortgage lending or direct government support for wholesale and/or retail mortgage markets.

Housing supply targets

— The commitment of the Council of Mortgage Lenders (CML) members to all tenures enables the CML to look at housing issues in the round—not simply focussing on home ownership. UK housing tenure needs to be flexible and able to accommodate economic and social change.

— The government should update its long- and shorter-term projections as to sustainable levels of home ownership in the light of current market difficulties and likely longer-term trends in the post-recession environment.

— Government targets for increasing housing supply are unlikely to be met within projected timescales given current financial and economic difficulties.

Social housing and low-cost home-ownership targets

— While the National Affordable Housing Programme is currently on track, new-home starts will tail off rapidly given the difficult market conditions and constraints on housing association funding due to the credit crunch.

— Lenders are increasingly concerned that borrowers accessing shared ownership should have a stake in the property rather than borrow 100% of their share. Demand from borrowers for this product is also falling away due to uncertainty over house prices.

— The current development model of cross subsidising development for social rent from open market sales is not deliverable in present circumstances and risks prejudicing the viability of some developing housing associations. Government could sanction a move towards a new model focussed on building for market, intermediate and social renting, with appropriate levels of grant and/or other support.

The private rented sector

— The private rented sector should not be neglected in discussions about housing supply and tenure. It has a vital and expanding role in the tenure mix.

— The Rugg review of private rented sector housing, commissioned by government, provides a sensible focus for future development of the private rented sector based on incentivising investment by both large and small landlords through tax and other measures and avoiding excessive regulation.

The financial viability and ongoing business of housing associations

- The CML welcomes the establishment of the Tenant Services Authority (TSA) and is in close dialogue with the TSA and the Housing Corporation (HC)to ensure that heightened risks to housing association financial viability are identified and addressed.
- There is a need to ensure that the TSA and the new Homes and Communities Agency (HCA) work together effectively to ensure both financial viability and sustainable business growth in the current challenging times.

Measures to help existing and prospective homeowners affected by the credit crunch

- Lenders see repossession as a last resort. All first charge lenders are subject to regulatory rules and treating customers fairly principles overseen by the Financial Services Authority, industry guidance on arrears management, consumer information on what to expect during the collections process if arrears build up, and a pre-action protocol on possession cases. These measures provide a series of checks and balances to help existing homeowners in difficulties.
- We welcome the reforms of Income Support for Mortgage Interest to be introduced in January. However, the changes should be made permanent, and need to be extended to more vulnerable borrowers who still do not have an effective safety net. Coverage for around 10,000 potential claimants does not go far enough in an environment of rising unemployment.
- We are working closely with the government on development of its mortgage rescue scheme which is to be launched in January. Once the scheme is up and running the government should consider expanding the scheme to help more households.
- The government should use the current stamp duty holiday to consider wider long-term reform of stamp duty, which is a barrier on transactions and mobility.
- We welcome the government's help for first-time buyers through increased shared equity schemes. However, the current proliferation of schemes needs to be simplified to ensure maximum participation by consumers and lenders.

Introduction

1. The CML welcomes the opportunity to submit evidence to the Communities and Local Government (CLG) select committee. The CML is the representative trade body for the residential mortgage lending industry. Its members account for 98% of the assets of the UK mortgage market.

Mortgage market developments post-credit crunch

2. The mortgage market has become dysfunctional, and this has significant implications for the government's housing policies. Therefore, an analysis of current mortgage market conditions is necessary, together with an indication of the scope of measures needed to promote a fully functioning mortgage market. Without such measures, the actions of CLG can, even if well intentioned and carefully targeted, be only peripheral to the key consequences of the credit crunch and their impact on the broader economy.

3. The global financial market turmoil, triggered by deep concerns about the viability of sub-prime loans in the US, has demonstrated the close inter-dependencies of asset and credit markets and different geographies. No countries have been immune from these once-in-a-lifetime financial market difficulties. We agree with the analysis of the current funding difficulties in the Crosby interim report[16] and share his view that the UK mortgage sector has been particularly badly hit by financial market disruptions.

4. The dislocation of wholesale funding markets, in particular securitisation, has adversely affected the availability of funds to support residential mortgage lending. Securitisation markets expanded strongly between 2000 and 2007, driven by investors' search for yield and the increasing ability of issuers to create financial products tailored to individual risk profiles. UK residential mortgage backed securities (RMBS) and, to a lesser extent, covered bonds shared in this growth, with these structured finance products equating to around two thirds of the £108 billion net increase in mortgage lending in 2007.

5. The effective closure of these structured finance markets to UK mortgage lenders is one manifestation of the more generalised and global hoarding of liquidity by banks and other institutions, associated with concerns about the value of mortgage-related assets, the need to refinance maturing wholesale funding, bad debts and solvency of banks and other leveraged institutions.

6. The majority of the problems being experienced in the UK stem from the unanticipated massive and protracted disruption to wholesale markets.[17] It is important to bear in mind that almost all banks, building societies and other specialist mortgage lenders have relied on wholesale markets to finance at least part of their lending. And even for the small number of lenders that have not, typically some of the smaller building

[16] Crosby J (July 2008), *Mortgage finance: interim analysis*, HM Treasury.
[17] Goodhart C, *Not the time to worry about moral hazard*, Financial Times 18 September.

societies, they have experienced increasing competition for, and sharp increases in the marginal cost of, retail savings. Over and above these effects, all lenders have needed to review and build up their holdings of liquid assets.

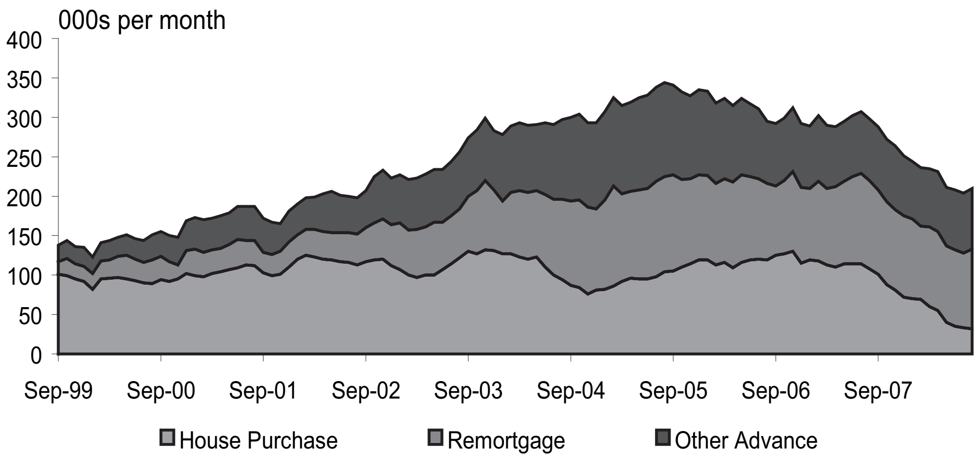
7. The consequence in the last 12 months, and ongoing, has been significantly fewer funds to underpin new mortgage lending, higher funding costs for mortgage lenders, and higher prices for and/or reduced access to finance for many borrowers. Despite the announcement of the bank recapitalisation programme, these trends will not reverse overnight to re-create funding capacity at near 2007 levels.

8. Unfortunately, while the slowdown in our housing and mortgage markets in early 2008 reflected the shortage of mortgage supply, more recent evidence shows that demand has been dropping away because of other factors. Ability to pay, perceptions over job security, prospects of further falls in house prices, and falling consumer confidence have all started to impact on households' appetite to buy. Anecdotal evidence also suggests that demand has suffered because of potential buyers' perceived or actual difficulty obtaining mortgage finance. In other words, the reduced availability of mortgages has led some buyers to give up looking.

9. While these supply and demand trends persist, real damage is being inflicted on the UK's broader economy and on the housing market in particular.

Chart 2

NUMBER OF MORTGAGE APPROVALS



10. Mortgage approvals for house purchase are already running at around one third of last year's levels (see Chart 2), and it seems likely that 2008 will mark a post-war low for property turnover, relative to the size of the private sector housing stock (owner-occupied and private rental). Current indications also suggest that first-time buyer numbers, strongly affected by lenders' imposition of lower LTVs requiring larger deposits, may struggle to hit 200,000 this year—the lowest level for at least 40 years.

11. House prices are already down around 15% from last year's peak, and could fall by 25% peak-to-trough in the view of the Nationwide's Chief Executive in a recent interview with the BBC.

12. This scale of fall would precipitate the return of widespread negative equity, with 1.7 million borrowers affected according to Standard & Poor's.[18] Under such circumstances, significant numbers of households are also likely to find that their positive equity cushion has shrunk considerably or become negligible, both discouraging house moves further and reducing households' coping strategies should they experience an adverse change in circumstances such as unemployment or sickness. It also diminishes an important potential source of funds to help first-time buyers pay their deposits as home owning parents have become a key source of help with their offspring's deposits.

13. Indeed, while financial market uncertainties continue, there is a strong likelihood that property sales will continue to weaken. Distressed sales may account for a higher proportion of turnover, raising the prospect of house prices "over-shooting" in a downwards direction.

14. Recent months have also seen a surprising weakness of remortgage activity (given the large numbers scheduled to come off various short-term fixed rate deals), while the latest Bank of England figures revealed an unexpectedly sharp reversal in housing equity withdrawal. All of these indicators illustrate how borrowers are being adversely affected by the more restricted product offers now being made by mortgage lenders, squeezed household finances and a general ebbing away of confidence.

[18] Standard & Poor's RatingsDirect (30 July 2008), *Risk Of Negative Equity For U.K. Mortgage Borrowers Returns.*

15. Given an ongoing shortage in funding sources and scale, efforts to boost or even maintain housing supply targets, to promote the viability and activity of housing associations and to assist homeowners will necessarily be of limited effect if dependent on private finance. The key issue remains that of unlocking the proven potential of the mortgage market to help the government to achieve its housing policies in this post credit crunch environment.

What more needs to be done?

16. The government's announcement on 8 October of comprehensive and radical measures to support the financial system is welcome. The proposed measures address both the need to strengthen the capital position of banks and building societies and to ensure that eligible institutions have sufficient access to short and medium term funds. The co-ordinated decision by the Monetary Policy Committee to lower official short-term interest rates by $\frac{1}{2}$% was designed to further bolster confidence. And it will be helpful if this is followed by further interest rate cuts sooner rather than later.

17. The tripartite authorities now have a clear direction of travel, and we believe that the bold measures taken were necessary to limit the downside risks to the financial system, the housing market and the wider economy.

18. A resumption of wholesale market funding continues to be the key to avoiding a vicious circle developing in the mortgage market where restricted credit availability leads to falling house prices, heightened credit risk and the further loss of investor confidence and supply of funding.

19. We believe that a further policy measure is required, specifically aimed at maintaining the supply of mortgage credit. The government showed support for the objective of maintaining the flow of mortgage credit in the Treasury statement of 13 October on financial support for the banking system. This outlined the agreement whereby banks receiving support would maintain "over the next three years, the availability and active marketing of competitively-prices lending to homeowners . . . at 2007 levels". We await further details on how this is being interpreted by the government, and how it will impact on the commercial position of those institutions in the short term (and it cannot guarantee that consumers will want to borrow at similar levels as we discuss above).

20. We would advocate an additional scheme available to lenders across the board, including those that have not required government support. This could take the form of an additional system of guarantees specifically aimed at new mortgage lending, which was mooted in the interim Crosby report.

21. Alternatively, it would be possible to implement a policy along the lines of that announced this year in Australia, where the government will purchase RMBS from lenders to support new lending. Another possible approach would be for the government to grant blocks of funding to lenders specifically earmarked for lending on to mortgage borrowers—similar to the mechanism operated by the Federal Home Loan Banking system in the US.

22. We would welcome such a measure were it contained in the final Crosby report expected by the time of the pre-budget report. But, we believe such a plan should be considered urgently as it would help to safeguard the interest of taxpayers by limiting the risk that the housing market overshoots downwards creating substantial credit losses in government owned and part owned financial institutions.

Housing supply targets

23. While our members have a particularly strong interest in home ownership, we recognise that—despite its many benefits—the tenure is not for everyone all of the time. As mortgage lenders, therefore, they support all housing tenures in the UK. Of the £1,211 billion secured against residential property at mid-2008, 14% or £166 billion related to other tenures—the majority to private landlords but a not insignificant £33 billion to social landlords.

24. The commitment of our members to all tenures encourages the CML to look at the economics of housing market issues "in the round", not just home ownership. As a trade body, we understand that UK tenure patterns need to be diverse and flexible and able to accommodate economic and social change.

25. In this regard, we see some benefits in narrowing the divide between home ownership and other tenures by promoting the so-called intermediate tenure where there is genuine demand. There is potential for enabling households to increase or lower their degree of home ownership according to personal circumstances.[19] Over the longer term, there may be scope for expanding low-cost home ownership, though such ownership must be sustainable over the economic cycle and particular caution should be exercised over promoting such an option at a time of rapidly falling house prices.

26. The government should update its long- and short-term projections as to sustainable levels of home ownership in the light of current market difficulties and likely longer-term trends in the post-recession environment.

[19] See, for example, Anderson S *et al*, (February 2004), *The CML mortgage market manifesto: taking the past into the future*, CML.

27. Although housing aspirations fluctuate over time, broadly speaking reflecting the prevailing state of the housing market, the preference of the vast majority of UK households (80% or higher) for home-ownership has persisted over a very long period of time.

28. For over 150 years, building societies and latterly other mortgage lenders have acted to help households realise their aspiration for home ownership. But, over the past decade and more, economic and social change has presented an ever more challenging environment.

29. Long before the credit crunch, the world had become a much less certain place for many (perhaps the majority of) individuals, with, for example, more widespread experience of relationship breakdowns, job changes, temporary unemployment, inadequate pension arrangements and credit problems at some point in our adult lives.[20]

30. In February 2007, the Communities and Local Government department issued a research report[21] acknowledging that higher rates of home-ownership had and would entail drawing in more financially marginal and vulnerable households with a consequent shift in the risk profile of the home-ownership base.

31. As people's circumstances become more diverse, complicated and subject to financial shocks, lenders have sought to financially include affected people by developing extensive new ranges of mortgage products. These have included remortgages, offset and current account mortgages, buy-to-let products, self-certified, adverse credit products, lifetime and Sharia-compliant mortgages.

32. For much of the past decade, strong and continuous growth in the wider economy and household incomes, allied with a chronic under-supply of housing provision, meant that house prices also rose strongly. While the government has now recognised the UK's lack of investment in housing provision, and has responded positively and with determination to the Barker review, all stakeholders recognise that this challenge is necessarily long-term in nature.

33. It has however suffered a severe setback as a result of the recent sharp cutbacks in new-build levels.[22] A number of forecasters are now suggesting that private housing starts may remain in the 100–120,000 range throughout the 2008–10 period. Given such an outturn, the government's targets for longer-term net additions to the housing stock would necessitate a historically unprecedented recovery profile. This seems unlikely given that concerns have already started to appear about the loss of job skills in the construction sector. The inevitable conclusion would seem to be that annual targets will need to be revisited.

Social housing and low-cost home-ownership targets

34. In terms of the government's house building targets for social housing, the funding market turbulence and housing market downturn has not had full impact yet on the supply of new affordable housing. The HC recently reported that the National Affordable Housing Programme (NAHP) is on track (as at the end of quarter 2 2008–09). However, it is clear that an impact on starts is showing and a recent survey of housing associations saw 54% having frozen their development pipelines which previously helped to fund social housing projects. This puts the Comprehensive Spending Review targets of last autumn (45,000 social homes a year by 2011) in doubt.

35. The delivery mechanisms for affordable housing put in place by government included extending grant funding to Arms Length Management Organisations (ALMOs) and developers, allowing local authorities to build through Local Housing Companies (LHCs) and encouraging housing associations to "sweat their assets" and cross subsidise from build for sale.

36. The fundamentally changed market conditions coming out of the credit crunch mean that these mechanisms will no longer be as effective in delivering more affordable housing in the short to medium term. It seems clear, in particular, that there is a need for a new model and that the continual reduction of grant rates has created an over reliance on cross subsidy for both the delivery of affordable housing but also the business operating models of associations.

37. A shift to increased grant rates and from open market sales to rental is required urgently if there is to be an effective short to medium term solution to maintaining momentum in the delivery of new supply of social housing. Flexibility of tenure as well as increased public funding are crucial factors in ensuring that action taken to respond to the current crisis does not undermine the longer-term viability of the affordable housing sector and mobility within the wider housing market.

38. The housing association sector and others are already working on different models of delivering affordable housing. The CML remains keen to work closely with the sector and the new Homes & Communities Agency at an early stage to ensure that any new model does not undermine the existing (and still hugely important) funding structures for the sector.

39. On low-cost home-ownership, the CML is still being asked to persuade its members to increase appetite for shared ownership lending in this post-credit crunch environment. This is ultimately a commercial decision for members. However, it should be noted that lenders increasingly feel that borrowers

[20] Samter P (February 2008), *Fuzzy households, fuzzy tenures*, CML.
[21] DCLG February 2007, *Social Mobility and Homeownership: A Risk Assessment*, New Horizons Research Programme.
[22] Baker Tilly, Social Housing Vol 20 No 10 October 2008.

should have a personal financial stake in the property. Housing associations with large numbers of unsold shared ownership properties report that the demand is falling as the uncertainty caused by house price falls continues.

40. Is focusing on increasing activity around low-cost home-ownership an appropriate response at present?

The private rented sector (PRS)

41. While the PRS is not specifically mentioned in the terms of the Inquiry, it should not be neglected in any discussion concerning housing supply and tenure.

42. The PRS has, over the past 10 years, been the fastest growing tenure in the UK. It now represents some 12% of the housing stock. It provides a flexible tenure offering high levels of tenant satisfaction to those for whom home ownership or social renting are not appropriate or available options.

43. Growth in the PRS has been driven by several factors. These include:

— De-regulation of the sector and notably the introduction of the assured shorthold tenancy (AST).

— Social and demographic changes including lifestyle changes, increased immigration, higher student numbers and more mobility.

— The development of buy-to-let (BTL), which has financed a major expansion in provision plus improvement in standards in the PRS, which are now on course to converge with those of other tenures over time.

44. The PRS is now a very different sector to that which existed 30 years ago. Yet landlords still suffer from a poor reputation that is largely unjustified but which carries the threat of further well-intentioned regulation that risks stifling the investment and enterprise that has proved so successful. Those risks are significantly enhanced against the backdrop of the credit crunch, which has, in the short term, caused a downturn in investment by BTL investors unable to access suitable mortgage products or concerned at falling prices. Institutional investors to the sector have been similarly affected.

45. Within the context of the credit crunch, it is important that government takes appropriate market-led initiatives to encourage the continued growth in the PRS and to promote further improvements in standards, building on the successes of the last 20 years since the Housing Act 1988.

46. The Rugg review of private rented sector housing[23] is a decisive contribution to the discussions surrounding the PRS. Rugg makes some key points that the CML believes should shape government thinking as it moves to include measures relating to the PRS in the forthcoming housing reform green paper:

— The PRS provides good levels of tenant satisfaction, and there is no evidence that larger corporate landlords score more highly in this regard. The sector needs both large and small landlords.

— The emphasis in terms of regulation should be one of effective enforcement of existing powers (notably by local authorities) rather than on additional regulation (though Rugg does advocate non-prescriptive licensing as a means to assist the authorities in enforcing existing powers).

— The existing Assured Shorthold tenancy is essentially fit for purpose.

— Government should focus on providing tax and other incentives to both institutional and investors and individual landlords (including BTL landlords) to further expansion and raising of standards.

47. The CML believes that the Rugg review provides a positive focus for future government policy for the PRS. It is also, with its emphasis on investment, very relevant in the context of the credit crunch. The PRS is vital to any discussion about supply and tenure choices.

The financial viability and ongoing business of housing associations

48. The CML welcomed the government's announcement that a new independent regulator ("Tenant Services Authority") would be set up with a separate housing and regeneration investment agency, the HCA. Transitional arrangements for the set up of the Tenant Services Authority (TSA) are progressing and the continuing dialogue with the CML and its members is encouraging.

49. The housing association sector is experiencing rapidly changing external conditions which have an impact on the risk profile of the sector. Although income streams from rented property are relatively secure there are some affordable housing providers who are more vulnerable because of reliance on receipts from sales to fund their development activity and in some cases their operating costs.

50. The current risks for some housing associations should not be underplayed, with the financial strain of unsold properties as well as reduction in the ability of housing associations to borrow likely to have a high impact. The HC is keeping a close watch on the sector and the next few months will be crucial in determining that the financial viability of the sector is maintained.

[23] Rugg J and Rhodes D (October 2008) *The Private Rented Sector: its contribution and potential*, University of York.

51. Action taken recently by HC to strengthen the focus of regulation on financial viability has been welcomed by the CML and lenders. The level of communication with the HC around current approaches to assessing viability and risk remains essential.

52. What still represents a significant risk in ensuring the financial viability of the sector, however, is how the TSA will work together with the Homes & Communities Agency (HCA) to ensure that the separation of investment and regulation is effective in ensuring the ongoing financial viability and sustainable business growth of the sector in challenging times with heightened risk.

Measures to help existing and prospective homeowners affected by the credit crunch

53. Our latest data released in August showed no surprises in terms of the number of mortgage arrears and possession cases in the first half of 2008. However, while both have increased from their low base, the vast majority of the UK's borrowers pay their mortgages in full every month, and will continue to do so.

54. We have maintained our forecast of 45,000 total possessions, while the industry continues to strive to keep as many people as possible in their homes. But, there is at the same time upward pressure on our forecast of 170,000 mortgages being three months or more in arrears by the end of the year as a result of the worsening employment figures and broader recessionary impacts. These numbers remain small when seen in the context of the 11.74 million mortgages in the UK but are worrying for the borrowers involved and need sensitive handling.

55. Our current arrears and possessions figures relate to first mortgages only, not to other consumer loans secured on property, and show:

— There were 18,900 possessions in the first half of the year, compared with 13,400 in the second half of 2007, and 12,800 in the first half of 2007. The proportion of all mortgages on which possession occurred was 0.16%, up from 0.11% in both the first and second halves of 2007. The possession rate now is similar to that of the late 1990s, but remains less than half the rate experienced in the early 1990s.

— The number of households with arrears of three months or more was 155,600 at the end of the first half of the year, up from 129,600 at the end of 2007 and 120,800 at the end of the first half of last year. The arrears rate stood at 1.33% of all mortgages, up from 1.10% at the end of 2007 and 1.02% at the end of the first half of last year.

56. Lenders must, and do, see possession as a last resort. Under FSA regulation, all CML members (first charge mortgage lenders) are committed to comply with the mortgage conduct of business (MCOB) rules, and the principle that possession is only taken where all reasonable steps to avoid it have been taken.

57. On 22 October the CML published industry guidance on arrears and possessions. The aim of the guidance is to give lenders a practical guide to the requirements, and examples of good practice against which they can benchmark their own policies and procedures. It is not a definitive statement of what lenders should do in each case because arrears management processes will differ between lenders depending on their business model and customer base, and depending on borrowers' behaviour and engagement to help themselves sustain their home ownership. The guidance is a further step in strengthening the robustness of existing practices, alongside the Civil Justice Council's pre-action protocol for court cases on possession also published on 22 October.

58. Our members have committed to a package of voluntary measures which include reviewing existing arrears management policies against the CML's guidance, providing information to borrowers to explain the process and implementing strategies for assisting borrowers coming out of initial deals. We are also continuing to work with the government, regulators and advice agencies to ensure that as much as possible is done to help borrowers who may be facing financial problems, and to manage arrears effectively.

59. We welcome the announcement of reforms to income support for mortgage interest (ISMI) next spring, where the waiting time for new claims is being cut from 39 weeks to 13 weeks, and the upper ceiling for the size of mortgage that will be met is being raised to £175,000. For eligible borrowers, these reforms will make it easier for lenders to exercise forbearance until benefit payments begin.

60. In a recent Prime Minister's Question Time, Gordon Brown indicated that the changes to ISMI would be introduced in January 2009. We believe that, given the increased likelihood of mortgage payment difficulties going forward, the government should implement the proposed changes as soon as possible—and apply them to outstanding claimants, not just new ones.

61. The two-year temporary nature of the recently announced reform should also be revisited in the light of the need to avoid a sudden withdrawal of benefit to claimants and to promote stability should the economic and market downturn prove to be more prolonged than currently predicted.

62. There also remains scope for government to consider widening ISMI even further to make entitlement an individual one rather than a household one since households dependent on two incomes will see their entitlement to ISMI heavily reduced or negated through means-testing.

63. We are also working closely with the government on the development of its mortgage rescue scheme, also to be launched in January, which is intended to help the most vulnerable households that may not be able to pay off their mortgage arrears and face homelessness. The scheme will enable borrowers to become tenants of housing associations in the home they have previously owned.

64. While this is welcome, it will help only perhaps 6,000 households over two years. Once the scheme is up and running the government could consider expanding eligibility for the scheme to help more households. An obvious move would be to extend the scheme to vulnerable households who find themselves with negative equity, as is already the case in Scotland.

65. For prospective households, the government's decision to increase the threshold for stamp duty on house purchase from £125,000 to £175,000 means that the proportion of borrowers who will not have to pay the tax when buying a home has risen from around a quarter to a half. However, there are geographical differences in the extent to which borrowers will benefit from the governments measures, as shown in the table below.

	Already exempt %	*Cumulatively exempt %*
Northern	47	72
Yorkshire and Humberside	41	69
North West	40	68
East Midlands	34	66
West Midlands	34	65
East Anglia	16	51
Greater London	2	11
South East	6	27
South West	11	42
England	21	45
Wales	38	68
Scotland	41	66
Northern Ireland	8	40
UK	24	49

Note: Percentage of those buying on mortgage exempt from stamp duty at £175,000 threshold, based on transaction data for the first half of 2008.

66. The Treasury predicted that the measure would cost more than £600 million. But we believe it may have based its calculations on the number of transactions in earlier years, when sales were much higher than is now likely in 2008–09. We estimate that the reduced number of transactions means that the cost to the Treasury will be approaching £300 million if the stamp duty holiday lasts for a year.

67. We would like the government to use the period of the stamp duty holiday to consider wider reform of stamp duty to remove the current "slab" structure and replace it with a graduated tax that would prevent "bunching" around the stamp duty thresholds.

68. We welcome the various government announcements of plans to provide more help for first-time buyers which include:

- All first-time buyers with an income of less than £60,000 will have the opportunity to apply to buy a share of their home.
- An allocation of £200 million for the HC to buy new properties on the open market, either for purchase by first-time buyers through the homebuy scheme or for social renting.
- A new Homebuy Direct shared equity product available on selected new-build schemes.

69. Although these measures will have only a modest impact on the housing market, they do have the potential to widen choice for first-time buyers and Homebuy Direct does provide some protection against negative equity for buyers encouraged to use it.

70. These announcements mean that the government is now proposing a more logical approach to help for first-time buyers, providing assistance based on income rather than the occupation of buyers. The proposals will also remove the anomaly by which one group of less well-paid workers makes access to home-ownership more difficult for others earning similar salaries, but working in different jobs.

71. However, we remain concerned that the variety and complexity of low-cost home-ownership schemes dissuade both borrowers and lenders alike from participating. In addition, the schemes do not address the problem that accessing homeownership in some housing market areas is much more expensive than in others and it is not clear to what extent they will directly promote housing supply in the present environment.

A holistic approach

72. This response sets out the CML view on CLG targets and policy initiatives and contributes to an assessment of their relevance and effectiveness in a post-credit crunch environment.

73. Very importantly however, it highlights the importance of the credit crunch in causing a shortage of mortgage finance with consequent effects on both the housing market and broader economy. These factors are clearly interrelated.

74. The degree to which the CLG initiatives will achieve their objectives and the extent to which government will meet its own targets within an acceptable timescale depends very much on the restoration of confidence within the banking system leading to recovery of the mortgage market and a more positive outlook for the broader economy over the medium term.

November 2008

Memorandum by the Royal Institution of Chartered Surveyors (RICS) (CRED 31)

By way of background, RICS is the world's leading professional body on all aspects of land, property and construction and associated environmental issues. As an independent and chartered organisation, it regulates and maintains the professional standards of 86,000 chartered members (FRICS and MRICS), many of whom deal with residential property as valuers, estate agents or while working for Housing Associations. RICS represents, regulates and promotes the work of these property professionals throughout 146 countries and is governed by a Royal Charter approved by Parliament which requires it to act in the public interest.

Key Points

- The Government's housebuilding targets were set in very different market conditions and it now looks highly unlikely that they will be met.
- There are fundamental structural problems with the UK housebuilding industry which should be addressed by significant changes to the land use and planning systems.
- Housing Associations are suffering from lack of access to credit and a fall in sales of private sale homes and low cost home ownership.
- Proposals for Housing Associations to buy unsold new build stock will not provide sufficient affordable homes.
- There are serious problems in the housing market, highlighted by the lack of transactions. Last month's RICS Housing Market Survey reported the lowest number of sales per surveyor in its 30 year history, with an average of 11.5 sales per surveyor branch in the 3 months to September 2008.
- One of the key causes is lack of mortgage finance. Only 33,000 loans for new homes were approved in September 2008.
- There should be immediate steps taken to boost mortgage liquidity, help first time buyers save for a deposit and expand rent to buy schemes.

Achievement of the Government's housebuilding targets, both for market and for social housing

1. The Government's housebuilding targets were set in very different market conditions and were considered ambitious at the time by RICS. The Housing Green Paper of July 2007 sets a target for England of 240,000 additional homes per year by 2016 with the aim of delivering two million new homes by 2016 and three million by 2020. These targets were particularly ambitious as in 2006–07 only 167,680[24] new homes were built in England.

2. The housebuilding industry was one of the first hit by the credit crunch as the supply of mortgage lending fell and developers also found it more difficult to obtain credit to fund projects. Provisional figures show that in 2007–08 housebuilding levels had already started to fall after seven consecutive years of growth and the RICS Construction Market Survey for the third quarter of 2008[25] demonstrates industry workloads are falling significantly. Fewer than 66,220 new homes have been built this year and we expect that total housebuilding levels in England will fall below 100,000 this year.

[24] CLG housebuilding statistics dwellings completed http://www.communities.gov.uk/documents/housing/xls/323495.xls

[25] RICS Construction Market Survey Q3 2008-10-27 http://www.rics.org/NR/rdonlyres/7FDB18D6-B0E4-4777-A777-5FA044873D71/0/RICSConstructionMarketSurveyQ32008.pdf

3. Against this background we predict it is highly unlikely that the Government's targets for 2016 will be met. With the industry in crisis the targets have become irrelevant and Government efforts should instead be focussed on ensuring that minimum levels of supply are maintained and skilled workers are retained within the housebuilding industry.

4. These should be the two main aims of Government housebuilding policy through the current period. Maintaining supply levels is essential as household formation rates are still running at a relatively high level of around 220,000 new households per year. If the Government does not act to boost housebuilding then levels of affordability when the market does pick up will be even worse than in the years of the previous housing market boom.

5. Government action to maintain housebuilding levels is also essential to retain skilled workers within the construction industry. The reduction in workloads may cause people to leave the industry. Positive steps have been taken with the announcement that money would be moved forward from future years' funding streams to allow housing associations to build more properties as soon as possible. Further steps that could be taken by the Government include:

- Encouraging more Housing Associations to act as lead developers; commissioning developers and contractors to carry out projects on their behalf and questioning why some Housing Associations are not acting as developers.
- The new Homes and Communities Agency should take the opportunity of current market situations to buy land for housebuilding.
- Rules should be relaxed so developments built by Housing Associations can be 100% for social rent with homes being converted into shared ownership and private sale as the market picks up.

6. Research carried out by RICS suggests that there are fundamental structural problems with the UK housebuilding industry. When compared with the USA and Australia, the housebuilding industry in the UK is dominated by the large firms to the detriment of small and medium sized developers. In 2006 the top 10 firms in the UK were responsible for 44% of housebuilding compared with 15% in both the USA and Australia.[26] One of the key reasons for this is the scarcity of readily developable land, as a result of planning rules and constraints which encourages British firms to take each other over as a means of gaining access to development land.

7. To address this, the Government must take action to reduce the burdens and costs placed on housebuilders by the planning system. In particular immediate action must be taken to:

- Allow greater levels of well managed development on Greenfield sites.
- Contract out low level decisions to private firms freeing up local authorities to deal with more complex applications.
- Increase levels of training for councillors who sit on planning committees.

8. By taking these steps, the Government can help the industry maintain supply in difficult conditions and prevent serious affordability problems for future consumers.

The financial viability and ongoing business of housing associations

9. RICS members working in the affordable sector have raised serious concerns about the basic viability of the Housing Association business model that has developed over recent years. One of the main concerns that have been raised is that Government planning policy has led to a reliance on section 106 agreements for the provision of affordable housing units. Around 65% of affordable housing units were provided this way in 2006–07, as demonstrated below:

Total affordable housing units provided in England 2006–07[27]	39,808
Affordable housing units funded by developer contributions through the planning system (Section 106 Agreements)	25,838
Affordable housing units funded by other means	13,970
Percentage of affordable housing provided by developer contributions	65%

10. Changes to market conditions have had a significant effect on Housing Associations. The downturn in private development has cut provision of units through section 106 agreements leaving housing associations short of the number of units they need to build. This has been compounded by Housing Associations' inability to sell their own private sale and low cost home ownership products which in the past had been used to cross-subsidise their other activities including social rent.

[26] RICS Research FiBRE series Firm size and competition a comparison of the housebuilding industries in Australia, the UK and the USA
http://www.rics.org/NR/rdonlyres/480AFF85-42DB-4E42-B0FE-81B23C12C18E/0/FiBREFirmsizeandcompetition.pdf

[27] Housing Strategy Statistical Appendix 2006/07 Section N
http://www.communities.gov.uk/documents/housing/xls/sectionn

11. A significant part of this problem is the reluctance of mortgage providers to lend on shared ownership properties. This problem pre-dates the credit crunch but has worsened since there have been general restrictions on lending. Lenders consider people moving into shared ownership properties to be high risk, despite the fact that they are borrowing smaller amounts and have been approved by a Housing Association. The mortgage for the purchaser's share of the house is also considered by many lenders to have a loan to value ratio of 100% despite the fact that only part of the property is being bought. If the Government is committed to promoting shared ownership it must work with mortgage providers to encourage them to lend on these properties.

12. It is essential that the Government addresses the lack of new units becoming available for affordable housing as moves to fund the buy up of empty new build stock will only have a limited success. The main problem with this stock is that it does not meet guidelines on space and environmental standards. Although the Government has relaxed these standards, the ongoing management costs will be higher than properties built specifically for Housing Associations and the tenants will not necessarily receive a high quality product. As a result many Housing Associations are reluctant to use the money available to buy up existing empty new build stock.

13. Rather than giving Housing Associations money to buy empty properties the Government might be better off taking advantage of depressed development land values to buy cheap sites for housing development. In particular the new Homes and Communities Agency (HCA) has a role to play here as it will be able to identify the best value sites and should have funding available to make purchases. This should be a priority for the HCA when it starts work in December.

14. Once land has been purchased, additional funding should be made available in order to allow Housing Associations to develop these sites. This Government funding should take two forms. There will be a need for additional grant funding and the Government has already taken positive steps in this area by bringing forward future years' funding to be used immediately.

15. As well as providing additional grant funding the Government should also look at establishing a source of capital funding to replace private sector loans. Housing Associations have suffered as a result of banks withdrawing lending as a result of the credit crunch and are unable to obtain the finance that is needed to undertake many projects. A year ago there were seven banks actively lending to Housing Association at rates around 30 basis points above LIBOR. The number of lenders has fallen significantly and some Housing Associations are reporting only one lender now offering new business. Where there is lending, banks are more sensitive about who they lend to and the rates they are offering.

16. One solution to this problem would be the short term introduction of Government funding for Housing Associations. With a number of UK banks which have historically lent to the RSL sector including Bradford and Bingley, HBOS, LloydsTSB and RBS now state owned or influenced there is an opportunity for the Government to work with the Homes and Communities Agency and the RSL sector to establish a pool of lending at preferential rates and margins. This would provide certainty about future funding which developer RSLs need to underpin their development programmes.

Measures to help existing and prospective homeowners affected by the credit crunch

17. There are currently serious problems with the housing market that must be addressed by Government action. The RICS Housing Market Survey from September 2008 shows that the (seasonally adjusted) net balance of surveyors reporting falling rather than rising prices edged lower from −81.8 to −84.2 and the number of completed sales per surveyor over the last three months fell to 11.5 per surveyor, which is a historic low for the survey. Mortgage lending data from the Bank of England shows that the number of loans approved has fallen significantly with only 33,000 new mortgages approved for home purchase in September 2008.[28]

18. In this context the Government has put in place a range of measures with two key aims, helping re-start the housing market and protecting homeowners who are at risk from repossession.

19. RICS believe that there will be around 45,000 repossessions this year and the measures put in place by the Government are essential to help some homeowners avoid the distress caused by repossession. Changes to Income Support Mortgage Interest (ISMI) will protect people who have lost their jobs and are at risk of falling behind in their mortgage payments. Mortgage rescue schemes, where Housing Associations buy a share of a person's home, were recommended to the Government by RICS as part of the organisation's 15 point residential policy plan.[29] The success of these schemes will depend on the level of uptake by Housing Associations once the Government has put its model in place.

[28] Bank of England lending secured on dwellings: approvals http://www.bankofengland.co.uk/statistics/li/2008/Sep/lendind.pdf

[29] RICS residential property proposals http://www.rics.org/Newsroom/Keyissues/UKresidentialpropertymarket/rics_residential_property_proposals_n_290808.html

20. Other Government plans which have been more focussed at addressing problems encountered by people who are seeking to get on the housing ladder but are unable to do so as a result of current conditions have been less succesful. In particular, fewer first time buyers are able to get easy access to mortgage finance to take the first step on the ladder.

21. Failure to address the issue of a lack of mortgage lending will prevent other Government initiatives having a significant impact on the housing market and prospective homeowners who are affected by the credit crunch. The bulk of the problems currently facing the market are a result of restricted mortgage lending and lack of confidence from consumers. Without dealing with the first issue, the housing market will struggle to get going again.

22. To achieve this, the Government should incentivise the issuing of new mortgage backed securities and covered bonds by allowing investors who buy them to enter into a repurchase arrangement with the Bank of England. This process would use the same repurchase system as the existing Special Liquidity Scheme but would require the MBS or bonds to be sold in a public issue before being eligible for repurchase. It would also be specifically aimed at improving the flow of funding for new mortgage lending.

23. The Government should also use its greater level of involvement and control over certain banks to encourage them to resume mortgage lending at higher levels. This has been done to some extent with the requirement on banks taking advantage of the re-capitalisation scheme having to bring lending back up to 2007 levels. Although this is the right general approach to take, aiming for this specific target may not be sensible. A balance needs to be struck between the current situation and the lending practices of the past. 2007 lending levels could have been as much a part of the current problem as part of the solution.

24. With a lack of mortgage lending in place new schemes such as the Government's HomeBuy Direct will only have a limited impact. Although the scheme could potentially help a significant number of first time buyers, without increased levels of access to mortgage finance the scheme may not help a significant number of people. Mortgage lenders have been reluctant in the past to lend on unconventional home purchase schemes, such as shared equity/ownership, and are now even more reluctant to do so.

25. CLG action on the housing market was coordinated with a Treasury announcement that stamp duty would not apply on residential property purchases under £175,000 for one year. This change will also have a very limited impact on the current housing market with transactions at a low level. For instance, in London the average first time buyer house price in August 2008 was 254,132, well above the £175,000 threshold. It will also have a limited impact in boosting transactions in the North of England and the Midlands where the average first time buyer pays below the previous threshold of £125,000.[30] Even in areas where the change will apply, its impact will be negligible without additional mortgage lending.

26. Further changes to stamp duty are one of a set of coordinated policy proposals that RICS has put to Government to address short and long term issues in the residential property industry. Key policies RICS would like to see introduced include:

— Reform of the Stamp duty system—The Government's short term change to stamp duty must be used as an opportunity to link seamlessly into longer term reform to introduce a marginal stamp duty rate.

— First time buyer savings scheme—The Government should establish a tax free savings account supported by Government contributions to help first time buyers save for a deposit. RICS estimate that this scheme would have a cost to the Treasury of around £1.1 billion but would encourage saving and reduce the need for high loan to value ratios.

— Expand rent to buy—Potential homebuyers should be able to rent a property for an agreed period of three to five years with an option to buy at a pre-agreed price the end of the rental period.

— Build to rent and investment in the private rented sector—Changes should be made to the planning system, stamp duty and the REIT regime to encourage larger investors in the private rented sector making it more professional and the tenure of choice for more people.

— Bring empty homes back into use—The UK's 600,000 empty homes should be brought back into use by reducing VAT on repair and maintenance and giving local authorities real power rather than ineffective Empty Dwelling Management Orders.

November 2008

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[30] CLG statistics Housing market: mix-adjusted house prices, by new/other dwellings, type of buyer and region http://www.communities.gov.uk/documents/housing/xls/livetable592.xls

Memorandum by Thames Gateway London Partnership (CRED 36)

1. Introduction

1.1 The Communities and Local Government Committee has resolved to undertake a brief inquiry into the Government's response to the effect of the "credit crunch" on its housing policies.

1.2 The Committee will consider the likely effectiveness of the measures which the Department for Communities and Local Government is taking to deal with the credit crunch, with particular reference to:

- achievement of the Government's house-building targets, both for market and for social housing;
- the financial viability and ongoing business of housing associations; and
- measures to help existing and prospective homeowners affected by the credit crunch.

The Government's Billion Pound Package for Housing

1.3 The Government has sought to act to increase confidence and help ensure stability and fairness in the housing market. A package of measures was unveiled in September 2008 that were designed to build on a series of earlier measures announced in the Spring:

- offering up to 10,000 first-time buyers currently frozen out of the mortgage market the chance to get onto the property ladder through a new shared equity scheme;
- supporting up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home through a mortgage rescue scheme;
- bringing forward £400 million in order to deliver up to 5,500 new social homes over the next 18 months on top of current assumptions; and
- working with Regional Development Agencies (RDAs) to support the most critical regeneration schemes with the greatest potential to transform their communities.

1.4 This paper sets out the nature of the Government's response to the current economic climate on housing policy and delivery and discusses the effectiveness and appropriateness of these measures.

1.5 There is a discussion of the implications on the Thames Gateway as a Government strategic regeneration project and priority for investment.

2. First Time Buyers

The Importance of First Time Buyers to the Housing Market

2.1 First-time buyers are crucial for maintaining the sustainability and vitality of the housing market. However there is a lack of first time buyers entering the housing market at present which is resulting in problems further up the chain, with homeowners who are already in starter homes unable to sell up and move to larger properties due to poor house sale performance. The housing market has seen a real decline in sales figures, and many people have found that they cannot sell their homes because first time buyer numbers have dwindled.

2.2 New figures from the Council of Mortgage Lenders (CML) have confirmed that more first time buyers have been put off house purchases under 12 months of strict lending criteria and falling house prices. The research claims the number of first time buyers in the UK decreased by 17, 000 in July down 5% from June.

2.3 To compensate first time buyers have increased their deposits with the average first-time buyer deposit standing at 15% in July—an increase of 2% from June. This brought the loan-to-value ratio down to levels not seen since the early 1980s.

2.4 It is thought that this figure will continue to fall, as first time buyers are finding it increasingly difficult to get onto the property ladder. This is partly due to the global credit crunch, which has resulted in lenders demanding higher deposits from first time buyers, which many cannot afford, as well as increased interest rates for new borrowers, tighter lending conditions, and higher arrangement fees.

2.5 Whilst many thought that falling property prices would be good news for first time buyers, who have struggled to afford a property over recent years, it has also fuelled a drop in the number of buyers entering the market. This is because further property price falls are predicted over the course of the year, and many are worried that if they purchase a property now the value will continue to fall, which will leave them in negative equity.

The Government's Response

2.6 The Government recognises the problems facing first-time buyers participating in or entering the housing market and has responded with a combination of supply-side and demand-side interventions.

2.7 A new £300 million programme (HomeBuy Direct) in partnership with housebuilders is designed to help up to 10,000 first-time buyers into affordable home ownership in new homes over the next two years. However given that the number of first time buyers decreased by 17,000 in July alone, the 10,000 targeted for support could represent a small percentage of those demonstrating a repressed demand.

2.8 Seen in this way, the support will have a limited impact on the capacity to enable enough first time buyers to enter the housing market to stem falling demand and its knock-on effects on the upper end of the housing market.

2.9 However, the package has been designed to effectively address a series of strategic policy objectives in addition to that of injecting liquidity into the first-time buyers market. The Government suggests that HomeBuy Direct will help to maintain the capacity of the housebuilding industry to respond when the market recovers. This in turn will support our longer-term housing supply aspirations.

2.10 HomeBuy Direct will provide qualifying first-time buyers with an equity loan of up to 30% of market value, which they will be able to use to buy a new build property within specific schemes brought forward by developers through a competitive bidding process.

2.11 There is no clarity on where these specific schemes are likely to be or according to what criteria the bidding process will operate. In terms of helping to maintain the momentum of strategic regeneration schemes, the Government is urged to focus this support and intervention on areas that provide a vital catalyst for wider housing market renewal and stimulation.

2.12 The Thames Gateway is a flagship regeneration project earmarked to absorb a substantial tranche of local, regional and national housebuilding targets especially for affordable housing.

2.13 This is an area that provides a rich resource for providing social housing and affordable first timer buyer options helping to foster the growth of local communities where residents have a stake and roots within their neighbourhoods and avoids the often negative legacy of a local housing market dominated by buy-to-let options, leading to transience and lack of social cohesion.

2.14 By encouraging first time buyers to these areas that have hitherto found difficulties attracting families and owner-occupiers not only stimulates the local economy, it stabilises the housing market locally by ensuring there is a higher ratio of owner-occupancy to private or social renting.

2.15 There are also benefits in terms of retaining private sector housing building projects in areas such as the Gateway on the proviso that these measures will help the area to provide a sound investment location for private investment once the market recovers. The premise is that these measures could enable a market/area that could be considered wholly unattractive or slow to pick up—become slightly more attractive and slightly quicker to pick up, yet the attraction is a stimulated demand for their supply.

2.16 Seen in this light these measures could, with careful and strategic direction lead to long term impacts on the attractiveness and viability of locations in terms of stimulating supply and demand in the local housing market.

3. Vulnerable Homeowners

Vulnerability Amongst Homeowners: The Snowball Effect

3.1 Homeowners are at risk of falling into a poverty crisis with mortgage and credit related debt becoming increasingly unmanageable and the accompanying health, social and economic implications this has. According to official government statistics nearly six out of 10 people defined as in poverty are homeowners. Savings have fallen to record low levels and millions do not have a safety net.

3.2 Homeowners often receive little state help, as they can be denied benefits available to people who rent or live in local authority housing or excluded from local regeneration initiatives simply because they own their own property. Housing benefit, for example, is, usually, only available to people who rent or live in local authority accommodation. In fact, overall, according to the Joseph Rowntree Foundation, only 8% of state help with housing costs go to homeowners.

3.3 Vulnerable homeowners who are increasingly at threat of losing their homes through repossession pose a burden to the UK taxpayer and welfare system in a number of ways. Greater levels of support will be required to either provide benefits to households falling beneath minimum wage levels, to support households in local authority accommodation, to support services for statutory homeless households. It is in the interest of the public purse that measures are taken to enable homeowners to support themselves and avoid relying on the state outright.

3.4 The Government recognises the potential problem or rising repossessions but believes it to be an embryonic problem which, seen in the context of the last recession has not reached alarming proportions. While the number of repossessions has risen recently, the proportion of mortgages affected remains small. CML data shows that the number of properties taken into possession in the first half of 2008 (18,900) equates to only 0.16% of all mortgages, less than half the rate seen in the early 1990s (0.4% in 1991 H2).

3.5 However, there is an argument that the Government should intervene at the EARLIEST opportunity to avoid the problem becoming entrenched and reaching those alarming proportions.

The Government Response

3.6 The Government has announced a £200 million mortgage rescue scheme, which will help up to 6,000 of the most vulnerable households facing repossession over the next two years. However as stated above, there have been 18,900 repossessions so far in 2008. Preventing 6,000 repossessions on a quantitative basis represents less than a third of that number in the first two quarters of one year?

3.7 For this measure to avoid having a very limited impact there needs to be careful consideration of not only who—but where—these eligible households will be? Eligibility should be targeted to those most in need in areas where problems of housing vulnerability are most entrenched. The premise behind this is that these are areas that are least likely to be able to offer support to vulnerable households because services and infrastructure dedicated to supporting vulnerable families are already disproportionately overburdened by households in need. This funding should be offered to bolster areas already under intense pressure to avoid the potential for even more households to find themselves in difficulty.

3.8 Furthermore, the Government states that depending on their specific circumstances, eligible homeowners will be offered one of three products, following an assessment of their case by their local authority:

— shared equity would help householders who have experienced payment shocks and need some help in paying their mortgage;

— shared ownership would help those with a bigger financial gap but still able to make a contribution to monthly payments; and

— sale and rent back will help the most vulnerable on low incomes with little chance of sustaining a mortgage.

3.9 As stated above, the potential to make an impact on this problem is hampered by the proportion of those householders likely to be assisted out of the total that are likely to become vulnerable. If the measures are only targeting such a small number then they have to be the number in most need or put differently, those households in areas that are characterised by vulnerability where greater levels of vulnerability will lead to a much wider and entrenched problem affecting the local economy and the capacity of local infrastructure and funding to support them.

3.10 We would argue that the first bullet represents a group of lower priority, in that they need some help to pay their mortgage, suggesting a temporary problem with a regular income. We would argue that actually households on low incomes, possibly low skilled, are most at risk of suffering potential unemployment as the economy shrinks, competition for labour increases and skills become ever more differentiating. Preventing a housing crisis among low income families facing the threat of unemployment should be a key priority.

3.11 In this light, we repeat the focus that should be places on area-based rather than individual based eligibility. Parts of the Thames Gateway have communities that are characterised by low skills and low income that are vulnerable to a local labour market competition. Homeownership is lower in these areas but strategically those homeowners that are there are vital for maintaining the local housing market, attracting other homeowners into the market, supporting the local economy and providing community development opportunities. We need to keep homeownership as a viable possibility in the Thames Gateway and that means ensuring those homeowners that are at risk are supported to stay there despite facing difficulties in finding or retaining a job.

3.12 Sale and rent back has come under a large degree of scrutiny in recent months as the credit crunch has put more homeowners under pressure—with rogue operators offering to buy homes at a massive discount, charging large valuation fees and providing little long-term guarantees that people can remain in their homes.

3.13 This week, the Office of Fair Trading (OFT) will publish its findings into the sector and is expected to demand greater legal protection for those choosing to sell their homes and then rent them from the new buyer. Ahead of the OFT decision, the National Landlords Association (NLA) is launching a voluntary code of practice—following consultation with the mortgage and housing industries and charities.

3.14 We will support this option as a means of helping people avoid repossession but only if it is properly regulated.

4. Affordable Housing

Viability of Social Housing Delivery

4.1 Social housing has been delivered increasingly via the private sector. They are required to include an allocation within their developments depending on local and national policy frameworks and context. The inclusion of a social housing element impacts on the viability of a scheme considerably for the private sector because this affects the unit costs and therefore the re-saleable value. Generally, the private sector will be looking to maximise the number of units for sale to offset the cost of delivering the social element.

4.2 This has been the case in a market that has been extremely bouyant, the fact that the market is considerably less bouyant questions the level at which the delivery of social housing can be seen to be viable at all?

4.3 The credit crunch poses a real risk to the capacity for the Government to realise its social housing targets in a context in which housebuilders are coming under serious pressure to remain as viable businesses and against a backdrop in which the targets for housebuilding have been seen to be unrealistic and undeliverable.

4.4 House prices are falling but this had not led to an increase in affordability due to the problems faced by households seeking a mortgage or credit to trade up on their property. As such the demand for social housing increases as homeownership becomes a prospect ever more out of reach. So, we have declining houseprices and greater demand for social housing but a social housing delivery model predicated on rising houseprices?

4.5 There are a number of issues that this poses:

— The current shortages of affordable and social houses will not be alleviated but instead numbers seeking this as a housing option will increase putting pressure on social housing providers.

— Housing associations will be under increasing pressure to provide debt and support to households facing a housing crisis at a time when those resources need to be directed into addressing the shortage of housing.

— The increased competition for housing could put lead to social cohesion issues in areas that are already under pressure.

— Hard won successes in terms of the public sector entering into innovative delivery vehicles with the private sector could be undermined as private sector confidence and capacity wanes.

— Quality, community and sustainability goals become sidelined as "add-ons" when really investing in these issues are crucial for preventing social housing from suffering the sort of entrenched decline that has characterised so many social housing projects over the last few decades.

— The Government's Code for Sustainble Homes Agenda is in danger of being compromised as house builders struggle with the viability of delivering homes to Level Four and above.

The Government Response

4.6 The Government has announced that it is bringing forward £400 million from our 2010–11 affordable housing budget to be spent on new social housing this year and next. It is believed that this could deliver up to 5,500 additional new social rented homes over the next 18 months.

4.7 The Government need to respond to the inherent problem of delivering social housing and that is to attend to the fact that this now represents an unattractive prospect for the private sector. This places even more emphasis on the need for the public and private to truly work in partnership instead of devolving social housing provision to the private sector as a rule.

4.8 The Government need to effectively de-risk social housing schemes for the developer and the best way to achieve this is for the public sector to purchase the land. Land costs have risen sharply over the last few years over and above labour and materials costs. It represents the biggest unknown risk to developers because they are at the mercy of open land markets, often closed bidding rounds and have no guarantee of planning permission.

4.9 Local Housing Companies (LHC), such as those operating in the Thames Gateway (London Borough of Barking & Dagenham) offer a viable means of pursuing this basic premise. The public sector offer land and the private sector offers skills and capital. The LHC effectively holds and manages the asset long term (perhaps off the balance sheet?) and the Local Authority or Registered Social Landlord manage the housing as a place rather than a set of units. The focus is on outcomes—social and economic rather than units over cost. The key factor driving this model is to decide the outcome and focus delivery on achieving it. This should not be an anathema to Government policy. Rather it represents key actions on the Sustainable Communities agenda and should be supported.

4.10 We would urge the Government to support public and private sector partnerships of this kind that work on a bespoke basis—attending to the social housing needs at a local level and investing in empowering local agencies and vehicles to deliver. There is a long term need to deliver quality places to live as well as an urgent problem for providing quantity.

4.11 Measures to open up competition for Social Housing Grant to a wider range of organisations are a welcome step in this direction.

4.12 There are aspirations for the Thames Gateway to be delivered as an eco-region and stand as an exemplar of sustainable design and living. The need to invest in measures such as energy efficiency, grey-water recycling, community heat and power initiatives, modern methods of construction grows ever more important in the face of climate change and minimising our carbon footprint. The Government needs to support this agenda through fostering innovation in how sustainability could be delivered more efficiently and cheaply?

4.13 If the Code for Sustainable Homes is seen as an expensive and unviable option for housing delivery then this seriously compromises our ability to meet our national sustainability commitments. Sustainability is not an add-on but a necessity. Supporting the market for sustainable products and materials, investing in skills and training in installing and developing these products and making delivery against the CSH an attractive option for developers, these are all measures that TGLP would welcome to support this agenda.

5. Critical Regeneration Schemes

Progress so far . . .

5.1 The Government has invested an unprecedented level of public sector funding and in turn levered a significant level of private sector investment in reversing the decline of many of our towns and cities over the last decade. There has been impressive progress in the quality of the public realm, opportunities for inward investment, housing delivery, skills and education uplifts and access to public transport.

5.2 However there is much work still to be done. There are still areas of the UK exhibiting significant levels of multiple deprivation and where, despite high levels of public intervention, local economies still struggle to raise income levels and inward investment.

5.3 At a challenging economic time where we face increasing competition at a national level these disparities become ever more important and difficult to rectify. In this light, regeneration schemes take on an even more strategic role for stimulating investment and providing the vital framework and support for growth. Now is not the time to cut back on this investment.

5.4 The Government has indicated it is willing to borrow more money to increase public spending, and major investment projects, such as Crossrail could be brought forward. This could have the impact of stimulating further investment, creating jobs and injecting prosperity into the local economy.

The Government Response

5.5 The Government has announced that it will be looking to work with RDAs and the HCA and its predecessor bodies on a review of regeneration projects that are experiencing difficulty in the current market conditions across the English Regions in order to ensure that Government funded regeneration interventions are directed at those priority projects that deliver the greatest impact (whilst ensuring each intervention represents good value for money).

5.6 We would argue that public sector investment should ONLY be directed towards projects that deliver the greatest impact (whilst ensuring each intervention represents good value for money).

5.7 The Thames Gateway is the largest and most ambitious regeneration project in Europe. Approximately 91,000 homes and 150,000 jobs are set to grow here under government plans for the comprehensive redevelopment of this sub-region. The sheer scale of development presented by the Thames Gateway project represents a unique city-building opportunity.

5.8 This opportunity must not be wasted. The Thames Gateway could be developed as an exemplar of the standards and principles of sustainability, cohesion and liveability that is expected to be in place in regeneration projects across the rest of the UK. This means high quality design, communities that work, healthy town centres and good connections between Thames Gateway and its surroundings.

5.9 We need to develop homes and neighbourhoods where people want to live and work. However despite the range of plans and investments, deprivation, unemployment, poor skills and poor housing will make the benefits of regeneration inaccessible or unsustainable and undermine any efforts to realise the government's vision for the Thames Gateway.

5.10 Underpinning the spatial principles and priorities for this investment is a set of overarching principles for the delivery of sustainable communities. A number of these echo the principles of crime reduction and creating safer communities:

- Provide a mix of uses at all scales with shops open space and local services within walking distance of all homes and workplaces that will be easily accessible by public transport.
- Socially mixed and cohesive through managed integration of different tenure types and values of housing (50% affordable housing).
- Integration of new with existing communities and delivery of an improved quality of life for all.

— Culturally diverse and enjoy high levels of cultural participation.
— Excellent architectural and urban design to provide a balance of uses to make it an attractive place to work and visit.
— Excellent public services.

5.11 We argue that far from seeking to prune the level of ambition and investment earmarked for the Thames Gateway, it should remain a Government priority for investment and this investment should not stop short of the vital social infrastructure and community development measures that are necessary to ensure long term success. Momentum must be maintained in the Thames Gateway to safeguard hard won goals and provide for its future development.

5.12 We believe that far from the credit crunch spelling the end of growth and investment in the Thames Gateway, it should be seen as an opportunity. This could be an advantageous time for the public sector to purchase land on the premise that any uplift in values in the future could be used to fund vital social infrastructure. The potential slowing of housing programmes could allow for focus to be turned on the delivery of social infrastructure such as schools and hospitals which will be inevitably necessary in the future so perhaps we are better placed to provide this now as it will only enhance the attractiveness for the local housing market once it has found strength again.

Memorandum by the South East England Regional Assembly (CRED 37)

SUMMARY

— The South East England Regional Assembly is the statutory Regional Planning Body for the South East, and chairs the Regional Housing Board. We are therefore well placed to advise the Committee on matters relating to the achievement of the Government's house building targets.
— In its proposed changes to the South East Plan the Government proposes 662,500 homes be built in the South East over a 20 year period (33,125 per annum), 4% higher than the independent inspector panel's recommendations. We believe that evidence shows that such a target is unrealistic in the current economic climate.
— We believe the current economic situation will fundamentally affect the linkage between supply and demand for housing. In the short-term we believe that the Government's continued focus on delivering its targets for more homes has the potential to create problems of a longer-term nature, particularly relating to ensuring provision of the right size and type of home in the right location. We wish to create mixed communities without the dominance of a single tenure.
— The current economic situation is compounding existing problems relating to the provision of affordable housing. With the number of new starts dropping due to wider market conditions, so the importance of public sector investment increases if we are to maintain a supply of affordable homes.
— We believe that the Government will need to make available additional funds for investment to ensure a suitable level of affordable housing is delivered. There is a critical need for the Government to address the gap in public funding to deliver the affordable housing needed in the South East. In addition we believe that the Government should allow the region greater short-term flexibility in the use of the funding that is currently available to our region.
— Public sector investment can help deliver the enabling infrastructure that gives house builders confidence that planned growth will continue to be realised. We believe it is essential that the region is given greater flexibility in the targeting of the investment funds available.
— We believe there is a need for the current Housing Revenue Account Subsidy System to change. The South East is currently a net contributor to this scheme nationally. Given the need for investment in our own region, we are concerned that South East tenants, many of whom have very limited finances, are effectively being taxed to pay for investment in other regions.

1. INTRODUCTION

1.1 Thank you for the invitation to submit evidence to your inquiry. The South East England Regional Assembly is the statutory Regional Planning Body for the region. The Assembly prepared the draft South East Plan, the Regional Spatial Strategy for the region. The Plan was supported by a comprehensive evidence base that was compiled in partnership with local authorities and other partners across the region. The South East Plan, and its supporting evidence base, was the subject of independent testing by a panel of inspectors.

1.2 In addition the Regional Assembly chairs the South East England Regional Housing Board. The Housing Board is a partnership board and is responsible for preparing the Regional Housing Strategy, for monitoring progress against its delivery and advising Government on regional priorities for investment.

1.3 The Regional Assembly is therefore well placed to advise the Committee on matters relating to the first of its key lines of inquiry—achievement of the Government's house building targets, both for market and social rented housing. It is already clear that the current economic situation is compounding existing problems relating to the provision of affordable housing. More specifically we believe that the Government will need to make available additional funds for investment to ensure a suitable level of affordable housing is delivered in the region. In addition we believe that the Government should allow the region greater short-term flexibility in the use of the funding that is currently available to our region.

1.4 I would be pleased to supplement this written submission with oral evidence to the Committee.

2. Housing Targets

2.1 In its proposed changes to the South East Plan the Government proposes 662,500 homes be built in the South East over a 20 year period (33,125 per annum), 4% higher than the independent inspector panel's recommendations. We believe that the evidence shows that such a target is unrealistic in the current economic climate.

2.2 A recent survey by the South East England Development Agency of 15 major house builders identified:

— House prices have fallen 15% this year, flats 30%. Residential new starts are expected to be 60% down year-on-year by December.

— Job security is now as big an issue as mortgage availability in preventing buyers committing to a purchase.

— Development of many major sites is now on hold.

— Changes to the stamp duty regime have been largely irrelevant given that the majority of properties in South East England are valued at above the £175,000 threshold.

— Concerns that the Government's 'rescue' package announced in early September—interim small scale initiatives—is being read by many purchasers as an alarm bell, damaging confidence rather than providing comfort.

2.3 A fall in commercial developments also means a fall in the scale of affordable homes and supporting infrastructure that can be delivered through s106 arrangements in the planning system; and more widely it affects the scale of funding available through the Housing and Planning Delivery Grant. The Assembly believes that the current economic situation will fundamentally affect the linkage between supply and demand for housing. The implications of this change, together with changes in migration, demographics and wider sustainability factors, need to be monitored on an on-going basis in order to assess the appropriate level of development in the region.

2.4 The timing and regularity of reviews of the South East Plan will need to be informed by the outcome of this monitoring process. However, in the short-term we believe that the Government's continued focus on delivering its targets for more homes has the potential to create problems of a longer-term nature, which we set out below.

2.5 A key issue for the South East Plan and the Regional Housing Board is the need to provide the right size and type of home in the right location. In addition it is essential that new homes are built to the appropriate standards. The requirements to build to certain standards are particularly important to consider in relation to public sector investment in the delivery of new affordable homes, as it has significant cost implications for delivery.

2.6 We are concerned that through its agencies—the Housing Corporation and its successor the Homes and Communities Agency—an over-emphasis by Government on headline numbers runs the risk of these principles being compromised. Notwithstanding the need to deliver a larger number of affordable homes, we must avoid such a situation occurring. We wish to create mixed communities without the dominance of a single tenure, and there is a danger that by only building social housing this would not be achieved.

3. Affordable Housing

3.1 It is clear that the house building market is experiencing difficulties of a profound nature. With the number of new starts dropping, so the importance of the public sector investment increases if we are to ensure an appropriate supply of affordable homes. We believe that there are two key issues relating to public sector investment that require consideration in the current circumstances.

3.2 Firstly public sector investment can help deliver the enabling infrastructure that gives house builders confidence that planned growth will continue to be realised. In these situations we believe it is essential that the region is given greater flexibility in the targeting of the investment funds available. The guidance issued by Government in respect of the preparation of the Regional Funding Advice encourages the region to be creative in its thinking and to focus on how the funds available might best be used to deliver planned growth.

3.3 The guidance explicitly refers to the potential to invest in the establishment of a Regional Infrastructure Fund (RIF). The purpose of the RIF is to pump prime the delivery of enabling infrastructure with the investment recovered through the planning system. We have already identified funds from the transport and economic development components of the existing Regional Funding Allocations to establish the South East England RIF. Working in partnership with the South East England Development Agency, we envisage that the RIF will be operational at the start of 2009.

3.4 In our existing Regional Funding Allocation advice to Government we identified the potential benefit of investing a small proportion of the housing component of the allocations into the RIF. This proposal was supported by partners in the region and would have increased the potential of the region to invest counter-cyclically. The region's commitment to the RIF, notwithstanding the lack of support from within CLG to this aspect of our initiative, demonstrates the critical role that a public sector pump-priming fund has in unlocking land for housing development.

3.5 We believe that the basis for investing a proportion of the housing component of the allocations into the RIF remains valid. However, this requires Government to accept that the number of affordable homes delivered directly through public sector investment may be lower in the short-term. Delaying affordable housing in this region is something we would not do lightly, and only where a clear long-term benefit is evident. Any short-term impact on delivery of affordable homes would only be considered if it will enable better delivery in the longer-term. This means not only enabling the subsequent building of affordable homes, but also freeing up commercial developments which would reap an affordable housing benefit for the region.

3.6 The benefit of such investment is its potential to help increase the speed at which market recovery eventually takes place. Government must therefore accept that its continued focus on headline targets set before the current downturn has the potential to be counter-productive in the medium-term.

3.7 The second aspect of public sector investment that needs further consideration in the current climate relates to the average level of grant funding. We have previously raised with Government our concerns regarding the adequacy of the funding available to support individual proposals. An analysis undertaken by the Assembly showed that, based on the average level of grant made in respect of new affordable homes, the overall level of funding made available by Government was insufficient to deliver the need set out in the draft South East Plan submitted to Government. The Government's proposed changes to the South East Plan increases the target for the region without being matched by any increase in the overall level of funding.

3.8 The existence of a "funding gap" is supported by the evidence available through the monitoring data collected at the regional level. In 2006–07 the region saw 7,100 new affordable homes built against a target of 11,600 homes. Notwithstanding our major concerns regarding the Government's overall housing target for the region, it is clear that a higher level of overall investment will be required by Government if we are to meet the affordable housing needs of the region.

4. The Housing Revenue Account

4.1 The Regional Housing Board is taking a keen interest in the Government's review of the Housing Revenue Account Subsidy System. It is clear that there is a need for the current system to change.

4.2 We estimate that in 2008–09 local authorities in South East England will make a net contribution of some £185 million to the subsidy system nationally; the equivalent of a contribution of £951 per tenant, representing 28% of rents collected from tenants across the region. Given the need for investment in our own region, the Board is deeply concerned that South East tenants, many of whom have very limited finances, are being taxed to pay for investment in other regions.

4.3 The current economic conditions exacerbate this concern. The Chairman of the Housing Board recently wrote to the Housing Minister, encouraging her to ensure that the Government's review of local authority housing finance enables those funds to be retained within the region to provide affordable housing and reduce the impact of climate change. We are developing more detailed proposals which will be considered at our next Housing Board meeting on 20 November. We would be pleased to share this work with the Committee.

Memorandum by The Paragon Group of Companies PLC (CRED 38)

Summary

1. The Paragon Group of Companies PLC welcomes the opportunity to submit evidence to the Communities and Local Government Select Committee's inquiry into housing and the credit crunch. The inquiry is timely given the difficult conditions that currently prevail in the wider housing market and, against this backdrop, the growing importance of the Private Rented Sector (PRS), and of buy-to-let investment, in providing alternative housing for those who are putting off house purchases.

2. Paragon is the UK's leading specialist provider of prime buy-to-let (BTL) mortgages to professional and investor landlords. We launched our first specifically targeted buy-to-let mortgages in 1995 and over the last 13 years have increasingly specialised in this market. Paragon currently has 40,000 landlord customers and services 90,000 individual accounts, with £11 billion of assets under management. We are a leading member of the Council of Mortgage Lenders, playing a central role in its BTL working group, and also of the Intermediary Mortgage Lenders Association, Association of Residential Letting Agents and National Landlords Association. Our roles in the market and within our industry bodies have given us significant market and policy experience.

3. The key points of our submission are:

- In the context of a marked slowdown in house sales and limitations to the availability and growth of social housing stock, private landlords are providing an increasingly vital source of affordable and flexible accommodation for many people.
- While the modern PRS already provides a housing option that a substantial proportion of the population proactively choose as their preferred form of tenure, it is now also becoming a much more important source of housing for people who are unable or unwilling to purchase a home, especially given low levels of consumer confidence.
- The implications of the economic climate for the Government's social house-building targets have brought the role of the PRS into greater focus. Despite the economic downturn, experienced private landlords remain well-equipped to meet the housing needs of people who are no longer looking to the owner-occupier sector but cannot find accommodation in the social sector.
- Alongside measures to assist existing and prospective homebuyers, the DCLG's housing policies should also encourage private landlords to maintain and increase their commitment to the private rented sector. Any steps to reform the regulatory framework of the PRS, particularly in light of the recent Government-commissioned review of the sector, must ensure that a fair balance between the interest of landlords and tenants continues to exist. Otherwise there is a risk that landlords may be discouraged from remaining in the sector.
- It is equally important that the Government's wider efforts to support the banking sector and revitalise the market for mortgage finance do not overlook the need to maintain a healthy buy-to-let market. BTL lending over the last decade has underpinned the expansion of the PRS and played a key role in driving up property and management standards. Ensuring that it can continue to do so is critical given the growing importance of the PRS.
- Demand for privately rented properties remains strong so, while the lack of liquidity in capital markets has affected all lenders to one extent or another, the prime BTL sector continues to perform well. It is absolutely vital that the Government's bank recapitalisation programme, and its interlinked desire to restore banks' lending availability to 2007 levels, encourages lending against prime BTL assets and does not group BTL with non-performing sub-prime mortgages or other lending activity considered at-risk.
- In this respect it is vital that policymakers recognise and are completely clear about the distinction between prime BTL lending and speculative property investment. These activities are very different from one another and must not be confused.
- The products of prime BTL lenders are aimed at experienced professional landlords—these are typically financially sophisticated individuals who invest in property for the long-term, are guided in their purchase decisions by proven levels of rental demand and are often lowly-geared. Property speculation, on the other hand, has been fuelled by property investment clubs who target investors seeking capital appreciation to achieve short-term gain. While these purely speculative practices should be discouraged, a vibrant BTL sector is absolutely critical to a healthy PRS and must be protected and encouraged, particularly at the present time.

An increasing role for the PRS in the current economic context

4. Despite a tendency for housing policy to focus on home ownership and affordable housing, the PRS has assumed a critical role in the modern housing market. The sector has gone through a period of considerable change and modernisation over the last 20 years. This process has seen it increasingly bridge the gap between social renting and owner-occupation and make a major contribution to housing and regeneration in the UK.

5. The modern PRS is already the tenure of choice for a number of key groups within the population. Demographic trends such as rising student numbers, demand for housing flexibility from young professionals and sustained economic migration to the UK have driven up demand for private rented accommodation, and BTL investment has enabled the PRS to respond. BTL has played a key role in broadening opportunities to rent privately and, by increasing competition amongst landlords within the PRS, it has helped to widen choice and drive up standards in the sector.

6. Since the introduction of BTL, there has been a steady improvement in the quality of the PRS stock. The DCLG's English House Condition Survey found that the percentage of non-decent homes that are privately rented has decreased by over 30% since BTL was formally launched in 1996. Furthermore, the long-term commitment of professional landlords and the comparatively low default rate in the BTL sector underlines the stabilising influence that BTL investment has exerted on the wider housing market.

7. In the current economic climate, with uncertainty pervading the wider housing market, private landlords are providing an even more vital source of accommodation for many people. As the credit crunch and the economic downturn has taken hold, market data suggests that building rates are slowing, mortgages for first-time buyers are becoming less available or affordable and strains on the social housing stock are increasing. Earlier this year the Local Government Association argued that the economic slowdown and the credit crunch could result in two million households, or five million people, on the waiting list for social housing in less than two years.

8. In this context, more people are looking to the PRS to meet their housing needs. Rather than stimulating a decline in demand for BTL mortgages, we are finding that the downturn in the broader housing market—and the consequent decision by many potential homeowners to put off house purchases until the market settles—is driving up demand for privately rented property. While the current lack of liquidity in markets is limiting landlords' ability to invest in new stock to meet rising demand, the appetite to invest is still very much in evidence.

9. Our own data shows that there is strong tenant demand in the PRS, which is placing upward pressure on rents and maintaining robust rental yields. The wider opportunities to privately rent brought about by BTL investment mean that people who would otherwise be forced prematurely towards home ownership—and be severely financially stretched as a consequence—now have greater scope to defer home purchase until later in life and instead rented privately.

Specific Policy Concern

10. Paragon strongly believes that the role of the PRS in responding to housing demand should be protected and encouraged by Government and given more weight within its broader housing policy, particularly at a time when private renting is increasing in significance.

11. We were therefore encouraged that the recent review of the PRS by Professor Julie Rugg and David Rhodes of the University of York recognised the important role of the sector in meeting a wide range of housing needs and recommended that landlords of all sizes should be encouraged by Government to grow their businesses. The view that privately rented property is in some way inferior to other housing options was always misplaced and we hope the review will help dispel it for good.

12. The DCLG's response to the effect of the credit crunch has largely been focused on putting in place measures to assist individuals who are struggling to meet their mortgage loan commitment, to widen home ownership opportunities through an extension of shared equity arrangements and speed up social home building. While we understand the motivation for these policy responses given the tightening of household budgets and growing evidence that people are finding it harder to keep up mortgage repayments, the Government should also look to harness the role that is already being played by private landlords as another strand of its housing policy responses to the credit crunch.

13. There are clear restrictions on the ability of the social sector to be expanded sufficiently quickly to meet the demand of all people who are, for whatever reason, unable or unwilling to enter or remain in the owner-occupied sector at the present time. Landlords typically operate within a tight geographical area, allowing them to understand trends and needs in particular areas and invest in properties to meet identified tenant demand. We would therefore urge the Government to examine how the PRS could be engaged more closely in meeting local social housing need through the further development of schemes such as choice-based letting.

Mortgage Finance

14. Given the importance of the PRS in the housing market, it is critical that the Government's broad responses to the current difficulties in the banking sector—which, in parallel with restoring stability, are designed to revive lending to businesses and homeowners—do not overlook the significance of the BTL mortgage market. A thriving BTL market is necessary to ensure that the PRS can continue to meet housing demand and assist in further driving up standards in the sector.

15. Sir James Crosby is, at the request of the Chancellor of the Exchequer, currently reviewing what market-led initiatives might be necessary to improve the functioning of secondary and primary markets in UK mortgage-backed securities. His interim assessment, issued in July, gave a downbeat assessment of the immediate prospects for these markets. Reopening them is the single most important issue facing the sector at the moment.

16. While Paragon faces similar funding constraints to other lenders who have in the past used these markets to raise funds, the fundamentals of the BTL sector remain extremely strong. It is crucial that policymakers do not confuse BTL with sub-prime lending; on the contrary, BTL is a strong, secure asset and must be treated completely separately from sub-prime in the Government's response to difficulties in both the banking and housing sectors.

17. The Treasury recently agreed commitments with certain banks receiving support from its recapitalisation scheme that require them, amongst other things, to maintain their lending to homeowners and small businesses at 2007 levels in return for an injection of capital. While the precise nature of these lending commitments is not clear, there have been some suggestions that the assisted banks may be required to exclude lending against certain at-risk assets, for example non-performing sub-prime mortgages. While there is a clear need to ensure that there is no return to some of the irresponsible lending practices seen at the sub-prime end of the owner-occupier mortgage market in recent years, it is vital that prime BTL lending is not grouped together with sub-prime mortgages or speculative property trading, as is sometimes the tendency of commentators in the media.

18. An accurate understanding of genuine BTL lending, and of the crucial role of investment in the PRS by professional landlords using BTL products, must inform any Government action directed at reviving lending levels. Speculative property investment is very different from genuine BTL investment but the two activities are often confused. Speculative property investment, often encouraged by property investment clubs, typically involves people paying large sums of money to subscribe to investments in new build or off-plan properties at "discount" prices; the focus is on the prospect of re-selling to make short-term profits. Mainstream BTL lenders, in contrast, focus on the long-term investment potential of private rented property and their products are aimed at investors who have a similarly long-term investment horizon; the most recent landlord survey by the Association of Residential Letting Agents, published in September 2008, found that most landlords expect to keep their property portfolios for an average of 16 years.

19. Maintaining the availability of prime BTL lending to experienced private landlords is essential for a healthy and diverse PRS, and must form part of the Government's response to current funding constraints. The Government must avoid stifling responsible BTL lending to experienced landlords in any efforts it makes to stamp out irresponsible lending practices in the sub-prime sector or other sectors. BTL has been instrumental in unlocking the appetite for professional landlords to invest in the sector and their continuing ability to do so will ensure that the PRS can play a full role in meeting housing needs in the current environment.

Arrears and Repossessions

20. The credit performance of our borrowers has remained robust despite conditions in the wider mortgage market. Demand has remained strong at the professional end of the market and increasing tenant demand in the current environment has actually seen void periods fall amongst our landlords.

21. The Government has understandably been urging a more responsible approach to repossessions as the credit crunch places increasing numbers of borrowers under financial strain. Some organisations such as Shelter have drawn attention to the problems that can result for tenants in the case of repossessions in the BTL sector. We recognise these concerns and take our approach to arrears management and repossession extremely seriously.

22. Paragon operates what we regard as a market-leading approach in the event that one of our borrowers runs into difficulty with their repayments. We look at a range of options when arrears emerge but we always ensure that the welfare of sitting tenants is our highest priority. In all cases at present, where we have to take control of a property due to chronic non-payment, we will leave a sitting tenant in the property and ensure that the property is professionally managed and maintained, either directly or through a competent and qualified third party (ie a managing agent). This secures the tenant's position, ensures that the property is maintained and safe and the rent payment profile maintained.

Private Sector Mortgage Rescue

23. The DCLG announced new mortgage rescue arrangements as part of its package of measures to support the housing market. These are directed at the most vulnerable families who can no longer afford their repayments and who would be eligible for homelessness assistance. They will be overseen and delivered by local authorities and registered social landlords.

24. There has been a willingness within the lending industry to provide privately-funded mortgage rescue solutions. Proposals that have been put to the DCLG have the potential to extend support to a much wider section of home-owners under financial pressure than the Government's own arrangements are intended for or would be capable of. The capacity of the private sector to assist in this respect could become even more important as the economy moves towards recession and financial pressures intensify.

25. Appropriately regulated and funded private sector mortgage rescue arrangements could provide an important additional tool to the Government as it continues to focus on how to limit disruption to the housing market and homeowners. It may also represent an alternative model to some of the sale and rent back schemes that have aroused concerns amongst policy makers in recent weeks but which have nonetheless become increasingly popular, suggesting a growing need amongst homeowners. It is therefore important that the Government continues to discuss these mortgage rescue proposals fully with industry, as it has indicated it will.

Conclusion

26. The Communities and Local Government Committee's inquiry is very important and timely in the current economic context. With many potential first time buyers unwilling or unable to purchase homes, and existing homeowners coming under increasing pressure to maintain their repayments, other sections of the housing market are becoming increasingly important sources of accommodation, not least the PRS.

27. It is vital that the Government's housing policy responses to the credit crunch take full account of the role of the PRS as a vital source of accommodation, and of BTL investment as a key underpinning of the PRS. We hope the Committee will help to highlight some of these issues as its inquiry progresses.

November 2008

Memorandum by The Housing Forum (CRED 39)

1. *Achievement of the Government's housebuilding targets and the financial viability and ongoing business of housing associations*

(a) In the specific circumstances we are dealing with housing associations will not be able to fill the gap left by the decline in private housebuilding production.

(b) Housing associations deliver a relatively small amount of new units each year, and are in any case are subject to the same market pressures as private housebuilders as their development business model is based on cross subsidy from market sale.

(c) In recent years the majority of affordable units have been supplied via Section 106 agreements anyway, which will tail off. Housing associations are likely to need increased grant levels if they are to build the same or more properties that they have been up to this point.

(d) We would urge caution about encouraging housing associations to pick up "bargains" under the housing package that do not offer long term value in terms of increased long term maintenance costs. This also applies to making sure that associations continue to procure in general on value rather than on lowest cost.

2. *The relationship between standards and the regulatory burden on viability*

(a) The cost of increased standards has been met through houseprice inflation in recent years. As this cannot happen in a period of reduced house prices, the Government may need to prioritise the various regulatory burdens in order to keep housebuilding viable. There would seem to be tacit acceptance that housing associations are being allowed to buy properties built to lower standards under the housing package. We are not advocating the jettisoning of standards, but there does need to be a more open debate, particularly over the financial burden and its effect on viability.

(b) Over the past 18 months The Housing Forum has done a lot of work on the sustainability of the existing housing stock. It would be sensible to shift some of the emphasis places on enhancing the sustainability of new build properties to the far larger existing housing stock. A reduced new build market will not deliver the efficiencies through volume that had been expected to help meet upper levels of the Code for Sustainable Homes in a cost effective fashion in the near future.

(c) Investment in a programme of refurbishment of the existing housing stock would also help to preserve the capacity and skills of the construction industry for when there is an upturn in the market.

(d) We would also like to see the utility companies given a greater role in reducing energy and water consumption in both new build and existing housing.

November 2008

Memorandum from The Joseph Rowntree Foundation (JRF) (CRED 40)

About the JRF

The Joseph Rowntree Foundation (JRF) is one of the largest social policy research and development charities in the UK. For over one hundred years we have been searching out the causes of social problems, investigating solutions and seeking to influence those who can make changes. We do this by: gathering evidence from research and from practice, including the work of the Joseph Rowntree Housing Trust; communicating the messages widely and impartially; and working in partnership with others. Our research is made freely available to all through our website (www.jrf.org.uk).

This memorandum draws on a range of JRF research projects, summaries of which are attached. However, it is worth at this stage highlighting one—a short report published in July this year which compares the current down turn with the one that occurred in the early 1990s and identifies significant differences. This clearly sets out many of the issues that will be of concern to the Committee and can be found in Appendix I.

Summary

- Under the current circumstances it seems unlikely that the government's new house building targets will be met without a significant increase in investment from the public purse.
- The government needs to ensure that releasing funds for housing associations to buy empty stock does not incentivise them to buy stock that is inappropriate for their clients' needs or for their association's long term business plan.
- Many of the government's recently announced interventions in the market were used during the last down turn in the early 1990s with limited effect. Of greater importance is the announced pre-action protocol for lenders.
- The recent growth in unemployment is very concerning; any significant increase in unemployment rates is likely to have a negative impact on 2009 repossession levels.
- The effect of debt and repossession on families is profound and long-lasting, and high levels of repossessions also have wider social impacts. For both of these reasons, repossessions should be avoided if at all possible.
- The Committee should use this opportunity to consider some of the longer term questions this down turn poses, such as the delivery of new homes, sustainable levels of home ownership and balancing fiscal incentives across the tenures.

Achievement of the Government's house building targets, both for market and for social housing

As set out in the JRF's response to the 2007 Housing Green Paper, the targets for new build market and social housing were welcome but very ambitious given past supply and committed funding from the CSR.

The achievement of the targets for market and social housing are highly intertwined. As JRF research highlights (Whitehead 2007—see Appendix II) the number of units provided by single tenure sites has been declining for some time. This gap has been filled by housing associations (HAs) using cross subsidy from market housing sales to provide additional affordable homes and private developers being required by planning agreements to provide affordable housing (with this latter element alone providing around 50% of new affordable housing in recent years).

With market sales rapidly falling, and private developers cutting the number of new sites being brought forward on which planning gain would have been sought, the target for two million new homes by 2016 looks unachievable without a significant increase in investment of public funds.

The financial viability and ongoing business of housing associations

As mentioned above, the drop in market sales that housing associations used to cross-subsidise their schemes will affect the financial viability of certain developments.

The government has brought forward Social Housing Grant spending so that housing associations can purchase empty stock from developers or on the open market. This approach was also used during the last housing market downturn, and evidence from our research suggests that there were problems arising from the scale and location of some of these developments, particularly where they were sited away from infrastructure and services.

Measures to help existing and prospective homeowners affected by the credit crunch

Our response to the governments' proposed measures is based on a report comparing this down turn with the one in the early 1990s, which is attached at Appendix I.

— *One year Stamp Duty holiday on homes worth up £175,000*

This compares with a 6 month Stamp Duty holiday from December 1991 on homes worth up to £250,000. Given the fact that fewer than 1% of transactions exceeded £250,000 at the time, this amounted to a virtual suspension of stamp duty. However, the impact of this measure was limited: the number of transactions it brought forward were not sufficient to revive the market, and when the "holiday" ended, transactions fell away.

— *Offering 10,000 first time buyers currently frozen out of the mortgage market the chance to get onto the property ladder through a new £300 million shared equity scheme*

This compares with a £173 million "tenant incentive" scheme launched by the government in 1992 which enabled just over 5,000 social tenants to purchase a home, mostly on the open market.

The current scheme aims to support more first-time buyers but through shared equity rather than full purchase (see later section on shared equity).

— *supporting up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home through a £200 million mortgage rescue scheme*

This is proposal is similar to a mortgage rescue scheme launched in 1991 which was intended to help around 20,000 households, but in fact only reached 2,000. Problems with the 1991 scheme included a lack of security for lenders' loans to housing associations, rents that often exceeded mortgage payments and a reluctance to participate amongst home-owners.

Though we won't know the full details of the current scheme until December or January, given the growing scale of repossessions—forecast to be 45,00 this year and likely to be higher in 2009 if unemployment continues to rise—the commitment to help 6,000 households will make very little impact.

— *a £400 million boost in spending power for social housing providers, including registered social landlords and councils, to deliver 5,500 more social houses over the next 18 months by bringing funding forward*

In 1992 the government's "mini-budget provided £612 million of new money for housing associations" development programme. This was in large part used to buy existing empty properties and the government target of 18,000 empty homes being taken off the market was exceeded.

However, evidence suggests that this may have incentivised housing associations to take action that did not meet the needs of their client groups, and despite taking empty homes out of the market, house price falls continued into 1993 and 1994.

— *£100 million investment to support ISMI reform which could help prevent a further 10,000 repossessions*

This measure effectively rolls back many of the cuts made to ISMI in 1995. While welcome, it is important to note its many restrictions. Home owners can only receive ISMI if they are in receipt of JSA, Income Support or Pensions Credit and ISMI only becomes available after 13 weeks on the benefit in question. Further it only covers interest payments on a capital amount up to £175,000 using a standardised interest rate which may be below the claimant's actual payments leaving them with significant shortfalls. Finally, the extension is not being implemented until April next year. The Treasury estimates this will help 10,000 homeowners when implemented, a figure which stands in sharp contrast with suggestions that repossession levels next year will be higher than this year's projected 45,000.

Importantly, this benefit does not cover those homeowners facing repossession because of reduced in-work income. One possible remedy would be to introduce a housing element to the tax credit system. This could be based on regional housing costs to support families in work and would also offer a stronger back to work incentive for those needing to claim ISMI (see Appendix IV). Whilst this proposal would support vulnerable homeowners during the downturn, any decision to implement it over the long term would need to take account of the risks associated with further incentivising home ownership.

— *Pre-action protocol for courts in mortgage repossession cases*

We welcome the introduction of a pre-action protocol as it should ensure lenders take all possible steps before seeking a repossession order. It is hoped that the pre-action protocol together with potentially falling interest rates will slow repossession growth.

The impact of repossession on households

The global nature of the credit crunch, the vast sums of money at stake, and the use of terms such as "toxic debt" all mean that the very real impact this is having on people's lives can be forgotten.

It is worth emphasising that many of the households facing repossession are already experiencing poverty. DWP research[31] highlights that half of all households in poverty are homeowners, with between 30–50% having an outstanding mortgage. If applied to current figures[32] this equates to two to three million people in low income households with a mortgage in the UK.

The the recent rise in unemployment and potential drops in earnings are of key concern as 55% of homeowners have an outstanding mortgage with over 90% of these relying on employment to meet their mortgage payments in the first instance.

Repossessions have a deep and long lasting impact on the mental, physical, educational and financial lives of the families involved. The impact of repossession doesn't begin or end with the loss of a home. It is often preceded by months of building debts and court appearances and followed by months or even years of continued debts, moves to new accommodation and compounding levels of ill-health. Further, the number of households repossessed is the tip of the iceberg. The headline projection of 45,000 repossessions by the end of the year hides a further 170,000 households projected to be over three months in arrears (CML), with some significantly beyond three months behind and facing all the distress this causes.

Research by the JRF on the social consequences of repossession highlights these concerns starkly. Adults experienced stress, depression, declining physical health and very strong feelings of insecurity, low self-esteem and inadequacy. The study highlighted that this was particularly the case for women who, tended to stay in the family home with the children after a relationship breakdown and face the brunt of the financial difficulty. The distress of parents had a direct and long lasting impact on the children of the family.

Quotes from the Research

> "*I haven't got the same energy that I used to have, it drains you does this. It drains you physically and mentally . . . All the worry, all the debts, everything. And especially since this* [the £60,000 owed on the house] *has come up. I mean since* [the debt clearing agency] *contacted me I've been getting chest pains. And it was when they contacted me; it was just after that I came down with the first bug. Because stress depletes the immune system*". (Lone mother with one dependent child, repossessed in 1993 through relationship breakdown)
>
> "*I just wished that there was something, some difference or some way, that I could have helped my Mum to prevent it from happening*" (Child of lone mother repossessed in 1997 due to relationship breakdown).

The chief conclusion of this work was that repossession should be avoided at all costs given the long lasting impact on adults and children involved and costs for wider society as a consequence of escalating health and education support needs.

The private rented sector

The JRF would ask that the Committee also keep in mind the effect the current economic down turn is having on tenants in the private rented sector. Alongside the growing risk of unemployment and rising household costs, in many areas tenants are facing rising rental costs and, for an important minority, the need to quickly find alternative accommodation when a landlord is required to sell. Further, there is some suggestion that the quality and frequency of maintenance and repairs in the sector may fall during this period of economic downturn.

Considering the medium-to-long term

While it is vitally important to consider the short term impact on families and the interventions that may help, it will also be important for the Committee to consider medium-to-longer term questions about how a more sustainable housing system might be created. We have set out some of these questions below.

New housing delivery—is the current model overly reliant on cross-subsidy from the private sector and, if so, should policy makers be looking at increased public expenditure in this area and/or changes to the planning system that make house building cheaper?

Home ownership levels—the expansion in the percentage of home owners inevitably draws people with more economically vulnerable positions into the tenure. Are our current levels of home ownership sustainable?

The offer in the rental sectors—How do these sectors need to change if they are to offer people a desirable alternative to home ownership?

[31] *Low-income homeowners in Britain: descriptive analysis*, DWP (2005).
[32] 2006–07 data from www.poverty.org.uk using DWP data.

Flexible tenure—it has been suggested that one solution is more flexible tenure schemes where people can enjoy elements of home ownership and renting (eg shared equity and shared ownership schemes). If this route is to be employed how can it be developed so it makes sense to consumers and allows people mobility within the sector so that they do not get trapped?[33]

Balancing fiscal incentives across tenures—current government policy heavily incentivises home ownership, which distorts the market in a number of ways. Restructuring fiscal incentives might contribute to a more sustainable housing market over the long term.

Appendix I—*Housing market recessions and sustainable home ownership*, JRF (July 2008)

Appendix II—Research complied by Whitehead et al for the JRF's submission to the 2007 housing green paper

Appendix III—*Losing the Family Home*, JRF (1999), summary.

Appendix IV—Housing tax credit proposal, Wilcox, S (JRF 2008)

Memorandum by the National House-Building Council (NHBC) (CRED 41)

NHBC (National House Building Council) is the world's longest established standard setting body and home warranty provider with over 20,000 builders on its Register and 1.7 million homes protected with its Buildmark home warranty.

As a non-profit distributing company with over 70 years' experience working with the industry and the consumer, NHBC is uniquely placed as an independent authority on the housing industry.

NHBC also supports the industry and consumer by providing essential services including building control, training, health and safety and environmental services and by investing in research, innovation and delivering industry solutions through the NHBC Foundation and National Centre for Excellence in Housing.

NHBC welcomes this Communities and Local Government Committee inquiry, *Housing and the Credit Crunch*.

NHBC's role is to raise the standards of new build homes and provide consumer protection to homebuyers. Within this, NHBC is committed to sharing its unique data with the wider industry and stakeholders. Given our commitment, this submission provides the most recent statistics which represent a unique source of detailed up-to-date information on new home construction and the housebuilding industry. Much of our data is available well ahead of the Government's own statistics.

Our figures relate to new homes registered with NHBC for its 10-year warranty, which represent in excess of 80% of all new homes built in the UK and includes data on new home registrations, new homes completions and average daily sales—therefore they can provide a valuable and early indication on market trends and the performance of the industry.

In addition to our figures, we have included some comments on other aspects of the housebuilding industry where they are appropriate to the inquiry's deliberations.

1. Introduction

2. The Government has in place two key housebuilding supply targets in England: to deliver three million new homes by 2020, and to provide 240,000 homes per year by 2016. Beyond these supply targets there is also a sustainability agenda culminating in the ambition for all new homes to be zero carbon by 2016.

3. In essence, in recent years, the Government has called on the housebuilding industry to increase supply of more affordable and more sustainable homes. These targets are mutually achievable. However, when taken together and taken in the context of current market conditions, meeting these targets becomes even more challenging. To meet the Government's supply targets will require double digit growth on year on year housing supply if the market downturn continues until 2010–11. During the market downturn and when the supply of new homes begins to increase, it is essential that quality of new home construction is not threatened by the drive to increase quantity.

Summary Points

- The number of new homes registered with NHBC to be built in the UK in September 2008 is down 56% compared to September 2007.
- Average daily sales of new homes in Great Britain has fallen to 380 in September 2008 from a peak of 854 in January 2007.

[33] Forthcoming research funded by the JRF (Wallace 2008) highlights that for some people who used shared ownership schemes this tenure is becoming a permanent one as they cannot afford to staircase up their original stake to full home ownership and because of the lack of scale of the sector some can struggle to find suitable move-on accommodation as their needs change.

— The mean price of new homes started in Great Britain has fallen from £253,000 in Quarter 2 of 2008 to £244,000 in Quarter 3. This is 4% drop.

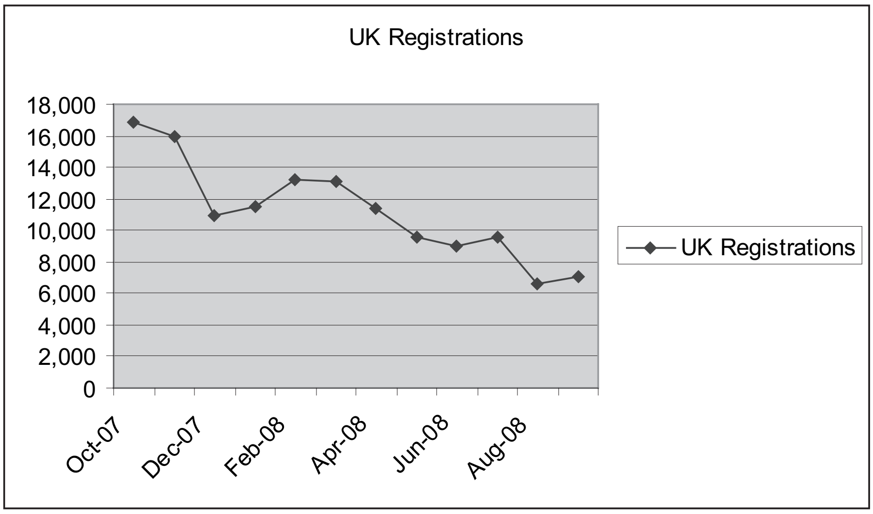
— The full market forecast is 119,492 registrations for 2008 for the UK as a whole. To reach the annual target of building 240,000 new homes per year by the end of 2016 for England alone, volumes will need to be more than double those experienced during 2008 for the whole of the UK.

HOUSEBUILDING: SUPPLY

4. *New Homes Registered*

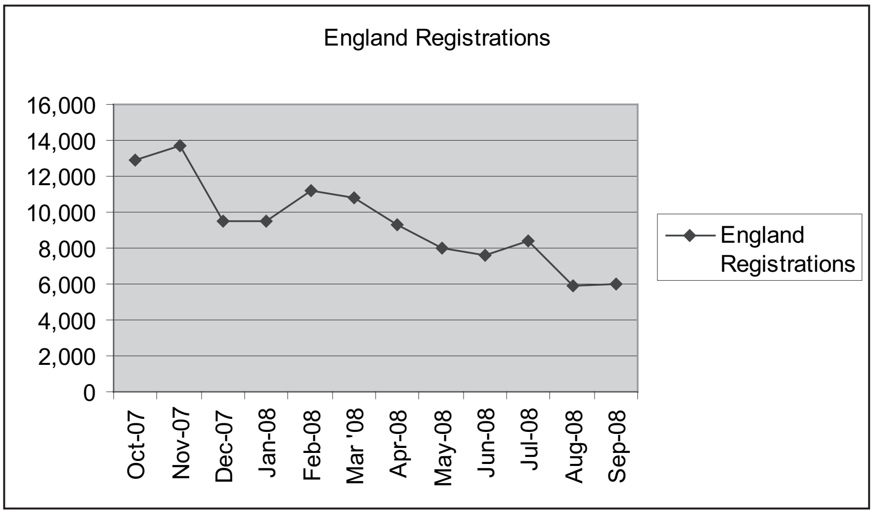
5. NHBC statistics have already shown that the number of applications to start building new homes in the UK decreased 56% in September 2008 (7,055 registrations), compared to September 2007 (15,871 registrations). Because NHBC registration figures reflect an intention to build, they can give an early indication of market trends.

NHBC's UK REGISTRATIONS PER MONTH SINCE SEPTEMBER 2007



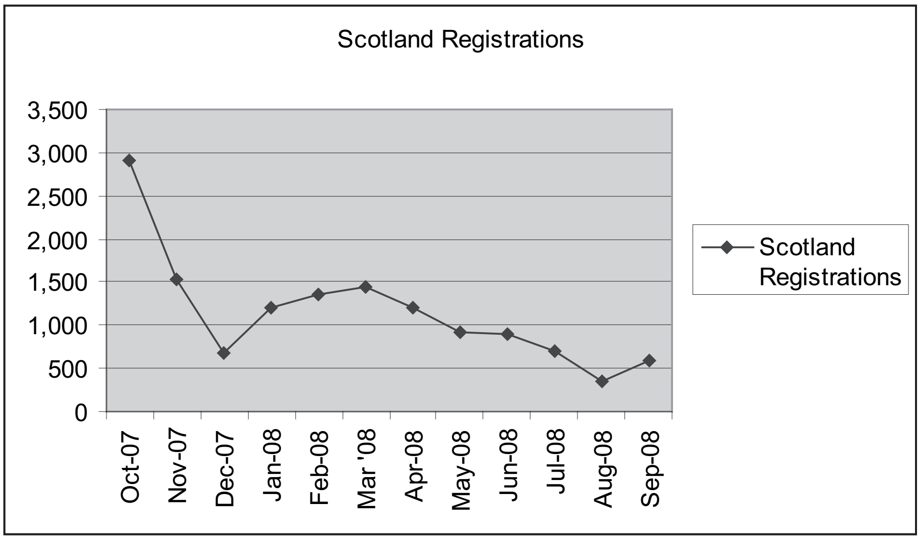
6. It is possible to further breakdown these figures and highlight areas of particular concern. For instance, it could be of interest to the inquiry to note the differences in the performance of the housing markets in the four separate countries of England, Scotland, Wales and Northern Ireland. For example, the latest figure (September 2008) for England stands at 6006 registrations, as shown in the graph below. This is a slightly higher figure than that for August 2008, 5,851 registrations.

ENGLAND REGISTRATIONS PER MONTH SINCE SEPTEMBER 2007



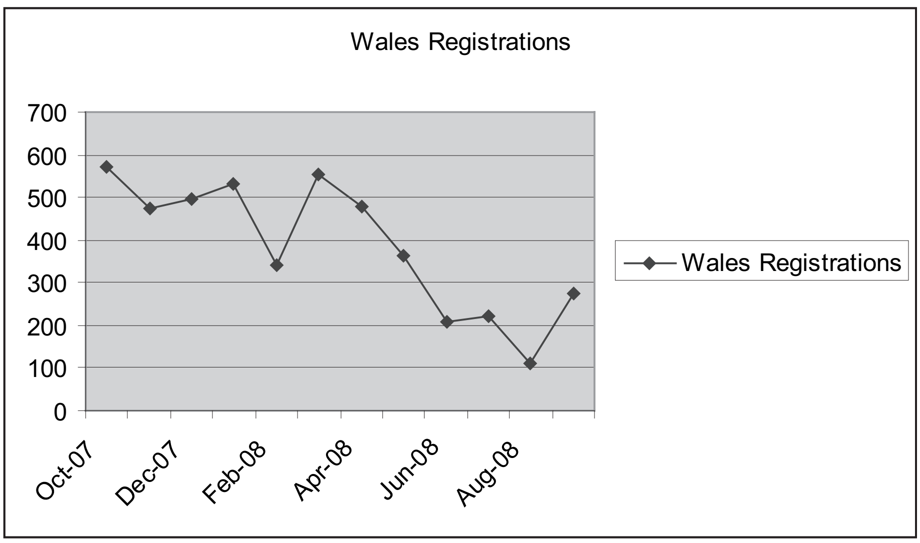
7. Similarly, Scottish registrations increased slightly in September 2008 (594 registrations) compared to 351 in August 2008. However, this is still a sharp fall from October 2007's figure of 2,911 registrations.

SCOTLAND REGISTRATIONS PER MONTH SINCE SEPTEMBER 2007



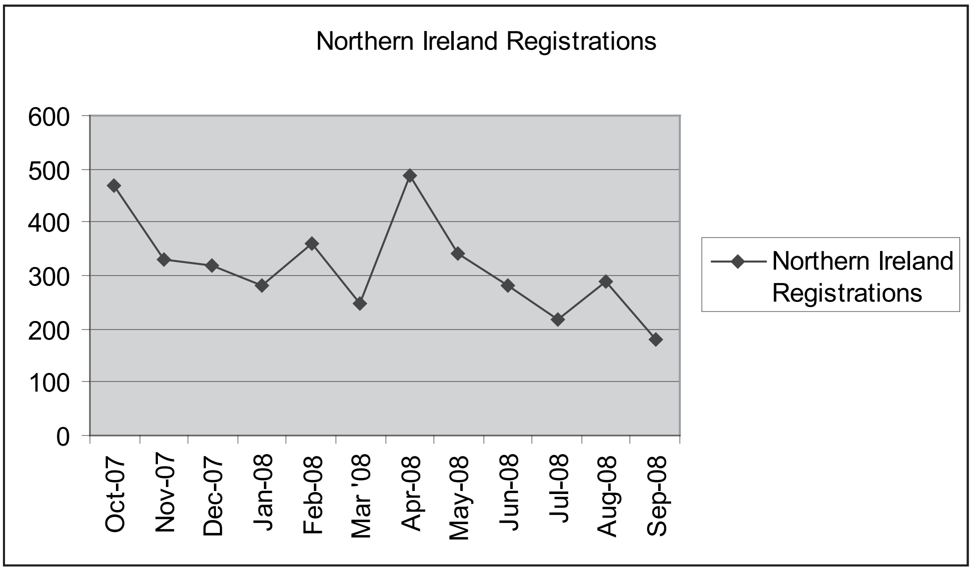
8. Again in Wales there has been a fall in registrations over the last year, with (again) a slight reversal of the trend in September 2008 (275 registrations) as opposed to August's 111.

WALES REGISTRATIONS PER MONTH SINCE SEPTEMBER 2007



9. Northern Ireland's registrations saw no such September 2008 reversal. The latest September figure for Northern Ireland recorded only 180 registrations in the month.

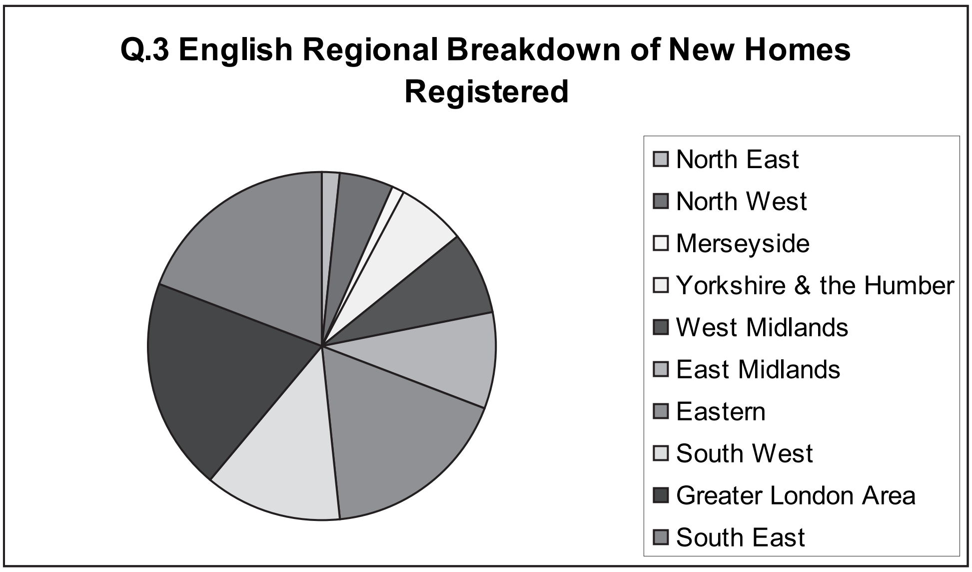
NORTHERN IRELAND REGISTRATIONS PER MONTH SINCE SEPTEMBER 2007



10. *New Homes Registered: Regional Breakdown*

11. NHBC statistics are able to provide deeper analysis of the regional housebuilding trends. For example, the pie chart below illustrates the percentage of houses registered to be built in each English Government Office Region, out of the total starts in England in Quarter 3, 2008. These statistics are not yet available from any other source.

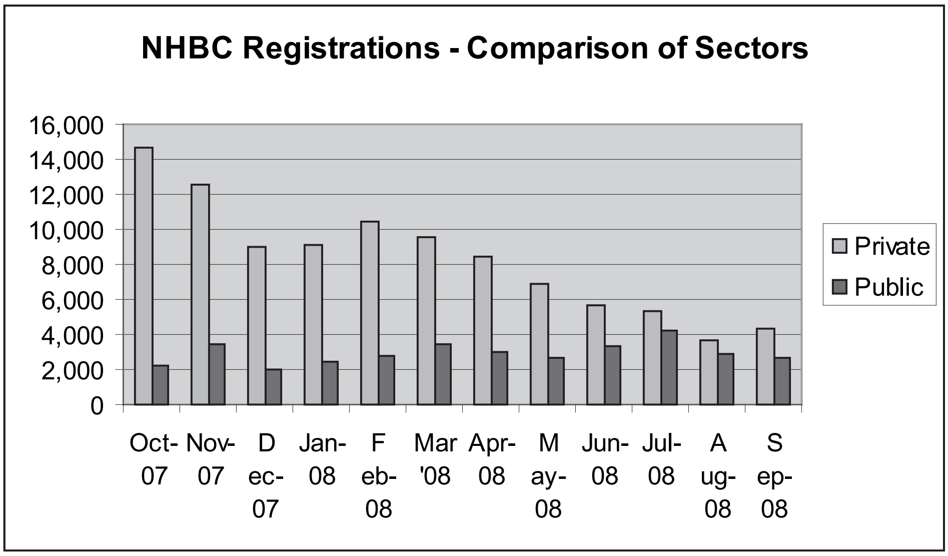
PERCENTAGE OF HOUSES STARTED QUARTERLY IN THE ENGLISH REGIONS FOR Q3 2008



12. NHBC's registration figures illustrate the extent of the decline of new house building through 2008. Current projections for 2008 are 119,492 for the UK as a whole, this is less than 50 per cent of the Government's stated target of 240,000 for England alone.

13. *Housing Association: Private Purchase—Housebuilding Ratio*

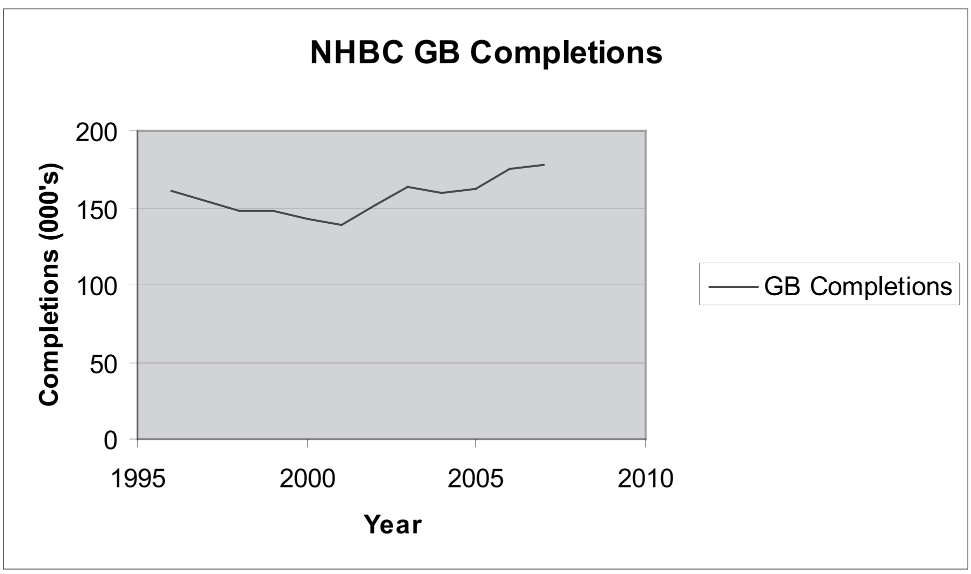
14. Given the Committee's interest in the operation of Housing Associations, it may be of use to note the changing proportion of new build commissioned for the social market as opposed to that for private purchase.



15. *GB Housing Completions*

16. As well as tracking new build registrations, we also record all the homes registered with NHBC as they are completed. A home registered with NHBC is deemed completed when the NHBC building inspector, who carries out key stage inspections during construction, considers that the home has been satisfactorily completed in respect of NHBC's technical requirements. This is normally prior to (but generally signifies that the house is ready for) occupation.

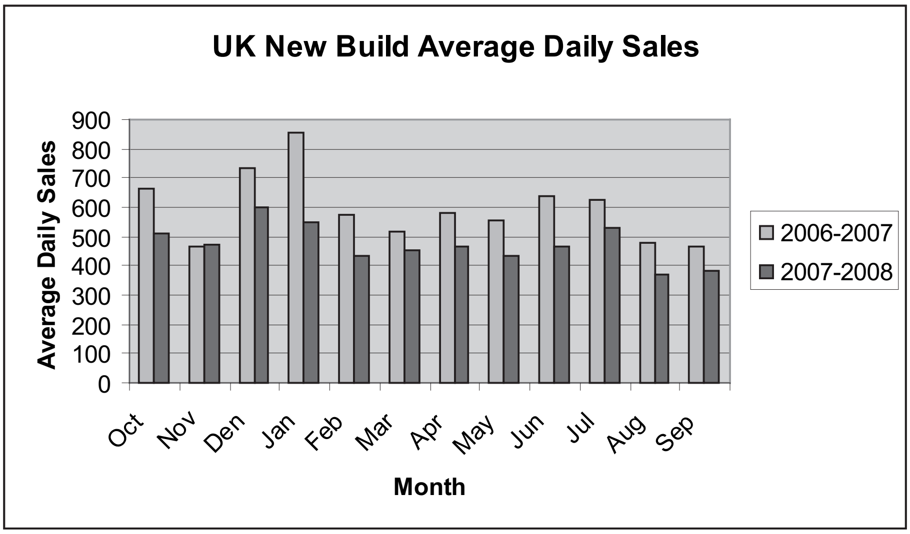
17. Below is a graph illustrating the NHBC completions of new homes in Great Britain from 1996 to 2007.



18. UK New Build Average Daily Sales

19. As well as recording how many new homes are completed and ready for purchase, NHBC also charts the number of new homes that are selling each month. The following graph depicts notification of sales of new homes, from forms returned to NHBC by first purchasers' solicitors. Sales are recorded in the month in which NHBC receives the forms.

20. The average number of daily sales of new homes in Great Britain has fallen to 380 in September 2008 from a recent peak of 854 in January 2007.

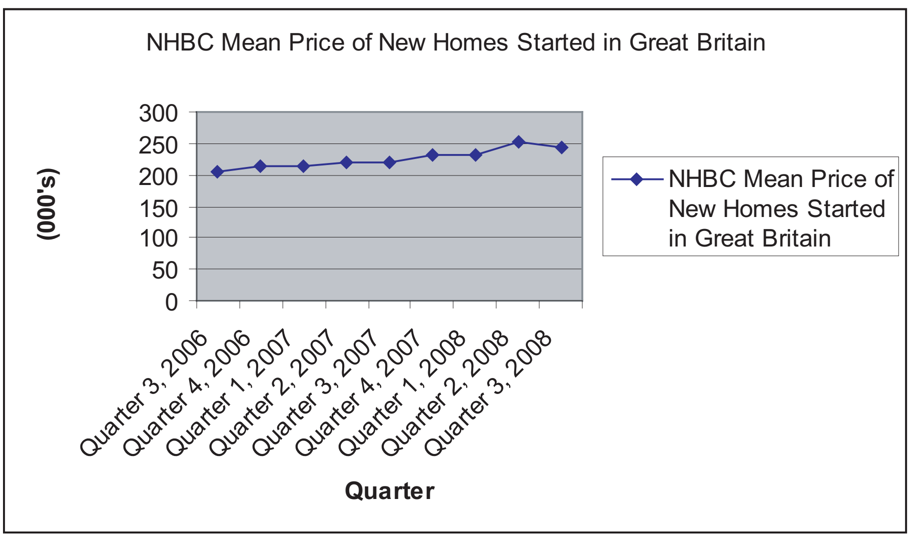


21. *Mean Price of New Houses started*

22. When applying to register a home with NHBC a builder must estimate its selling price. This table represents the mean selling prices in Great Britain at the time of application, modified by expectations. The figures represent new homes registered in the Private Sector only.

23. As these figures are estimates they are subject to a number of uncertainties and anomalies. Nevertheless they are useful as an indication of trends over time.

24. Although the mean price of new homes started has dropped from £253,000 in Quarter 2, 2008 £244,000 to Quarter 3, 2008, it remains higher than Quarter 3, 2007 (£221,000).



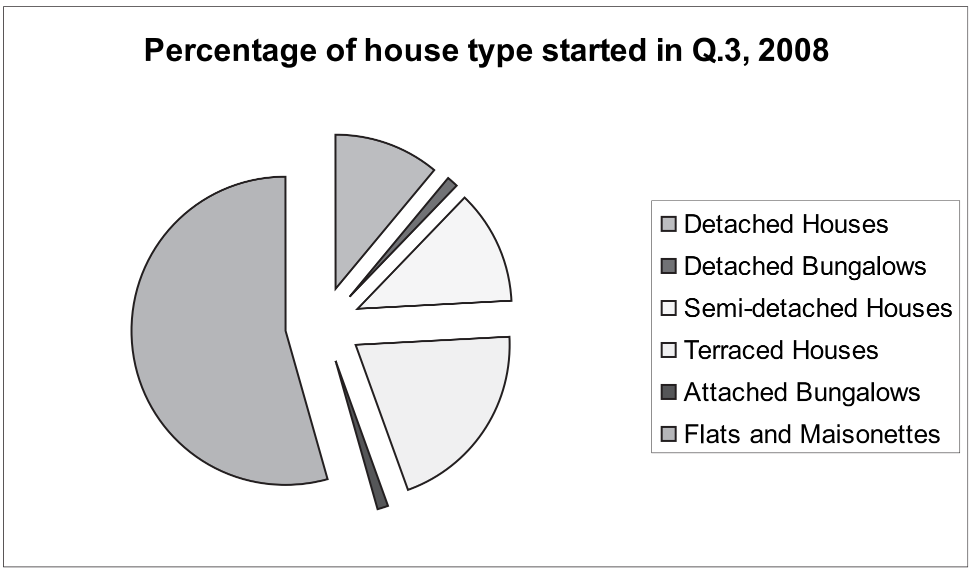
25. *Start Price of House Types*

26. Utilising the information provided by our registered builders, we are able to track the mean price of homes in the private sector according the type of property. The below table reports the percentage change in mean price for each property type by comparing our latest NHBC statistics for Q3 2008 with last year's Q3 2007 figures.

Property Type	*Q3,2007 (£'000s)*	*Q3, 2008 (£'000s)*	*Percentage Change*
Detached Houses	320	434	36%
Detached Bungalows	244	230	−6%
Semi-Detached Houses	207	214	3%
Terraced Houses	209	206	−1%
Attached Bungalows	154	161	5%
Flats and Maisonettes	184	190	3%

27. *Percentage of House Types*

50. The pie chart below shows the percentage of different types of home started in Great Britain. It is interesting to note that flats and maisonettes are still by far the most constructed type of house. This may have implications further down the line if the popularity of such homes dwindles.



29. Housebuilding: Other Issues

30. *Modern Methods of Construction (MMC)*

31. he market downturn will continue to put pressure on demand for affordable housing—and s and when market conditions improve, there will certainly be a need to supply a substantial number of new affordable homes in a narrow timeline. The use of more modern methods of construction to speed up production and delivery may be considered.

32. NHBC has a wealth of technical risk management expertise on modern methods of construction, and we would advocate building on the work of the Housing Forum demonstration projects programme both for modern methods of construction and the sustainability/zero carbon agenda.

33. *The green agenda*

34. The Government's target that all new homes must by zero carbon by 2016 is probably the most ambitious policy the house building industry has ever faced. NHBC is committed to supporting the Government and industry to successfully deliver zero carbon homes. However, based on NHBC's research and experience there remain some challenges that need to be addressed if this is to be achieved.

35. The issue of consumer confidence must be addressed to prevent a situation in which builders could build zero carbon housing without sufficient market demand for them.

36. We are concerned that the attitudes of consumers are not fully understood at present. Not giving sufficient recognition to the views of these future home purchasers could undermine the efforts to meet the 2016 target.

37. The study from our research organisation, the NHBC Foundation, found that the majority of homeowners are not ready for zero carbon homes. Zero carbon: what does it mean for homeowners and housebuilders?[34] delivered an important message to industry and to Government—that the 2016 zero carbon target is as much about the needs of homeowners and purchasers as it is about providing technological solutions. The survey found that only 19% of respondents favoured the visual appearance homes that have recently been built to deliver high levels of energy efficiency and only 6% believed the additional cost of a zero carbon home is reasonable given the money they will save in energy bills.

38. The purpose of commissioning this unique and ground-breaking research was to provide valuable insight into the psychology of homeowners and their attitudes towards environmentally friendly housing in order to identify issues and potential barriers to achieving the 2016 objectives.

39. The successful implementation of microgeneration and renewable energy technologies is vital if we are to ensure that the work of the house-building industry matches the Government's aspirations. However, we must ensure that consumers of the future do not suffer from short-sighted decisions and the failure to use technology in the right place and for the right reasons.

40. The NHBC Foundation published *A Review of Microgeneration and Renewable Energy Technologies.*[35] *This research was commissioned to ensure that builders and developers understood that not all microgeneration options that were currently available would be suited for each and every housing development.*

41. It is important that the sector is allowed to make informed choices, based on sound science and safe technologies, backed up by effective testing and accreditation systems.

42. NHBC provides over 15,000 days of training[36] to the industry each year. The courses are run both in-house for the larger construction companies, and as open courses, allowing smaller builders to attend as and when they are able.

43. The purpose of our training service is to offer a comprehensive range of training and development programmes to homebuilders, to directly support NHBC's standards raising and risk management roles. Also, we aim to support home builders in the drive for the fully qualified workforce and improved health and safety in the industry.

44. The zero carbon agenda represents a major step change and will have a major impact on skills as new technologies and building practices will need to be introduced.

45. Our experience of previous step changes in building technology is that they can lead to a "wave of error", principally due to problems with installation and sitework, rather than to design errors. With this in mind, for example, we are already looking at how and where to incorporate training on achieving increasingly higher levels of airtightness into dwellings.

46. Finally, as the leading assessor for Ecohomes and the Code for Sustainable Homes with growing experience of post construction experience, NHBC regularly shares best practice and knowledge on these areas through its Sustainability and Social Housing Forums.

47. Conclusion

- The number of new homes registered with NHBC to be built in the UK in September 2008 is down 56% compared to September 2007.
- Average daily sales of new homes in Great Britain has fallen to 380 in September 2008 from a peak of 854 in January 2007.
- The mean price of new homes started in Great Britain has fallen from £253,000 in Quarter 2 of 2008 to £244,000 in Quarter 3. This is 4% drop.

[34] NHBC Foundation full report can be accessed via http://nhbcfoundation.org/LinkClick.aspx?fileticket = s3zCjoSY88s%3d&tabid = 54&mid = 385&language = en-GB
[35] http://www.nhbcfoundation.org/LinkClick.aspx?fileticket = UzYVWRQW%2fTY%3d&tabid = 54&mid = 385&language = en-GB
[36] www.nhbcbuilder.co.uk/consultancyservices/training

— The full market forecast is 119,492 registrations for 2008 for the UK as a whole. To reach the annual target of building 240,000 new homes per year by the end of 2016 for England alone, volumes will need to be more than double those experienced during 2008 for the whole of the UK.

— NHBC is committed to supporting the Government and industry to successfully deliver zero carbon homes. However, based on NHBC's research and experience there remain some challenges that need to be addressed if this is to be achieved.

November 2008

Memorandum by the Home Builders Federation (HBF) (CRED 42)

1. The Home Builders Federation is the principal trade association for private sector home builders in England and Wales. Our members build about 80% of the new homes in England and Wales each year and range from large national companies to smaller, locally based firms.

2. The credit crunch has particular relevance for a number of related aspects of Government housing policy which fall within the Communities and Local Government (CLG) remit: the numerical housing targets; the need to provide genuine housing choice for all sectors of the community (including, for example, older people) and not just first-time buyers; and a range of other policies related to new homes, most notably Affordable Housing, zero-carbon new homes, building regulation changes and infrastructure funding.

3. Following the summary, our submission sets the scene with a short discussion of the scale of the current housing market downturn. We ask whether the Government's housing targets are still valid. We examine the current market-based delivery model for new housing and the impact of the credit crunch, then ask whether there are feasible non market-based alternative delivery models. We examine the Government's financial and housing measures in response to the credit crunch. Finally we discuss our concerns about the cost impact of policy and regulation on housing delivery in the medium to longer term.

Summary

— Our key message is that while we welcome the measures already announced by the Treasury, Bank and CLG, much more needs to be done to revive mortgage lending, arrest the steep decline in new home building and reduce the severe loss of home building industry capacity and skills. The more that can be done to sustain home building in 2009 and 2010, the narrower will be the gap between housing delivery and the Government's housing targets once the recovery begins. There is also a pressing need to review the cost burden of regulation which, combined with falling land prices, has made many sites unviable for housing development. This will act as a major brake on raising housing numbers unless these costs are lifted.

— The scale of the current downturn in prices and volumes is unprecedented in the post-war period. The fortunes of the new home sector, around 10% of the market, are determined by the wider housing market. Also Affordable Housing delivery, heavily reliant on the market, has been adversely hit.

— The Government's numerical housing targets, based primarily on demographic trends, remain just as valid. The anticipated falls in house building mean the timescale for achieving the 2016 and 2020 targets will have to be extended, and the target numbers adjusted accordingly. The planning system should continue to plan for the target numbers since these are based on projected household "needs".

— The current housing delivery model, for both market and Affordable housing, is heavily market based. In addition, many other policy aspirations, such as zero carbon or Lifetime Homes, depend for their delivery on residential land values, which are in turn determined by housing market values.

— The primary cause of the housing downturn was a sudden drastic reduction in the availability of mortgage finance and significantly tightened mortgage terms (especially loan-to-value ratios). However we are now in a downward spiral of continued falling mortgage finance, driving down volumes, driving down prices and damaging consumer confidence, etc.

— The absolute priority must be for the Government to intervene to arrest this downward spiral by restoring the mortgage finance. We eagerly await the findings of the Crosby Review of Mortgage Finance. Assuming the review identifies effective measures to revive mortgage lending, the Government must urgently implement its recommendations. Also the Treasury should consider how the required contraction in Northern Rock's mortgage book, and negative net lending by the building society sector in response to FSA requirements, is aggravating the mortgage famine. It is not at all clear how banks benefiting from the Government recapitalisation scheme are to restore lending to 2007 levels.

- HBF's survey evidence, and abnormally high new home cancellation rates, show that potential demand for new homes has fallen far less than new home reservations, which means many potential buyer are unable to proceed because they cannot obtain a mortgage on terms they can meet.
- While the policy focus is often on first-time buyers, we need liquidity in the whole housing market because measures just to help first-time buyers will not lead to movement throughout housing chains. There is a shortage of opportunities for families and older people to move into homes that better suit their needs and aspirations. Resolving mortgage finance across the board will, for example, enable older owner occupiers to move out of under-occupied family homes into smaller, more manageable and suitable homes, thus freeing up larger homes for more appropriate occupation. Although older home owners will usually downsize, and therefore not require a mortgage, most prospective purchasers of their existing homes, and buyers further down the chain, will require a mortgage.
- Home building numbers in England are set to fall steeply, possibly to well below 100,000 per year, over the next couple of years. Some in the industry are predicting house building could fall to as low as 60,000. Both private and Affordable Housing numbers will fall.
- The credit crunch and subsequent fall in house prices has severely damaged house builders' profit margins on already-owned land. It has also cut residential land prices, so that many residential development sites are no longer financially viable (ie land prices will be too low to persuade land owners to sell to residential developers).
- In addition, sharply reduced land values mean policy objectives such as Affordable Housing, zero carbon, infrastructure funding and Lifetime Homes will no longer be achievable because their delivery relied on being funded out of residential land values.
- We do not believe a new delivery model, based on much larger contributions of publicly funded housing, is feasible given likely future constraints on public spending and the fact that local authorities have no capacity to implement large-scale house building programmes at present. Also households' tenure aspirations do not suggest we need a major public house building programme.
- Therefore the Government must review the barriers to future private sector and Affordable Housing delivery if it is to achieve its housing targets.
- The recent Bank Rate cut must be followed quickly by further sharp reductions to help support economic growth and arrest the steep fall in the housing market, assuming lower rates are carried through into lower mortgage rates.
- The very significant measures taken by the Government and Bank to restore bank liquidity and help recapitalise the banks will not, by themselves, solve the mortgage famine, which is why the Crosby Review is so critical. In fact mortgage availability on reasonable terms seems to have worsened recently, with no sign of improvement. Other measures (below), while very welcome, are relatively small scale in relation to the housing crisis and likely fall in new home building.
- We welcome the £300+ million of CLG funding for RSLs to buy stock from house builders, and £300 million to fund some 10,000 shared-equity first-time buyer purchases of new homes over the next two years under the HomeBuy Direct scheme. This will help house builders maintain capacity and jobs, boost the supply of Affordable Housing and assist first-time buyers. We believe more funds from the CLG three-year programme should be brought forward to assist the industry, especially as its budget is likely to be under spent.
- Additional funds for RSLs are also welcome if they enable them to go ahead with Affordable Housing Section 106 agreements on private housing sites. However grant rates will have to be raised because RSLs have been hit by the fall in cross-subsidy from their open market and share-ownership sales and higher funding costs.
- The higher stamp duty threshold is a helpful contribution, as are measures to avoid large numbers of repossessions coming onto the market.
- Local authorities must be realistic about the impact of the credit crunch on land values and development viability when renegotiating existing, or negotiating new Section 106 agreements.
- The Government and local authorities must undertake a major reassessment of a range of policies involving new homes—Affordable Housing, zero-carbon, building regulation changes, funding infrastructure through Section 106 agreements or the CIL, Lifetime Homes, higher space standards, etc—because the costs they impose on development have drastically reduced residential land values, in some cases making land values negative. Low or negative land values will make it impossible for the industry to lift production to meet the Government's housing targets. This was a serious problem before the credit crunch, but the subsequent fall in land values has made it even more acute.

An Unprecedented Housing Market Downturn

4. The current housing market downturn is without precedent in the post-war period:

— In the whole of the severe housing downturn of the late 1980s/early 1990s, mortgage approvals for house purchase fell by 57% over four and a half years. This time, in the seven quarters since approvals peaked, they have already fallen 74%.

— According to the Halifax index, house prices fell 13% in the whole of the last crash. Since their peak in August 2007, prices have fallen 14% and most commentators expect further substantial falls in the final months of 2008 and in 2009.

— A long-term house price series compiled by CLG shows that the previous record annual house price fall was 10% in 1932. Based on recent monthly declines in the Halifax and Nationwide indices, prices by the end of this year will be falling at an annual rate of around 16%.

5. New homes account for approximately 10% of total housing market transactions, so the fortunes of the new home sector are largely determined by the market as a whole.

6. RSLs are also heavily dependent on the fortunes of the housing and mortgage markets. Many rely on cross subsidy from open-market and shared-ownership sales to fund their social rented programmes. Both these categories of sales have been hard hit by the mortgage famine and market downturn. Also, a substantial majority of Affordable Housing is delivered through Section 106 agreements on private housing sites (discussed below), so the supply of Affordable Housing has been hit by the downturn in market house building.

The Government's Housing Targets: Are They Still Valid?

7. The Government's target for England is 240,000 net additions to the housing stock per year by 2016, two million additional homes between 2006 and 2016 and three million between 2006 and 2020.

8. The projections underlying these targets are largely demographic. And because demographic trends will not have been significantly changed by the credit crunch[37]—although net migration, and even household formation, could be altered if Britain experiences a prolonged and deep recession—there is no reason to doubt the continuing validity of the target numbers.

9. However the severe downturn in new house building expected over the next few years will require the Government to change the timing of the targets. 240,000 per year should still be our aspiration, but in practice it will not be achievable by 2016. Similarly we should still be aiming for three million additional homes, but realistically these will not be achieved by 2020. If the timescales are changed, as seems inevitable, then the target numbers will have to be amended accordingly.[38]

10. Therefore we believe the planning system, through Regional Spatial Strategies (RSSs), Local Development Frameworks (LDFs) and strategic housing market and land availability assessments, should continue to plan for the housing targets. It would be quite wrong to assume that, because housing numbers are falling in the short-term, therefore we do not need to plan to meet housing need in the medium to longer term. To do so would be to risk the housing market being even more undersupplied in the future and exacerbating affordability.

Housing Delivery Models & The Credit Crunch

The Current Market-based Delivery Model

11. The current housing delivery model in England is heavily market based. This applies to the delivery of new homes, as well as to other key policy objectives such as the funding and provision of Affordable Housing, achievement of zero carbon new homes and funding the infrastructure required to support additional development.

12. In recent years, total new housing completions have contributed around 90% of net additions.[39] CLG statistics also show that, in recent years, "private enterprise" has accounted for around 85% of total new housing completions. This covers open-market sales to owner occupiers and investors, as well as sales of "intermediate" housing within Affordable Housing (shared-ownership and shared equity). Therefore roughly three quarters (85% of 90%) of the net additions target would, under normal circumstances, be housing for sale, dependent on the fortunes of the housing and mortgage markets.

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[37] Most of the people who will form the additional households over the next 10-15 years are already resident in England. It is noteworthy that almost half (48%) of the increase in households by 2023 will be older people.

[38] For example, if two million additional homes are not delivered by 2016, then the shortfall against the 2016 target will have to be reflected in even higher post-2016 targets.

[39] The Government's targets are for "net additions" to the housing stock. These are made up of new build plus conversions less demolitions.

13. In addition, official figures show that the majority of Affordable Housing (as defined in PPS3) is delivered through Section 106 planning obligations agreements on private housing sites. In 2006–07, 58% of all Affordable Housing was delivered through such agreements.[40]

14. Therefore the net additions housing targets are very heavily dependent on market-based delivery. And within the target totals, new housing for all tenures—owner occupation, private rented, intermediate and social rented—is heavily dependent on market-based delivery. By contrast, in the 1960s and 1970s, between one third and one half of all housing completions annually were social housing, most of which were funded and built by local councils independently of the housing market or private new house building.

15. Therefore when considering how we might achieve the targets, a valid question is whether, given current circumstances, new housing supply can continue to be heavily market-based, as it has been for the last two decades, or whether we might see a significant change in the supply model towards a much greater contribution from social housing providers (councils, Local Housing Companies, RLS, etc.) operating independently of the market, more like the model of the 1960s and 1970s.

16. We noted above that, as well as housing provision, delivery of policy objectives such as the funding and provision of Affordable Housing, achievement of zero carbon homes and funding for the infrastructure required to support additional development are also heavily market based. In the cases of Affordable Housing and infrastructure, whereas these would have been funded directly out of public expenditure in past decades, funding now relies at least in part on subsidy out of development land values. The cost of other policy demands, such as zero-carbon homes, Lifetime Homes and higher space standards, will also have to be funded out of land values.

17. In a rising housing market, with rising land values,[41] it was possible for house builders profitably to deliver new homes while at the same time meeting the escalating policy demands of central and local government. However, as discussed below, the financial impact of these policy demands was already approaching a crisis point, even before the credit crunch led to falling house and land prices. Post credit crunch, the residential land values that helped deliver these policies, and that are expected to delivery them in the future, are no longer available.

Market-based Delivery and the Credit Crunch

18. Private, or market-based housing delivery has two essential requirements:

— a competitive profit margin and return on capital from development, so that investors are willing to invest in house building companies;

— residual land values sufficient (a) to exceed any current or alternative use value, and (b) to persuade land owners to sell their land to residential developers.

19. (A simple description of residential development economics is attached as Appendix 1, outlining the links between sales prices, development costs, developer profit margin and land value.)

20. If these two factors are not met on a site, private residential development will not take place.

21. The credit crunch has seriously damaged both profit margins and land values.

22. The initial trigger for the downturn was a severe contraction in mortgage availability, caused by a collapse in the mortgage securitisation market, immediately followed by a tightening of lenders' terms as they rationed their limited funds. However we are now in a vicious downward spiral of restricted mortgage lending leading to falling housing volumes, driving down prices, undermining consumer confidence and housing and mortgage demand, further depressing volumes, which further undermines prices, etc. In addition, valuers are driving down new home prices by making extremely conservative assumptions, often on the instructions of lenders.

23. Some actions by the Government and FSA appear to be exacerbating the mortgage famine. Following nationalisation, Northern Rock has been required rapidly to reduce its mortgage book, thereby sucking funds out of the mortgage market. Bradford & Bingley seems likely to stop lending, and may even be required to shrink its mortgage book. In addition, the building societies sector has recorded negative net mortgage lending in recent months. We understand this is at least partly in response to stringent FSA regulatory requirements. If so, the FSA's actions are worsening the housing market downturn. With most specialist lenders closed for new mortgage business, the market is now reliant for net lending growth on the limited number of banks which have not been nationalised.

24. The absolute economic priority must be for the Government to intervene to arrest this vicious downward spiral. Because the mortgage famine, which lies at the root of the housing crisis, is being driven primarily by an unprecedented crisis of confidence among banks and investors, it can only be solved by Government intervention. Underlying housing need, driven by demographic pressures, remains unchanged by the credit crunch. We also believe there remains strong underlying demand for owner occupied housing,

[40] CLG statistics. Published 12 June 2008.

[41] Residential land values in the last decade or more were pushed up by both rising house prices and, since 2001, by sharply higher housing densities.

if only potential buyers could secure mortgage finance. If funding could be restored, effective demand would stabilise and begin to lift housing transactions, which would in turn put a floor under prices, and so begin a virtuous spiral of recovery which would lift private house building and Affordable Housing provision.

25. As an aside, some have argued the current fall in prices is a "necessary correction" to restore affordability. While affordability was indeed extremely stretched, and some correction in the relationship between incomes and house prices was desirable, the current uncontrolled correction is likely to drive house prices down far further than would be needed for such an affordability correction, doing enormous social and economic damage in the process and destroying capacity within the home building and other dependent industries.

26. HBF's own survey evidence has revealed that, since the crisis first emerged in August 2007, site visitor numbers have fallen less dramatically than reservations of new homes.[42] While there are fewer potential buyers looking at new homes (ie fewer site visitors), some of these potential buyers are subsequently unable to buy because they cannot secure a mortgage on affordable terms. Put another way, if mortgage funding had not dried up, we would have seen a much less severe contraction in new home purchases.

27. While we do not have precise statistics, HBF estimates that site visitor numbers have fallen about 25% from pre-crash levels over the last 12–15 months, whereas net reservations[43] have been down by 40ø–50%.

28. Further evidence to support this view comes from house builders' cancellation rates which are reported to have been at abnormally high levels. Many potential customers are subsequently having to cancel their reservations because they are unable to obtain a mortgage.

29. Because home builders have seen effective demand for their products fall very dramatically, they have had to cut back severely on house building. They cannot afford to build properties they are unable to sell as this would lead to a costly build up of unsold stock and work in progress. They have stopped building on some live sites, and not started many potential new sites. A priority for many companies at present is to reduce unsold stock and work in progress.

30. In addition, because a majority (58% in 2006–07) of Affordable Housing is delivered through Section 106 agreements on private housing sites, we also anticipate a substantial drop in Affordable Housing delivery as a consequence of the fall in overall house building activity.

31. Even on sites where house builders wish to build the Affordable Housing units so as to maintain activity and generate cash, there are obstacles. On sites where the affordable units are "pepper potted" (ie affordable plots are scattered throughout the site), stopping work on the market housing inevitably means stopping work on the affordable units. Also, RSLs are having problems going ahead with Section 106 Affordable Housing. Their ability to fund such acquisitions has been damaged by their inability to cross subsidise from market and shared-ownership sales, funding costs have risen sharply because of the steep rise in LIBOR, and new funding is very difficult to obtain.

32. Latest CLG statistics showed a 27% year-on-year drop in private housing starts in the first half of 2008, with a 20% drop in private completions. However more up-to-date figures from NHBC show private registrations in the third quarter of 2008 were down 67% on a year ago, with a 50% drop in the first nine months, a worsening trend we expect to be reflected in subsequent CLG figures.

33. HBF does not forecast house building numbers, but many in the industry believe we will see private housing numbers fall well below 100,000 over the next couple of years, and some are predicting numbers as low as 60,000. If this happens, then to hit the Government's 2016 and 2020 targets we would have to assume quite unrealistic rates of growth of new home building once the recovery emerges in 2010 or 2011. On conservative assumptions about new build completions in 2009 and 2010, we estimate completions would have to grow by around 20% per year for the next five or six years to hit the targets. Such sustained high rates of growth would be unprecedented. For example, in the boom years of the 1980s, completions growth averaged 5% per year.

34. The fall in volumes because of the credit crunch has been accompanied by falling new home prices. The UK does not have an accurate new home price index, but we suspect the falls recorded by the Nationwide and Halifax indices for all prices are probably a good guide to trends in new home prices. In some inner-city and town-centre locations with a surplus of new apartments, prices have fallen by more than the market average.

35. Reduced prices for new homes built on sites which house builders already own hit profit margins. Such reduced profit margins are unsustainable for any length of time.

36. Falling volumes and falling prices have also resulted in reduced land values. It is difficult to judge the market price of residential land at present because so few sites are being sold. However we suspect any transactions taking place are at heavily reduced prices compared with prices that would have been achieved up until Summer 2007. Falling house prices have a magnified impact on land values (see Appendix 1). For complex brownfield sites, regeneration sites or major strategic greenfield sites with very heavy infrastructure

[42] A "reservation" is the first formal step towards home purchase in which a purchaser puts down a reservation fee (typically in the £500 to £1,000 range) to secure a plot and begin the formal legal purchase process. It is taken by the industry as the earliest indication of serious intent to buy, so that reservation levels are a good early indicator of effective demand.

[43] "Net reservations" measure gross reservations over a period less cancellations of reservations in that same period.

requirements, where the land value is in any event a relatively small proportion of the sales value, falling sales prices quickly drive land prices below zero. (A negative land value means the total cost of development exceeds the total sales value of the development.)

37. Falling house and land values have a number of consequences for house builders and housing development:

— As noted above, house builders' profit margins on already-owned sites are sharply reduced—unsustainable in the longer-term, although unavoidable in the shorter term.

— Most land owners (whether private developers, the public sector or others) will be very reluctant to sell at severely reduced land prices, particularly owners of urban brownfield sites which will have an existing or alternative non-residential use value.

— There is much less land value available to fund policy demands such as Affordable Housing, infrastructure, zero carbon, Lifetime Homes, higher space standards, building regulation changes, etc.

38. As already noted above, we can only begin to solve the current housing crisis by a restoration of mortgage finance to match demand, and some relaxation of current very onerous mortgage terms, although no one would argue for a return to the excessively lax mortgage terms of the pre-crisis period. All other solutions are either relatively small scale in relation to the downturn, or would require unrealistically large amounts of public expenditure.

39. Therefore home builders eagerly await the findings of the Crosby Review of Mortgage Finance. Assuming the review will identify recommendations that would make a real difference, we would urge the Government in the strongest possible terms urgently to implement these recommendations. This is not just critical for the home building industry, but the health of the national economy depends on reversing the current disastrous downturn in the housing market and home building. In addition, we are concerned about lenders' policies towards lending on new homes. In some cases these are particularly restrictive, so that the industry tends to be heavily reliant on a small number of lenders.

40. The Government will be anxious to minimise the fall in house building for a number of reasons. Falling private house building is reducing delivery of Affordable Housing. The fall will move housing provision away from the housing targets. The further house building falls, the harder it will be to achieve the targets once the recovery begins. And the greater the loss of capacity within the industry—trade, technical and managerial people and skills, and companies—the more difficult it will be for the industry to gear up production in the recovery, and the longer it will take to move up towards the targets. Also, loss of capacity and expertise within the home building and related industries will have an adverse impact on R&D and innovation at a time when the industry is being asked to prepare for very significant changes in the run-up to zero carbon in 2016. And finally, the greater the downturn in house building, the greater the direct and indirect costs to the wider economy. New house building accounts for around 1% of GDP, so that a halving of output would reduced GDP growth by around half a percentage point. But the total impact will be larger, once the multiplier effects of new housing expenditure on the whole economy are taken into account. Research for HBF has suggested there were about 300,000 people employed in house building in Great Britain before the crash, quite apart from the many supply industries and professions dependent on the industry and the wider economic impact of new home building. We suspect that somewhere between one third and one half of these house building jobs will be lost.

41. (The impact of the falls in house building and land values on a range of other Government policy objectives is discussed in the final section.)

Non Market-based Delivery: An Alternative Model?

42. As already discussed, the current housing delivery model is heavily market based.

43. The Committee's Inquiry asks submissions to address "the financial viability and ongoing business of housing associations". While we are not qualified to answer this precise question, we think it is important to put this in a wider context, asking whether the current largely market-based delivery model for new housing will be fit for purpose in the future. In particular, we would ask whether making the delivery of well over half of all Affordable Housing (as defined in PPS3) dependent on Section 106 agreements on private housing sites, and therefore on market trends, is sensible. Should the quantity of Affordable Housing delivery be driven by the housing market cycle, or by public policy objectives largely independently of housing market conditions?

44. We are very mindful that, at this early stage, it is much easier to ask questions about the future delivery model than to provide definite answers. A great deal more thought and research is required by everyone involved in housing policy and delivery.

45. Before considering whether a viable alternative delivery model is available, we note that one very important policy reason for linking Affordable Housing delivery to the development of private housing sites is to ensure we build mixed communities and avoid large concentrations of social housing. Any new proposal for a less market-dependent housing delivery model would have to take account of this public policy objective.

46. It has been suggested that local councils and other public bodies should embark on a major house building programme to fill the gap left by the steep fall in private, market-based house building. We believe there are significant obstacles to this proposal.

47. The public finances are going to be under extreme pressure over the next few years. A major public sector house building programme, beyond the CLG's current three-year funding programme, would require substantial additional public expenditure and borrowing.

48. Also, few if any local authorities have the capacity for initiating and managing a major house building programme. Council house building has been at insignificant levels since the early 1990s. Even if this capacity could be re-established, it would take time, and thus would be unlikely to lead to any significant increase in public house building for some years.

49. It has been suggested that the current crisis will provide opportunities for local authorities and RSLs to buy land from house builders at very low prices. While this may indeed be the case, it is difficult to see quite what housing delivery benefits this would bring. Simply buying land would leave unresolved the funding and capacity issues raised above. Also, the recent OFT report on home building concluded:

> "the public sector accounts for between a quarter and a third of all land currently deemed suitable for residential development".[44]

50. This suggests land ownership is not a significant constraint on the public sector's ability directly to provide new housing, so that further increasing public sector land holdings would not, in itself, produce any increase in house building.

51. Finally, the current mix of tenures and surveys of tenure aspirations suggest there is no case for a major long-term public house building programme. Regular surveys by the Council of Mortgage Lenders (CML) since the 1970s show very high proportions of people aspire to own their own home. While public attitudes to owner occupation may be dented by the current housing crisis, past evidence suggests this will prove short term. There will always be an essential place for sub-market Affordable Housing for those households unable to enter or sustain home ownership for financial or other reasons. We also believe there needs to be a healthy, well-managed professional private rented sector to accommodate the needs of mobile households and those households who are able to afford market housing but do not wish to own a home. However we believe a long-term policy aimed at producing a higher proportion of public and social housing than is demanded or needed by households would not be sustainable.

52. Therefore there is no obvious realistic alternative to the current largely market-based model for housing delivery. If this conclusion is correct, then the public and private sectors need to consider what changes will be required to the existing model to ensure the home building industry is able to raise housing numbers to meet the targets once the market recovers. Issues such as the cost impact of regulation (see final section below), the funding and delivery of Affordable Housing and infrastructure, ensuring the creation of mixed communities, barriers to house building industry entry and expansion, and how to recover lost industry skills and capacity, will have to be addressed. The new build sector, especially inner-city development and regeneration schemes, have been heavily reliant in recent years on investors and buy-to-let purchasers. If there is a permanent fall in demand from small scale investors, we need to seek an alternative model for the private rented sector, probably involving investment by large financial institutions. For regeneration projects, there are very difficult issues to be resolved on both the supply/cost side, as well as on the demand side.

Government Responses to the Credit Crunch

53. The MPC's half percent cut in Bank Rate on 8 October represented a major, and very welcome policy change. We would urge the MPC to make further significant reductions to help support the UK economy. Indeed HBF had been warning for many months of the dangers the severe housing downturn posed to the wider economy, and we had urged the MPC to cut rates by 0.5% as early as May. While significantly lower interest rates are a necessary condition, they are clearly not sufficient on their own to restore the housing market, not least because recent cuts have not fully carried through into lower mortgage rates.

54. The Bank, Treasury and Prime Minister have announced a range of draconian measures to restore liquidity to the banking system, to recapitalise the banks and to restore confidence to the financial sector so that banks will start lending again. However to date most of these measures have not been directed at reviving mortgage lending. The one exception was the Government's statement on 13 October:

> "As part of its investment, the Government has agreed with the banks supported by the recapitalisation scheme a range of commitments covering:
>
> — maintaining, over the next three years, the availability and active marketing of competitively-priced lending to homeowners and to small businesses at 2007 levels".

55. While this commitment is very welcome, it is not yet clear quite what it means, nor how it is to be achieved. It is somewhat worrying that in the last few days, Government statements about restoring lending have mentioned small businesses, but have avoided any mention of mortgage lending.

[44] OFT. *Homebuilding in the UK. A market study*. September 2008. Paragraph 5.12, page 106.

56. Therefore at present it seems unlikely mortgage lending will recover for some considerable time without further, targeted measures. As noted above, we very much hope the Crosby Review will recommend effective measures, and that the Government will implement these urgently. This is our best hope for recovery.

57. The Government has announced a range of measures to help the housing market, including a number targeted at new home building which are most welcome to the industry. We fully appreciate that CLG can only work within its existing budgets, so that new measures have to involve re-allocation of existing funds (both programmes and the timing of expenditure), rather than new money, and that their impact is therefore limited.

58. The key expenditure commitments of direct benefit to private home builders have been:

- An additional £100 million to expand the Open Market Homebuy scheme for purchases of new build properties (target: 2,500 first-time buyers in 2008-09) (announced 14 May);
- £200 million Housing Corporation funding for RSLs to buy stock units from home builders (14 May); CLG later (16 July) announced that "more funding, beyond the £200 million already allocated to buy unsold stock from house builders for affordable homes, could be made available". A National Clearing House was also established to deal with large tranches of new homes (500+) from individual home builders; and
- £300 million for a new HomeBuy Direct scheme (October 2008) (target: 10,000 first-time buyers over two years), in which qualifying first-time buyers can buy new homes on a 75% shared-equity basis, with the Government and house builders jointly funding the retained 25% equity share.

59. The industry very much welcomed the £100 million extension to Open Market HomeBuy, and the £200+ million funds for RSL purchases of house builders' stock.

60. The industry is also very positive about the £300 million HomeBuy Direct scheme which was designed in consultation with HBF and house builders. and which built on EP's First-time Buyer Initiative which proved very successful for house builders.

61. While these initiatives are focussed on first-time buyers and the lower-priced end of the market, it is essential that liquidity is restored at every level of the market. Enabling first-time buyers to purchase does not necessarily have positive knock-on effects on housing chains if those further up the chain have no access to mortgage funding.

62. We also welcome the CLG and Housing Corporation's recognition that whereas all publicly funded housing, and housing provided on EP land, must be built to Code Level 3 of the Code for Sustainable Homes, and to higher space standards than in the market sector, RSLs may be able to relax these requirements when buying private stock if all the RSL's other requirements are met. This seems a sensible and pragmatic approach in current circumstances.

63. Some commentators have dismissed the measures targeted at private new homes as a drop in the ocean. However £600+ million to benefit the industry could hardly be described as small scale, even though the actual housing numbers involved may be relatively modest when compared with the very large anticipated falls in new home building over the next few years. The measures will definitely help house builders financially, and will therefore help preserve jobs and capacity within the home building industry. And of course they will also bring new homes within the reach of large numbers of first-time buyers and help RSLs boost their stock of affordable homes at very keen prices.

64. Because the credit crunch and resulting downturns in effective housing demand and house building have hit delivery of Affordable Housing, the CLG's existing Affordable Housing targets are not likely to be met, and its three-year programme funds will not be fully spent. Therefore we hope additional funding from later in the CLG's three-year programme can be brought forward to assist house builders and social housing providers deliver additional housing numbers. Future funds targeted at private housing may also begin to boost housing numbers. At present, the industry's priority is to reduce unsold stock levels. Once these have been significantly reduced, the focus of new measures can shift to helping house builders continue building on sites that would otherwise stop production, or start sites that would not otherwise start. However this will require RSLs to be realistic about the price they pay for newly started dwellings. At present, RSLs are driving very hard bargains with home builders for existing stock because home builders are anxious to generate cash, even if this means selling at a loss in some cases (ie below build costs). However we understand RLSs are then assuming they can persuade home builders to start new dwellings for the same low prices. Clearly a house builder will not start a site if the sales revenue is not sufficient even to cover the build costs.

65. We noted above that the reduction in cross-subsidy from market and share-ownership sales and higher funding costs are an obstacle to RSLs going ahead with Section 106 affordable units on private housing sites. To assist RSLs, and therefore house builders, the Housing Corporation (HCA after 1 December) and CLG should consider increasing grant rates to bridge this gap so that Affordable Housing units can be delivered. The additional funding could be achieved by bringing forward funding that is not likely to be spent from later in the CLG programme. We note that we suspect grant will have to be increased more in the south than the north. This arises because the "subsidy" from residential land values has been substantially higher in the south than in the north, so that grant levels have been lower. Therefore the gap that needs to be covered by increased grant is larger in the south.

66. A range of other housing measures have been announced, notably lifting the stamp duty threshold to exempt all properties below £175,000 (2 September). It is difficult to judge the likely impact of the stamp duty change, given that the mortgage famine is by far the most serious brake on demand. However it is a welcome contribution to the package of measures.

67. Government and mortgage industry measures to reduce repossessions, while not directly relevant to house builders, are nonetheless very important to the overall housing market. Quite apart from alleviating the social cost of repossession, forced sales of repossessions in the early 1990s contributed to undermining house prices, and therefore damaged the wider housing market and house builders. We must try to avoid allowing the same situation to develop over the next few years.

68. The industry welcomes the measure introduced by English Partnerships to help house builders maintain production on EP sites.

69. Given the viability problems created by escalating regulatory demands (see final section below) against falling home and land values, it is essential that local authorities adopt a realistic and flexible attitude towards the renegotiation of Section 106 agreements and other policy demands, or negotiation of new Section 106 agreements. Otherwise sites will not be viable and no housing delivery will be possible. It is important too that CLG gives strong leadership on this issue as some local authorities are making unrealistic demands and ignoring the impact of the credit crunch on development viability and housing delivery.

70. HBF and the New Homes Marketing Board have suggested the Government should introduce some form of first-time buyer deposit scheme. Even when mortgage funding does become more readily available, it seems inevitable loan-to-value ratios will remain much lower than in recent years, so that first-time buyers will need to raise much greater deposits. Such a scheme will not provide an immediate remedy, but we should be considering longer-term measures as well as short-term crisis responses. We have also suggested the Treasury should once again consider allowing residential property to be included as investments within SIPPs.

71. We are concerned about the increased cost and reduced availability of credit to house builders. Some well-known large companies have heavy debts which are having to be renegotiated. However, many small to medium-sized companies rely heavily on bank borrowing on a project-by-project basis. Restrictions at this level will push many house builders into insolvency, thereby reducing even more the ability of the sector to revive itself in the upturn.

The Credit Crunch & Other Government New Home Policy Aspirations

72. Apart from the numerical housing targets (discussed above), the Government has a number of other important policy aspirations which involve new housing. The policy and regulatory costs imposed on residential development by these policies have increased substantially in recent years, and are set to increase even more dramatically over the next eight years. These costs pose a major threat to the viability of many, if not most housing developments. If not reassessed, these costs will make it impossible to achieve the Government's numerical housing targets. These major policy areas are: Affordable Housing, Other Section 106 demands and the CIL, zero carbon, Lifetime Homes and higher space standards.

Affordable Housing

73. As already noted, 58% of Affordable Housing in 2006–07 was delivered through Section 106 agreements on private housing sites, up from 49% only two years earlier and 31% in 2001–02.[45] Even where Housing Corporation grant is available, there is still a substantial element of "subsidy" out of land value. Affordable Housing contributions are a pure cost to development as they do not in any way enhance the sales value of the open-market dwellings on a site. Indeed, Affordable Housing may even depress open-market sales values.

Other Section 106 Demands/Community Infrastructure Levy (CIL)

74. As well as Affordable Housing demands, many local planning authorities require a residential developer to meet a range of other demands through a Section 106 agreement over and above what is strictly necessary to enable the development to go ahead: public open space, education, transport and highways, community works and leisure, health facilities, etc. As most of these contributions to off-site infrastructure will not provide a direct benefit to home buyers on the site, they will usually not result in any increase in sales values. Therefore they too are a direct cost on the development, to be funded out of the land value. The proposed CIL is intended to encompass these off-site infrastructure costs, so that Section 106 agreements can be scaled back purely to site-related costs. While we do not yet know at what levels local authorities will set their CILs, current tariffs vary from around £5,000 per dwelling up to in excess of £20,000 per dwelling.

[45] CLG statistics. Published 12 June 2008.

Zero-carbon Target

75. The costs of achieving the Government's zero-carbon target by 2016 will be substantial. Research for CLG estimated that the cost of achieving the energy requirements of Code Level 6 (zero carbon) would be between £21,251 per dwelling for a flat and £38.817 for a detached house.[46] Most developers suspect home buyers will pay only a modest premium for such dwellings, if any premium at all. Therefore most of the additional cost will have to come out of land values. Code Level 3 is already required for all dwellings purchased with Housing Corporation grant or on EP land, so this cost is already having to be built into Section 106 Affordable Housing production.

Lifetime Homes

76. The Government has indicated it will consider imposing Lifetime Homes standards on new housing some time after 2010. This would add directly to housing costs. Also, because these standards may reduce the number of dwellings that can be developed on some sites, there will be a reduction in the gross development value, and therefore the land value, of these sites. We consider it unlikely these standards will bring any sales price premium, so the additional cost and reduced development value will have to come out of land values. While the Government has suggested the additional cost will be around £800 per dwelling, evidence from home builders building in Scotland (where Lifetime Homes is part of the building regulations) suggests that it is more likely to be nearer £2,000 per dwelling.

Housing Space Standards

77. Britain has among the smallest average dwelling sizes in Europe, and sizes are undoubtedly smaller than in other English speaking countries. We believe this is primarily a reflection of land shortages and housing undersupply. The Housing Corporation and EP have imposed higher space standards than apply to normal open-market housing, and some local authorities wish to introduce such requirements. While we understand these pressures, the inevitable consequence will be fewer (larger) dwellings per hectare of developed land. And because house builders are unable to achieve a pro rata increase in sales values commensurate with the increases in floor areas, policies on space standards tend to depress land values.

Total Regulatory Cost Impact

78. Initial rough estimates by HBF suggested the average cost of Affordable Housing demands, likely levels of the proposed CIL, and the cost of achieving zero-carbon, could add as much as £2.9 million per hectare to residential development costs. The latest (January 2008) Valuation Office Agency (VOA) statistics put the average price of residential land in England and Wales, excluding London, at around £2.95 million per hectare. So the regulatory cost of just three policy objectives is now equal to the average land value. In other words, many sites are pushed to or beyond the limits of viability. This would suggest a large proportion of housing sites will not be viable, in the sense that there will be insufficient—or indeed zero, or even negative—land value to persuade land owners to sell their land for residential development.

79. And of course the VOA data largely pre-date the impact of the severe housing downturn on house prices and land values. Current and future regulatory costs, at the much lower land values caused by the credit crunch (see Appendix 1), will render most housing development unviable.

80. Central Government and local authorities have three possible responses to the viability crisis:

- they can stick to their multitude of policy aspirations—Affordable Housing, sustainability and zero-carbon, Section 106 and/or CIL, Lifetime Homes, higher space standards, etc—and accept that far too few homes will be delivered, with all the adverse economic and social consequences this will bring;
- they can directly fund the cost of their policy aspirations through gap funding to make residential schemes viable; or
- they can scale back very significantly their policy aspirations in order to ensure that more land is viable for residential development, and therefore that increased numbers of new homes can be delivered. At the very least, the Government needs to re-assess its timetable for planned building regulations changes, zero carbon, Lifetime Homes and funding of community infrastructure through Section 106 or the proposed CIL, given the extreme pressures the industry will be under for the foreseeable future.

81. This means some very difficult political trade-offs are going to have to be made between housing numbers and other policy aspirations. To assist with these decisions, HBF has been doing considerable work with member companies and Government officials to improve our understanding of the financial implications of policies and regulation for different development types (eg regeneration sites, large-scale greenfield sites, etc).

[46] CLG. *Cost Analysis of the Code for Sustainable Homes. Final Report*. July 2008. The costs quoted are based on the "Medium Case".

82. The conflict between housing numbers and other policy aspirations could be resolved by large-scale public subsidies, through which the state would effectively fund the cost of Affordable Housing, zero carbon, Lifetime Homes, infrastructure, etc. But this hardly seems a viable proposition given the severe constraints on public expenditure that are going to be required in future years.

83. It should finally be noted that these trade offs are just as relevant for housing delivery by RSLs or any public body. Just because an RSL develops land, or a local council, this does not change the basic costs of development or the costs of additional policies such as zero carbon. Of course public bodies could put their own land into such development at very low or zero cost, with this lost land value effectively providing a hidden subsidy to cover the cost of these policy objectives. However because public bodies would not receive a market value for their land, there would be a loss of funds for other public policy requirements (eg new hospitals funded through NHS land sales, or new military equipment from MOD land sales). Accepting low or nil value for public sector land is not a free lunch.

84. Some sites would still not be viable for residential development even the public sector were to put the land forward at zero land value because the cost of development would exceed the total sales value of the development. Many regeneration sites now produce large negative land values—ie the high cost of development and the cost of meeting current and future policy objectives far exceeds the total development value of the site. In effect, the land owner of such sites would have to pay a developer to develop the land. If the land was in public ownership—for example owned by EP—the public sector would have to accept nil value for the land and also contribute a sizeable subsidy, or gap funding, to make the scheme financially viable. While this does happen sometimes, it is clearly not a sustainable solution in any but the most exceptional cases.

APPENDIX 1

BRIEF DESCRIPTION OF RESIDENTIAL DEVELOPMENT ECONOMICS

A financial appraisal of a residential development site has three basic steps:

— The total sales value of the homes planned to be developed on the site, known as the Gross Development Value (GDV).

— The total cost of developing the site—construction costs, site infrastructure costs, any abnormal costs (eg demolition, decontamination), profit, interest, overheads, tax, Section 106 obligations, etc.

— The GDV less total development cost is the "residual value" available to pay for land.

Some additional policy costs, such as zero carbon, will add to construction costs. Others, such as the proposed Community Infrastructure Levy (CIL), will be a separate additional cost. Most policy costs will add very little, if anything, to sales values and the GDV of a site, whereas most will increase the development cost. If the GDV remains static (or even falls if a regulation reduces the density, and therefore number of units on the site), while the cost goes up because of increased regulation, the "residual value" left over for land will be reduced.

A reduction in sales values has a geared impact on land value. This can be illustrated by a simple example:

— Suppose the total sales value of a site (GDV) is £1 million.

— With total development costs of £750,000.

— The residual land value is £250,000, representing 25% of the GDV.

Now suppose house prices fall 10%, so that the sales value (GDV) of the site is now only £900,000. If we hold the development costs of the site constant (a fall in sales values will have no impact on most costs), the residual land value now drops to £150,000 (ie £900,000 minus £750,000). In other words, in this example a 10% fall in house prices produces a 40% fall in land value.

If the land value represents a relatively small share of the GDV, then a fall in sales values will severely reduce or even wipe out any residual land value. In the example above, if the total cost of development had been £950,000, so that the residual land value was only £50,000, or 5% (perhaps a very costly regeneration site), then a 10% (£100,000) fall in the GDV would leave the site with a negative land value of −£50,000.

November 2008

Memorandum by the National Housing Federation (CRED 43)

Summary

— Like many other sectors in the UK economy housing associations are exposed to global financial markets and the housing market downturn. Grant rates for new development are such now (about 40 per cent) that it is impossible to build social housing at anything but a financial loss, unless associations cross subsidise this building.

— Cross subsidy has been generated, until recently, through sales of shared ownership and through private borrowing. With sales down and mortgages scarce on this type of product (even for those who would like to buy), along with lending rates up to 100 basis points higher above LIBOR (the rate at which banks lend to each other) than they were this time last year, this is no longer possible.

— If we are to keep social home building going, another form of subsidy is needed—whether grant or equity stakes or land at reduced rates. If the Government does not act soon, then social housebuilding output will soon dry up. Associations are still building where schemes were in the pipeline, but will not be able to bring others forward without this extra subsidy.

— Overall sector viability remains strong and sound because housing associations are well run and well managed organisations. But it is precisely this astute financial management that means associations will not take unwise development risk and will not continue to develop using a financial model unsuitable for the current economic climate.

— For the avoidance of doubt, the Federation is NOT saying that more funding is required, merely that the £8.4 billion in the NAHP for 2008–11 will not generate 157,000 social homes. Changed circumstances demand a changed approach. Despite the "credit crunch", the housing crisis faced by the country has not changed and so we must find a way, in partnership, to keep the programme on track.

Introduction

1. The National Housing Federation represents some 1,300 independent, not-for-profit housing providers in England. Our members include housing associations, co-ops, housing trusts and transfer organisations. They develop and manage more than two million homes provided for affordable rent, supported housing and low cost home ownership housing for over five million people as well as delivering a wide range of community and regeneration services.

2. Housing associations provide the vast majority of new affordable housing built in England and are at the heart of Government's plans to significantly increase new housing supply.

Housing Associations and Finance Markets

3. The emergence of serious problems in the international credit markets over the past year, combined with the slowdown in the UK residential property market as well as global and UK economic crises, has presented housing associations with many significant challenges and some opportunities.

4. The housing association sector's model for developing new affordable housing is very reliant on the ability to secure private finance at competitive rates. Housing associations have £51 billion of existing debt and were expecting to secure between £12 billion and £16 billion between 2008–09 and 2010–11 to finance the current National Affordable Housing Programme (NAHP) and investment in their existing stock.

5. As problems in finance markets persist the cost of private finance is continuing to rise and further potential increases over LIBOR are likely from the current 75–125 basis points in the wake of the collapse of credit finance. In more normal finance market conditions housing associations have been regularly able to borrow at LIBOR plus 25 basis points.

6. In addition to increasing loan pricing banks have become much more conservative and careful about the terms and conditions of their loans.

7. There is a renewed focus on risk which is influencing banks' lending decisions and resulting in greater price differentiation for the sector. Lenders are looking far more closely at housing association business plans, management and governance.

8. The return of lender confidence and stability in the financial markets will be a prerequisite to re-establishing a reliable and regular supply of new affordable homes.

9. Lenders have made clear that as the credit markets open up again the banks will be looking to prioritise loans to higher return sectors. Housing associations will be able to secure more bank funding, but this is likely to be reflected in the price.

Housing Associations and the Housing Market Downturn

10. Although the core business of the housing association sector is social rented housing and so is to some extent insulated from housing market fluctuations, this does not mean that the sector is not exposed to a housing market downturn. The nature of the housing association business model is discussed in more detail below, but the major effect of declining house prices is to fundamentally undermine the financial model that underpins association's supply of new affordable homes.

11. Current public subsidy only meets around 40% of the cost of each new home developed. Housing associations fund the other 60% of development cost through a combination of private finance (typically providing around 50% of construction costs) and contributions from their reserves (typically around 10% of construction costs) often referred to as "cross subsidy". The section above has described how the availability of private finance has reduced and the costs involved increased.

12. Associations generate cross subsidy through income earning activities, most often Low Cost Home Ownership or Shared Equity sales, although this has been complemented more recently by receipts from open market property sales. Declining prices in the home ownership market have essentially removed associations' ability to generate cross subsidy. Like private developers, housing associations are experiencing markedly reduced numbers of property sales and, where sales do take place, reduced prices. Without cross subsidy associations cannot maintain their development programmes and in some cases their ability to maintain existing loan payments could be compromised.

13. It is important to understand that if an association is unable to cross subsidise the development of new homes, and this shortfall is not made up with funds from other sources eg grant or land, this does not just reduce the number of homes they can provide, but fundamentally undermines their ability to deliver any new homes at all. Even significantly scaling back development ambitions will make no difference if the model of financing each new property continues to depend on an element of cross subsidy.

Housing Associations' Response

14. Housing associations are financially sound and well managed social businesses. Whilst it is difficult to characterise a whole sector the essence of associations' response has been to ensure their ongoing financial viability.

15. Associations' Boards are well aware that new supply is equivalent to only a fraction of the number of existing homes and that the best way to ensure they continue to meet their objectives as social businesses is to avoid placing their existing homes and tenants and residents at risk.

16. Associations regularly revisit their plans for new development and re-assess them in the light of changing circumstances. For many the rapidly worsening financial and housing market environment has meant deciding to mothball planned new developments. This is particularly the case when the viability for these developments was predicated on the use of cross subsidy from low cost home ownership or market sales activity.

17. In most cases where development has already started and is significantly advanced associations continue to build out their development pipeline. However, even in these cases they may be forced to re-visit the assumed mix between low cost home ownership and social rented homes if market conditions mean that it is no longer possible to achieve sales at viable prices. Failure to achieve the sale of these units not only undermines scheme viability, but has knock-on consequences for the viability of associations' business plans.

18. Housing associations' ability to continue to deliver new affordable homes is also directly affected by the decline in output from the private house building sector. As much as 60% of the National Affordable Housing Programme is dependent on Section 106 planning contributions from private developers. As developers abandon or mothball schemes in response to market conditions so associations see the numbers of new homes they expected to receive reduce.

Will the Government's House Building Targets be Achieved?

19. The Government has set an ambition to build three million new homes by 2020. The Federation supported this ambition when first announced and continues to believe that it is critically important that we significantly increase the level of new home building. However the private developer sector, which traditionally builds around 75% of new homes, has been badly damaged by the current market downturn and the number of new privately built homes is decreasing sharply. This does not mean that Government was wrong in its ambition, but, in the Federation's view, it does now mean that it is very unlikely that 3m new homes by 2020 is achievable.

20. To achieve the 2020 ambition would require 240,000 new homes to be built every year from 2016 onwards. Last year saw around 165,000 new homes built and this year the number produced could drop below 100,000 as the market falls. To recover to build 240,000 new homes by 2016 seems unlikely and in fact, building rates would need to rise even higher to make up for the shortfall of new homes in 2008 and subsequent years.

21. Government housebuilding plans assumed that around a third of these new homes would be affordable homes, the majority of which would be delivered by the housing association sector. Government expected 157,000 of these new homes to be delivered through the 2008–09 to 2010–11 National Affordable Housing Programme (NAHP). The Federation expects that associations will deliver the expected number of homes in 2008, but that new supply in 2009 will fall rapidly without significant changes in the way in which the NAHP is managed. The Federation's analysis of the changes required is set out below.

22. If significant changes to the NAHP are not forthcoming in the very short term the Government's new affordable homes target will be unachievable. Numbers will hold up for a brief period whilst associations build out those new homes already in their development pipeline, but they cannot commit to providing further new homes within the current financial framework. Grant rates are currently at levels that make it impossible to build social housing at anything but a financial loss, without the benefit of cross subsidy from sales of shared ownership. As sales have been badly affected by both the market down turn and the credit crunch, with many banks not lending on these products, extra investment from elsewhere is needed to make each new home stack up.

23. The Federation is not suggesting that the Government needs to invest more than its allocated £8.4 billion, merely that it cannot now deliver the same number of social homes, unless for example land was made available at no cost. The flexibilities the Federation are proposing are likely result to an overall increase in the level of public subsidy per unit and are likely to mean that the overall target of 157,000 homes may not now be achievable. The choice for Government is between almost no new homes in 2009–10 and 2010–11 or a continuing supply of new affordable homes, but at reduced levels.

Recommended Policy Responses to Maintain Affordable Housing Delivery

Background

24. In considering how best to respond to the current finance and housing market downturn it is important to understand the current context correctly and, in particular, they way in which it differs from previous housing market downturns.

25. The current housing market downturn has resulted in Government and other stakeholders contemplating direct strategic intervention in the housing market for the first time in more than a decade. Although seeking to address similar housing market problems, the causes of the current downturn, and the operating context of the housing association sector, are fundamentally different from the downturn of the early 1990s and require a different set of policy responses.

26. In November 1992 the then Government responded to the severe housing market downturn of the early 1990s by announcing a special Housing Market Package (HMP) of around £600m to be invested in housing associations buying up unsold private sector homes. In total £590m was invested and 18,400 homes were purchased by the housing association sector.

27. Learning from the experience of the 1992 HMP will help build a policy response that avoids the weaknesses and unintended consequences of that approach. The points below briefly summarise the transferable lessons from the 1992 HMP programme and summarise the main differences in the characteristics of the housing association sector of 2008 compared to that of 1992.

Interventions of this level do not change the housing market

28. The normal level of transactions and current house prices combine to severely limit the impact of any subsidised intervention in the market. Over the past two years the average number of transactions has exceeded 1.7 million per year at an average price of £200,000, giving an aggregate transaction value in excess of £300 billion per year. Even when matched with £12 billion of private borrowing the £8.4 billion National Affordable Housing Programme (NAHP) amounts to less than 7% of this value, sufficient to fund only around 6% of all transactions. Even if the whole of this programme was committed in this year an intervention of this size would not impact on the wider housing market.

29. Evidence from 1992 confirms this. Despite the 1992 HMP, house price inflation continued to be negative until the end of 1993 with house price growth remaining very weak until the second half of 1996.[47]

Standards delivered by different sectors have greatly diverged

30. In 1992 many properties purchased by housing associations through the NAHP were street properties.[48] This was possible because standards for new housing association properties did not differ widely from basic building regulation standards.

31. Today homes developed by housing associations must meet significantly higher environmental and space standards than those required of private developers. New housing association homes are compliant with Level 3 of the Code for Sustainable Homes whereas those delivered by private developer for the open

[47] See CLG statistics Live Table number 521.
[48] Properties purchased from the open market rather than specially commissioned by associations.

market often fall below even Level 1 of the code. This means that on average housing association homes are at least 25% more energy efficient, reducing their level of carbon emissions and making them cheaper to run for residents. Currently only 2% of private developer homes meet any environmental standard.

32. The divergences not only affect environmental standards but also room and property sizes. Housing associations homes are on average larger than those provided by private developers. Research for the London Mayor in 2006 concluded, "House builders consistently produce dwellings which are 5–10m^2 below published public sector standards, for equivalent occupancy".[49]

Housing associations' business model is different

33. From the evidence set out above it is clear that today's housing association business model is very different to that employed in the early 1990s. In 1992 housing associations had almost no exposure to housing and financial market risk, benefited from significant capital subsidy when developing new homes and had a wider revenue subsidy framework. The current situation is very different:

- Grant rates for new homes in 1992 were 70.5%; they are now around 40%.
- In 1992 social rented homes were a viable business proposition; now they make a loss and require subsidy from other activities.
- Lower grant rates make associations reliant on private finance and contributions from reserves to fund the majority of development costs.
- The credit crunch has affected associations: costs of funds have increased and availability reduced, affecting existing and future borrowing, reducing resources available to invest and damaging scheme viability.
- Associations have £51 billion of existing debt and need an estimated £12 billion new borrowing to deliver the Government's new affordable homes target for 2008–11. Even small increases in the cost of funds will have a major impact on the sector's financial health.
- The need for reserve contributions increases associations' exposure to market risk as they increasingly rely on surpluses from shared ownership receipts and housing for market sale to subsidise new rented homes.
- The Housing Corporation 2007 global accounts commented "it seems unlikely the sector would have registered a surplus without the £542 million profit made on disposal of properties".[50] This level of return will not be possible in a declining housing market.
- Housing associations fund the full cost of property management and maintenance. In the 1990s significant revenue support was available to associations to help meet these costs including; management and maintenance allowances, revenue deficit grant and hostel deficit grant.
- Social housing rent levels are controlled through the government's rent restructuring regime. There was no rent control regime in 1992.

How might Housing Associations Assist with Unsold Private Developer Stock?

34. For the reasons set out above it is clear that assuming that housing associations can or should buy up large swathes of unsold privately developed homes is unrealistic. Housing associations themselves are also exposed to the impact of failing housing and finance markets, many of the homes available are not built to acceptable standards and any intervention is unlikely to have a significant impact on the overall housing market.

35. Just as important a consideration is that housing associations are likely to use any homes purchased at higher occupancy rates than would be experienced in the home ownership sector. Whereas a two bedroom flat for home ownership might be occupied by a single individual or a couple, who might well move on the birth of any children, a social rented allocation would likely be for the longer term and could be for three or even four persons. Homes suitable for these levels of occupancy need to be built to suitable space standards which many, but not all, private developer homes are not.

36. Similarly the higher environmental standards required of the homes that housing associations develop themselves deliver significantly higher fuel efficiency. This is very important where many of the households housed by the association sector will be on very low incomes and at high risk of fuel poverty if housed in a poorly insulated and inefficient home.

37. The Federation's analysis is that homes built to less than Code for Sustainable Homes Level 2 are unsuitable for use as social rented homes. Although they may be appropriate for intermediate or market rented purposes in the right locations.

[49] Housing Space Standards:A report by HATC Limited for the Greater London Authority. 2006.
[50] Global accounts of housing associations 2007, Housing Corporation, March 2008.

38. Finally the experience of many associations that bought homes in the 1992 market package was of markedly higher maintenance costs driven by a number of different factors including, lower build quality, use of unusual or different materials or components eg non-standard boilers of different design to the rest of an association's stock of homes and the higher costs associated with having acquired stock in areas where the association had no existing presence ie greater travel costs for maintenance staff.

39. An alternative approach would be for private developers to consider using unsold homes as rented housing with housing associations contracted to manage the properties on their behalf. This would provide developers with a much needed additional income stream. The Federation is exploring whether it would be financially efficient for developers to hold these unsold homes for rent in a Real Estate Investment Trust (REIT).

Maintaining New Affordable Housing Supply—Greater Flexibility in the National Affordable Housing Programme (NAHP)

40. The Federation and its members are committed to seeing the maximum possible number of new affordable homes delivered. To this end we are grateful for NAHP flexibilities already announced by the Housing Corporation and the Department for Communities and Local Government (CLG) eg bringing funds forward to enable housing associations to purchase unsold private developer homes. However, as indicated above we believe significant additional flexibility is urgently needed if the supply of new affordable homes is to be maintained.

41. Current market conditions have removed associations' ability to cross subsidise the cost of new developments making the provision of new affordable housing non viable without additional subsidy.

42. The Federation recognises that increased average subsidy levels will threaten Governments 2008–09—2010–11 affordable homes target, but we believe that without additional subsidy the vast majority of new supply will not be delivered. We welcome recent suggestions from the Housing Corporation that it understands the challenges facing developing associations and is willing to engage in discussions about the amount of additional subsidy required to keep development moving.

43. Despite this we remain concerned that our members' experience on the ground is that the level of flexibility on offer is insufficient to rebalance scheme viability and that the experience in different locations is variable.

44. The Federation does not want to adopt a prescriptive model of flexibility recognising that what is necessary to maintain viability will differ from scheme to scheme. And we are prepared to think widely about the different interventions that might be adopted. There may be as much to be gained from any additional subsidy being in the form of an equity investment as there is from a straight increase in the amount of cash grant invested. Similarly other schemes could be made viable by the provision of a degree of revenue support which could be rolled up into a loan (either interest bearing or non-interest bearing) at a later date.

45. Flexibility should extend to a recognition that for schemes to remain viable the mix of tenures may need to change and that this could require converting some homes from Low Cost Home Ownership to market or intermediate renting, rent to mortgage or to social rented. On average rented tenures are more subsidy dependent than partial-ownership tenures and so the expected levels of subsidy on schemes may rise.

46. An additional mechanism for ensuring that a continued supply of new affordable homes would be to revisit the number of associations actively involved in developing new homes. The Housing Corporation's Investment Partnering approach sought to build up developer expertise and deliver efficiency by ensuring a development programme of significant scale for each developing association. Whilst this approach has some merits it has meant that the financial burden of development is concentrated on a smaller number of associations. Many associations currently not developing are financially strong with available borrowing capacity and reserves; this includes smaller associations who account for a sizeable share of available sector financial capacity. As the sector's ability to finance and cross-subsidise new developments becomes more stretched by market conditions CLG and the Housing Corporation should consider expanding the number and range of associations that are involved in the development process.

47. What is most important is that the Housing Corporation and developing associations are engaging in frank, open and early discussions about what is necessary to preserve scheme viability and that new models and approaches are widely shared to maximise the benefit they provide.

Making Use of Public Sector Land

48. Making more public land available to social housing providers at discounted rates or for free could potentially make a valuable contribution to unblocking the delivery of new affordable homes. The Register of Surplus Public Sector Land covers approximately 750 sites and approximately 5,000 hectares. Even if only a small proportion of this is suitable for house-building and is able to get planning permission, making it available at preferential rates to housing associations could help ensure they are able to continue building affordable homes.

49. English Partnerships and the Housing Corporation are currently working with consultants GVA Grimley in the South West to identify small to medium size surplus public sector land sites in rural areas that may be suitable for development. The 25 short-listed sites comprise around 93 hectares of land and have the potential to deliver many hundreds of new homes. English Partnerships is approaching landowners and it is expected that packages of land will be made available by April 2009. The new Homes and Communities Agency should offer this land at preferential rates for affordable housing and prioritise the replication of this process across all English regions and in urban as well as rural areas.

50. Local authorities should also be encouraged and incentivised to release land. Cumulatively they are banking much more than that held by central government and its agencies on the Register of Surplus Public Sector Land. As councils may be reluctant to part with their land assets in a depressed market, accelerating the roll-out of Local Housing Companies should be considered. Currently being piloted by 14 councils, local authorities "invest" land in the development process and investors including housing associations provide funding of an equivalent amount. Around 50% of new homes built by Local Housing Companies will be for affordable sale and rent.

51. Housing associations should not be compelled to buy up private developers' unsold stock. Very of few of these properties meet the obligatory space and environmental standards for socially rented homes, potentially consigning tenants to live in cramped conditions and pay excessive energy bills. Developers' surplus stock is also overwhelmingly 1–2 bedroom flats, whereas it is family homes that are most needed to reduce waiting lists.

Mortgage Rescue and Low Cost Home Ownership

Mortgage Rescue

52. The National Housing Federation welcomed the governments' announcement of a national mortgage rescue scheme as an opportunity to help thousands of households avoid the misery and trauma of repossession. The Government should be commended on recognising that the correct focus on housing market intervention should be on mitigating the social consequences for vulnerable households and ensuring the supply of affordable homes. The National Housing Federation and Council of Mortgage Lenders alongside their members worked with the Government prior to the announcement in order to develop proposals for a framework to support the delivery mortgage rescue.

53. The challenge to government now is to ensure that the detail of the rescue model is right. A partnership approach where all parties bring something to the table will ensure that stakeholders can work together to ensure that government's target of helping 6,000 households is deliverable. We hope that the government will ensure that the national mortgage rescue scheme is underpinned by support and a significant contribution from lenders. Balancing supporting individual organisations and local partnerships delivering schemes that respond to local circumstances with ensuring consistent quality, transparency and an easily understandable product will be critical. Housing associations are critical delivery agents for mortgage rescue and government must ensure that it is engaging with the sector to ensure that the final model is one that shares exposure to risk and protects the liquidity of the sector.

Low Cost Home Ownership (LCHO)

54. Despite seeing some of the biggest falls in houseprices since the early 1990s we are a long way from returning to a market where home ownership is affordable. In a market where supply will continue to outstrip demand low cost home ownership will continue to play a critical role. During the credit crunch demand for low cost home ownership products (LCHO) remains high and HomeBuy agents continue to report high levels of enquiries and applications for LCHO products. However, housing associations are reporting signs of slow down in numbers and pace of conversion nationally, especially for apartments in some regional town centres.

55. The credit crunch has led to a significant reduction in the availability of mortgages for low cost home ownership, with particular problems around the availability of 100% loan to value mortgages (on the proportion of the property that the shared ownership purchaser is buying) and lending on new build properties. There is also currently poor lender appetite for rural schemes with restricted staircasing and other schemes with restrictive covenants.

56. This is a critical issue for customers and for housing associations as it prevents them from progressing schemes as they are unable to provide assurances to buyers on the long term availability of mortgage products. Shared ownership lending can be regarded as higher risk and some lenders perceive LCHO purchasers as subprime. This is misinformed as whilst no doubt LCHO customer profile will be more "risky" than many existing owner occupiers with high levels of equity and incomes, LCHO purchasers are no riskier to lend to than first time buyers. In fact lenders are offered strong risk protection through the robust affordability and eligibility assessments that are in place and the inclusion of a mortgagee protection clause (MPC) in share ownership leases which offers lenders strong protection against risk for lenders.

57. The government must ensure that in future there will be a range of affordable and accessible mortgages available to people purchasing LCHO schemes. It should be recognised that many of the concerns expressed by lenders are a reflection of their concerns on the risk of lending on new build properties, especially flats, in the current climate. The government has a critical role to play in ensuring that lenders are committed to providing mortgages for low cost home ownership.

58. Government now owns one nationalised bank and has significant stakes in others and should consider using this position to guarantee a flow of mortgages to the shared ownership sector. The Federation is clear that we are not advocating risky lending, but where household's affordability is good providing access to mortgage finance will allow households that would otherwise have been unable to house themselves to find a home. This in turn reduces pressure on the affordable and social rented sectors.

59. In addition as we have demonstrated above the overall supply of new affordable housing is dependent on housing associations' ability to cross subsidise the costs of construction with receipts from low cost home ownerships sales. Providing a flow of affordable mortgage finance for low cost home ownership would help kick start new affordable housing development and provide a much needed boost to the building and construction industries.

November 2008

Memorandum from Crisis (CRED 44)

Crisis is the national charity for single homeless people. We welcome the Committee's timely inquiry into the Government's response to the effect of the economic downturn on its housing policies. Over recent months, we have been raising concerns both that the economic crisis will cause more people to become homeless and that those who are already homeless will find it harder to get a home. Government has spent billions on bailing out the banks, now they must spend just a fraction of that on supporting ordinary people. In this submission, we outline both the immediate and the long term challenges as well what we believe Government should do to prevent the financial crisis becoming a human one.

Summary—Key Issues and Recommendations

We must deal with the current crisis and circumstances but also use this as an opportunity to tackle longer term issues and reform our system of housing supply and homelessness assistance. In particular, as well as addressing the needs of those being made homeless now, it is equally critical that we do not forget those who are already homeless or in housing need, who risk being left even further behind.

Housing Demand and Supply

- — Existing housing demand has not gone away. The population is growing and there are around four million people on the waiting list for social housing, as well as tens of thousands of hidden homeless households.
- — House building has not kept up with demand and we do not have nearly enough social housing.
- — At the current rate, Government will not hit its house building targets until 2029[51] with the economic crisis leading to a collapse in new house building.
- — Government must remain committed to its house building targets and bring forward the necessary funding to deliver them.

Repossessions

- — We are seeing a sharp increase in repossessions, which are predicted to hit 45,000 by the end of the year.
- — We also need to consider how this figure may rise further as people get into difficulty repaying other debt secured against their property and are affected by rising unemployment.
- — Those in the private rented sector are also facing housing insecurity as buy to let mortgage holders are repossessed.
- — Whilst we welcome the Government's recent guidance to lenders and the courts to ensure that a repossession order is not the first port of call. It will be important for the Government to ensure the situation is monitored closely and action taken, as appropriate, to enforce the guidance. Measures to provide assistance to some homeowners announced in the mortgage rescue package do not go far enough. We would like to see a wider range of options available to homeowners facing difficulties, including measures such as local authorities taking equity shares in properties and sale and rent back by the state. These measures need to come into force now.

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[51] NHF (Sept 2008) http://www.housing.org.uk/Default.aspx?tabid=212&mid=828&ctl=Details&ArticleID=1420

— Landlords and creditors should be required to notify their local authority when they raise repossession proceedings or serve other notices. This would alert local authorities to households at risk of homelessness and enable them to respond to prevent homelessness.

Advice and Assistance for All

— We must help all those facing homelessness, in all sectors of the housing market.

— Many people who will get into difficulty are not entitled to be housed by their local authority, according to the restrictive terms of current homelessness legislation, and, too often, the advice and assistance local authorities provide is meaningless.

— Local authorities should have a new duty to more actively prevent people becoming homeless and to help all those facing homelessness, beyond the current statutory duties.

— We need a universal system of housing advice and support for everyone who needs it which should offer individuals a range of meaningful options. This should be the case in general but the need for such a system is even more pressing in current circumstances.

— Government must also ensure that sufficient advice on financial issues is available and that people are able to access credit at reasonable rates, whilst ensuring lending practices are responsible. This should be accompanied by a crackdown on unscrupulous lending and other practices which can take advantage of those in vulnerable situations.

HOUSING AND THE CREDIT CRUNCH: THE ISSUES

Housing Demand and Supply

1. Official predictions for household growth suggest that there will be over 220,000 new households a year until 2026, with 70% of these being single households.[52] There is also an increasing demand for social housing. In 2007, 1.6 million households, around four million people, were on the social housing waiting lists. That number is predicted to rise to some two million households by 2010, that's five million people waiting for a social home.[53] This is without taking into account the likely increase in demand due to the current crisis.

2. In particular, as the demand for social housing has increased, so the supply has withered. In 1979 we had a social housing stock of 5.5 million; by 1996 the figure was 4.2 million, a drop of 1.3 million homes.[54] Most of this decrease was as a result of right to buy sales[55] with the stock not being replaced. Since 1986 the numbers of new social housing units being completed has not exceeded 40,000 a year and for the last 10 years the number has hovered around the 20,000 mark.[56]

3. In 2007, to help tackle this long term undersupply of housing, the Government committed to building three million homes by 2020, along with a target for a 50% increase in the number of new social homes by 2010–11. We welcomed these targets, however, in the current climate it is becoming increasingly clear that, without significant extra investment, particularly by Government, they will not be met.

4. Recent predictions suggest the number of houses completed this year will be well short of the Government target[57] and this was before the full effects of the economic downturn were really felt. There has already been a staggering 67% drop in the number of private house-builders applying to start building new homes this year compared with the same time last year.[58]

5. The economic downturn is also having a significant impact on the supply of new social housing. In recent years, much new social housing has been funded by Section 106 agreements as part of private developments; by RSLs borrowing money; or by RSLs cross-subsidising social housing by selling houses on the open market. In the current financial climate, all three of these options are under serious strain and do not look likely to deliver the required new social housing. The current model for building significant numbers of new social housing is therefore broken but this cannot mean we stop building social housing, particularly at a time when more people will become reliant on the sector.

6. It is crucial that Government sticks to its house building commitments, plays a more active role in the housing market and brings forward resources for development. Now more than ever is the time to build to take up the slack in the construction industry and meet ever growing demand. This can only be achieved by the Government and its agencies taking a more activist approach and allowing local authorities to do likewise.

[52] CLG (Mar 2008) http://www.communities.gov.uk/news/corporate/riseageing
[53] LGA (2008) (http://www.lga.gov.uk/lga/aio/569196
[54] CLG (2008) Housing and Planning Key Facts.
[55] Hills J, Ends and Means (February 2007) The Future Role of Social Housing in England.
[56] CLG (2008) http://www.communities.gov.uk/documents/housing/xls/140912.xls
[57] NHF (2008) http://www.housing.org.uk/default.aspx?tabid = 495
[58] NHBC (2008) http://www.nhbc.co.uk/Newscentre/UKnewhouse-buildingstatistics/Year2008/Name,35224,en.html

7. There are opportunities as well as challenges in the current economic climate. Government could, for example, buy up unused land from developers and bring forward money for developing this land and constructing new housing.

8. The new Homes and Communities Agency in particular needs to make bringing forward new social housing in innovative ways a priority, though this may well also require additional resources from Government.

Rise in Repossessions

9. As well as the acute pressures on housing demand and supply and the extent to which they are exacerbated by current economic circumstances, we must of course deal with the immediate crisis of the dramatic jump in repossessions. In the second quarter of 2008, there was a 71% increase in repossessions on the corresponding period last year.[59] It is predicted that there will be around 45,000 repossessions by the end of the year[60] and there are over 310,000 mortgages in arrears.[61]

Private Rented Sector

10. However, it is not just homeowners that are being affected. The economic downturn is also hitting the private rented sector. Banks have been withdrawing affordable buy-to-let mortgages and the number of buy-to-let landlords being repossessed in the first half of 2008 is double that of the first half of last year.[62] When landlords are repossessed their tenants are evicted and we must ensure there is support for these people too.

11. The problems of those struggling in the private rented sector to meet their living costs also look likely to increase. Rents in the private rented sector have risen steeply in recent years. In the South East, rents rose by 83% between 1996 and 2006.[63] According to a recent poll, almost a quarter of those in the private rented sector spend more than 50% of their income on rent and 25% are struggling to meet housing costs. This is higher than the 7% of those with mortgages who are struggling[64] and, in the current climate, there is also a risk that there will be a further sharp rise in rents, putting more pressure on already stretched tenants. It is crucial therefore that we provide assistance to people who are renting and at risk of losing their home as well as to homeowners.

Government Action on Repossessions

12. Crisis welcomes the Government's recent moves to introduce new court protocols and guidance on the steps that lenders are expected to take before bringing a repossession claim to court.[65] Repossession should only ever be a last resort. We also welcomed the £200 million mortgage rescue package when it was announced in September. However, we do not believe the current measures go far enough and many of them still need the details worked through before they can be implemented.

13. Whilst we were pleased to see the Government acting to prevent some 6,000 repossessions across England, this will be only a small proportion of the overall total and barely scratches the surface.

14. Additionally, the measures announced in the mortgage rescue package will only help those who already qualify for homelessness assistance[66] and so will exclude large numbers of homeowners, particularly singles and couples without children, who are amongst the main groups affected by the current crisis. The Government is right to state that "for those affected, being repossessed is a major life trauma".[67] It is crucial therefore that every possible assistance is afforded to all those at risk of being repossessed. We must try to enable as many people as possible to stay in their own homes.

15. The Government recently took action and invested significant amounts of taxpayers' money in bailing out the banks and it is therefore particularly unacceptable that these same banks are taking forward so many repossessions.

16. Government must also address the problems facing those renting in the private sector and ensure that for all people, whether homeowners or renting, there is a genuine safety net of support and assistance from their local authority if they do become homeless.

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59 FSA (2008) http://www.fsa.gov.uk/Pages/Doing/Regulated/Returns/IRR/statistics/index.shtml
60 CML (Aug 2008) http://www.cml.org.uk/cml/media/press/1808
61 FSA (Oct 2008) http://www.fsa.gov.uk/Pages/Doing/Regulated/Returns/IRR/statistics/index.shtml
62 CML (aug 2008) http://www.cml.org.uk/cml/media/press/1808
63 CLG (2007) http://www.communities.gov.uk/documents/housing/xls/table-715.xls
64 YouGov/Shelter Poll (Sept/Oct 2008).
65 HM Treasury (Oct 2008) http://www.hm-treasury.gov.uk/press_108_08.htm
66 CLG (2008) http://www.communities.gov.uk/housing/buyingselling/mortgagerescuemeasures/
67 CLG (2008) http://www.communities.gov.uk/housing/strategiesandreviews/housingpackage/

17. Crisis would like to see a specific legislative provision introduced so that all landlords and creditors are required to notify the relevant local authority when they raise repossession proceedings or serve other notices. This would alert local authorities to households at risk of homelessness and enable them to respond to prevent homelessness. This provision is already included in Scottish homelessness legislation and is due to come into force next year.[68]

Homelessness Assistance

18. Because of the way homelessness is defined and the way social housing is rationed in England and Wales, many vulnerable people are not entitled to assistance from local authorities. Every year, around 40,000 households are officially recognised by their local authority as being homeless but are not provided with any accommodation because they are not considered to be in priority need.[69] This is just the tip of the iceberg, we estimate that there are already tens of thousands of hidden homeless households.

19. All local authorities are supposed to provide "meaningful advice and assistance" to those homeless households who approach them. However, we know that too many homeless people are still being turned away from local authorities with nothing. Under the terms of homeless legislation in England, it is still only those who are considered in priority need and meet other tests that are entitled to housing assistance from their local authority (unlike in Scotland where all homeless households are entitled to accommodation).

20. We need therefore to look at the rights an individual has to homelessness assistance and the duty a local authority has to provide it, as well as the application of those rights and duties particularly at this time of housing insecurity.

Advice and Assistance for All

21. Crisis believes local authorities should have a new duty to take meaningful action to prevent all people from becoming homeless and to assist all who are homeless, which must move beyond the current statutory provision. We would like to see a new duty to prevent the homelessness of all. This duty should apply to all local authorities and require them to proactively work to prevent the homelessness of all people who approach them, not just those they currently have a statutory duty to, and to do so earlier than the current 28 days provision ie two months before someone loses their home. It should also include a responsibility to provide temporary accommodation for particular groups in immediate need, such as those faced with no alternative but to sleep rough, not just those in "priority need".

22. We need to move beyond the current system of very limited advice and assistance and we believe local authorities should provide proper, universal advice and support services to those at risk of repossession or homelessness, those struggling with housing costs and all in housing need. This service should offer a range of options and advice, ranging from assisting people to stay in their current homes, to offering people a social tenancy to helping people find accommodation in the private rented sector including by providing a private rented sector access scheme which is open to all.

23. Such a service would have immediate benefits for those facing homelessness in the short term but it would also have benefits in the longer term by assisting people to access the type and tenure of housing that is right for them. Greater provision of such advice may well have prevented many of those who have got into trouble from doing so in the first place by diverting them into housing options more appropriate to their personal and economic circumstances.

24. Government must make more financial advice available for those struggling with debt, and indeed for all those worried about meeting their housing costs or the rising cost of living. As well as taking moves to ensure people can access credit at reasonable rates and that lending practices are responsible. This is necessary to address both immediate need and the longer term underlying issues.

25. The Government must also take action to crackdown on unscrupulous lending, loan sharks and to better regulate sale and rent back schemes, all of which can take advantage of individuals in vulnerable situations. We welcomed the Office of Fair Trading's report on sale and rent back schemes[70] and urge Government to now act speedily on its recommendations.

Seizing the Opportunity for Long Term Reform

26. Government must deal with the immediate housing crisis but must also ensure that this is not an excuse for putting longer term reform on the back burner. It is more important not less to address some of the long term problems, demands and issues facing out housing system as well as immediate pressures.

27. As well as stepping in to build more social housing in innovative ways for singles and families, Government must also offer new options for intermediate renting not just shared ownership schemes.

68 Scottish Government http://www.scotland.gov.uk/Topics/Built-Environment/Housing/access/homeless/s11
69 Crisis (2006) http://www.crisis.org.uk/policywatch/pages/about_homelessness.html
70 OFT (October 2008) http://www.oft.gov.uk/shared_oft/reports/consumer_protection/oft1018.pdf

28. As explained above, we need a new system of universal advice and assistance for all on housing issues; new duties and responsibilities on local authorities to prevent homelessness, including a wider homelessness safety net; greater integration between housing and work advice and concerted action to tackle all forms of homelessness.

29. There must be a better deal for those who fall between the social and owner-occupier sectors, many of whom are society's forgotten poor. This is a group which is in real need and is too often ignored. They are unlikely to ever be in a position to buy but at the same time they are not eligible for social housing.

30. There needs to be advice and assistance for renters, reform of the private rented sector and reform of Housing Benefit. In particular, we welcomed the recent review of the private rented sector by Julie Rugg and David Rhodes and call on the Government to implement its recommendations.

Conclusion

31. We believe that the measures outlined above should help to prevent what we otherwise expect to be a sharp increase in homelessness. In the current economic downturn, we are well aware of financial constraints and pressures on public expenditure but, with repossessions and unemployment soaring, Government action in the housing sector must be a priority.

32. Government must do everything possible to prevent people losing their homes and becoming homeless and to stop the financial crisis turning into a human one. It must also recognise the need to play a more activist role and step in to increase the supply of new social housing to tackle both growing immediate need and historic undersupply.

33. At the same time, Government should not put off radical reform and instead use the opportunity to expand the current system of very limited advice and assistance on housing, housing options and homelessness prevention and resolution and to reform the housing system more widely such as by taking forward the review of the PRS and comprehensively reforming the system of Housing Benefit.

34. As the economic downturn takes Britain into a recession, we are concerned that increasing numbers of homeowners and people renting privately will be facing the prospect of homelessness. This will only add to the already high levels of demand for social housing and other homelessness services. As well as addressing the needs of those being made homeless now, it is equally critical that we do not forget those who are already homeless, who risk being left even further behind.

About Crisis

Crisis is the national charity for single homeless people. We are dedicated to ending homelessness by delivering life-changing services and campaigning for change.

Our innovative education, employment, housing and well-being services address individual needs and help people to transform their lives.

We are determined campaigners, working to prevent people from becoming homeless and advocating solutions informed by research and our direct experience.

We have ambitious plans for the future and are committed to help more people in more places across the UK. We know we won't end homelessness overnight or on our own. But we take a lead, collaborate with others and, together, make change happen.

Housing

Crisis develops innovative solutions that help people into homes they can call their own.

Excluded from social housing, the private rented sector is the only solution for many single homeless people. We work with partners across the UK to deliver Crisis SmartMove, a rent deposit and advice scheme, which has helped over 10,000 single homeless people into a new home. We are also making the social and financial case for greater use of the private sector and run a national advisory service for local authorities and others setting up and running schemes across the UK.

We are also determined to realise our vision of a supportive housing model which combines affordable housing for low income workers and formerly homeless people with client-centred support and vocational services. We continue to explore ways of achieving this ambition.

Education and skills

Homelessness deskills and isolates. Equipped with new skills people can regain control of their lives, raise their aspirations and break the cycle of homelessness.

At Crisis Skylight, our inspirational learning and activity centres, we offer practical and creative workshops including art, music and drama, vocational workshops such as plumbing and carpentry and accredited learning opportunities in literacy, numeracy, IT and ESOL.

We see success every day as people gain confidence and skills then move on to further education, training or employment. Our ambition is to open Skylight centres in more cities across the UK over the next five years.

Employment

Crisis provides vocational opportunities and tailored employment programmes to help homeless people find and keep jobs.

Our popular Skylight cafes are successful social enterprises that offer accredited training and an opportunity to gain work experience in a busy commercial environment.

Crisis Changing Lives, our highly successful national award scheme, helps homeless people achieve their educational and vocational goals by awarding grants of up £2,500 to pay for training courses, tools and equipment or to help people set up their own businesses.

Health and well-being

Homeless people face significant barriers when trying to access high quality healthcare. Many also battle with physical and mental health issues which prevent them from fully benefitting from the opportunities we provide. To address this we run workshops such as Yoga, Tai Chi and Pilates to improve physical health and are piloting a mental health scheme which we plan to roll-out across our new Skylight centres. We also provide links and guidance to appropriate health services.

Christmas

At Christmas we run temporary centres that provide shelter for those sleeping rough and companionship and support to the vulnerably housed. The centres also provide life-changing services to help people to take their first steps out of homelessness and link people up to year-round support and opportunities. What makes our work possible is the help of thousands of volunteers and donors who generously give their time, energy, money and skills each Christmas.

Campaigning for change

We are determined to prevent people becoming homeless. We combine a research-based understanding of the causes of homelessness with direct experience of helping individual homeless people transform their lives. We advocate solutions based on evidence and argue for improved services for single homeless people.

How we help to transform lives

It is the hard work and commitment of thousands of volunteers that allows us to change people's lives. We are fortunate in our capacity to call on the support of thousands of volunteers. We plan to harness this support more effectively as we grow, including a mentoring programme which matches homeless people to volunteer mentors and coaches. We are also grateful for the support of 66,000 individuals and many companies, trusts and other organisations which fund our work through donations and grants.

November 2008

Memorandum by the Federation of Master Builders (CRED 46)

Summary

— The recent tightening in the availability and cost of credit to those wishing to move onto or up the property ladder has brought the housing market to crisis point.
— The collapse of the market has resulted in a massive fall in the production of housing at a time when the need for housing is still increasing.
— This has resulted in a significant contraction in the size and delivery capability of the industry which seems set to continue.
— This brings into serious doubt, the attainability of government housing targets.
— The key problem is that increasing numbers of people cannot afford to buy a home, despite their aspiration to do so.
— The long term cause of this gap between aspiration and affordability is that government policy has made housing too expensive to build.

- FMB calls on the Government to drastically increase the supply of land available for development, to ease land prices and enable developers to pass on the savings to customers, thus making housing more affordable.
- FMB calls on the Government to drastically reduce the number scope and cost of site specific contributions, to enable developers to pass on the savings to customers, thus making housing more affordable.
- FMB calls on the Government to abandon the counterproductive Community Infrastructure Levy.
- FMB calls on the Government to reduce VAT from 17.5% to 5% on all repairs and maintenance work to existing homes to stimulate eco friendly improvements.

Introduction

1. We are writing in response to the House of Commons Communities and Local Government Committee's call for evidence examining the Government's response to the effect of the "Credit Crunch" on its housing policies.

2. The Federation of Master Builders (FMB) is the largest employers' body for small and medium sized firms in the construction industry, and with over 13,000 members is the recognised voice of small and medium sized builders. The FMB is committed to promoting excellent standards in craftsmanship, and assisting builders to improve levels of building performance and customer service. The FMB biannual survey of its mass membership conducted in 2007 revealed that 32% of respondents engage in house building as part of their overall business activity. If reflected across the 13,000 members, this would suggest that the FMB has somewhere in the region of 4,160 SMEs that engage in housebuilding either as their primary business activity or part of the overall suite of services they offer. With the current difficulties being experienced by the major housebuilders, it is more important than ever to have a healthy SME housebuilding sector in the construction industry.

3. Housing is a fundamentally important issue because of its profound impact on our lives, education, health, the economy, and pride in our communities. Failing to address housing problems merely undermines other important social, economic and environmental objectives which affect us all. Having a decent home is a basic human right but one that is sadly denied today to more than 90,000 homeless households stuck in temporary accommodation, and to the 1.6 million on a council house waiting lists awaiting a permanent home.

4. The simple fact is that housing demand continues to outstrip supply. Britain has moved from an average of four people per household after 1945, to just over two today. Households today are much smaller on average because of later marriage, more family breakdown, fewer children, later childbirth and people living longer. In its July 2007 Green Paper *Homes for the future: more affordable, more sustainable*, the department for Communities and Local Government recognised that "while the housing stock is growing by 185,000 a year, the number of households is projected to grow at 223,000 a year, many of them people living alone". The Government's proposed solution was to increase the annual rate of construction to 240,000 units per annum by 2016, and to maintain it for the four years to 2020.

5. The recent tightening in the availability and cost of credit to those wishing to move onto or up the property ladder has brought the housing market to crisis point. Long term problems with supply caused by the planning system, and the inflationary pressures on house prices created by ever rising build specifications and production costs have been exposed by the shuddering halt in the supply of finance to private buyers created by the US sub-prime mortgage market collapse. As a result, far from the annual rate of production being ratcheted up from 185,000 units pa to 240,000 pa, production has collapsed, possibly to as few as 90,000 units for 2008.

6. As finance becomes increasingly difficult to secure so housing becomes unaffordable to ever more people. This effectively shrinks the market for housing for private purchase despite the underlying demand for housing remaining high. This forces developers to scale back provision of housing as they cannot afford to create homes for which there are no buyers. This in turn reduces the number of projects from which contributions to social and affordable housing provision can be sought. If private individuals cannot afford to buy, homebuilders cannot afford to build for that sector of the market, and the current model of delivery where private buyers finance a considerable able proportion of social and affordable housing, begins to collapse. If the Government wants to achieve its targets it must address the affordability issue.

7. The remainder of our evidence is divided into three sections, reflecting the areas of interest outlined in the Select Committee's call for evidence. They are as follows:

- the effects of the credit crunch on the prospects for achievement of the Government's housebuilding targets, both for market and for social housing;
- the effects of the credit crunch on the financial viability and ongoing business of housing associations; and
- the likely effectiveness of measures to help existing and prospective homeowners affected by the credit crunch.

The Effects of the Credit Crunch on the Prospects for Achievement of the Government's Housebuilding Targets, both for Market and for Social Housing

8. The Government's Green Paper *Homes for the future: more affordable, more sustainable*, set targets for housebuilding in three key areas as follows:

— More homes to meet growing demand.

— Well-designed and greener homes, linked to good schools, transport and healthcare.

— More affordable homes to buy or rent.

More homes to meet demand

9. The key targets in *Homes for the Future* were two million new homes by 2016 and three million by 2020, to be achieved by ratcheting up housing delivery from 185,000 units per annum to 240,000 units per annum by 2016, and to maintain this rate in the four years to 2020. However, the effect of the credit crunch has been to drive housing production in the opposite direction at alarming speed, and as a result, prospects for the 2016 and 2020 targets look bleak. Far from increasing delivery from 185,000 units per annum, delivery in 2008 could be as low as 90,000.

10. Economic forecasting is notoriously difficult, but if as expected the economy continues to experience difficulties throughout 2009 bottoming out and beginning to recover in 2010, then recovery in the homebuilding industry will be unlikely to even start in any meaningful sense until at least 2011 as it will take the industry some time after this recovery to regain capacity lost during the recession. The length of the recovery period will depend on the length and depth of the recession. The immediate problem is that the credit crunch has decimated the market, forcing many firms to make skilled staff redundant, and cut back orders for materials. The consequential effect on materials suppliers means that they too are having to lose skilled and experienced staff as they reduce production levels. These people will try to find work elsewhere in the industry but if their search is unsuccessful, their essential skills and experience may be lost on a permanent basis. This means that it will take considerable time after the beginnings of an economic recovery for the building and materials supply industries to begin to rebuild their capacity as this will only return as market recovery filters increasing demand down through the supply chain. The longer the recession, the worse the damage to capacity becomes, and the less likely it will be that the targets are met. In terms of trying to quantify how far off target delivery will actually be by 2016, estimates vary but even a conservative estimate of the damage predicts considerable problems.

11. A simplified estimate would say that, if the Government wanted to increase from 185,000 units per annum in 2007 to 240,000 in 2016 and do so in even increments, based on current projections, even two years of production at 90,000 units per annum would leave the industry at least 200,000 units short of where they needed to be by 2010. Given that the industry is highly unlikely to recover to 2007 levels of production by 2010, the total number of units behind target will continue to increase until production levels can be raised up past 2007 levels and back to the relevant incremental level and maintained thereafter. From this point production would need to be further increased to take into account the need to not only maintain targets but begin to tackle the shortfall from previous years. 2020 is some way off, but failure to meet the 2016 targets will naturally make the objective of achieving three million new homes by this date, far more challenging.

Well-designed and greener homes, linked to good schools, transport and healthcare

12. The better homes objectives set out in *Homes for the Future* are by their nature difficult to quantify. However, what is concerning is the fact that as the supply of new build housing declines due to the credit crunch, so does the number of homes being built to the standards laid down by the Government. The Department for Communities and Local Government (DCLG) has made it clear that it will not compromise on standards in favour of housing supply. DCLG officials have made it clear to the industry that they have no intention of softening targets, and that they intend to proceed with their plan to ratchet up the standards required by the building regulations by 25% and 44% in 2010 and 2013 respectively to achieve the Government's target for all new homes to be zero carbon by 2016. The FMB is committed to improving standards in the built environment but has a number of concerns relating to the practicality and desirability of these targets in the current economic climate.

13. First, it needs to be recognised that raising standards pushes up build costs, and pushing up build costs pushes up sales prices, making the units for private sale more expensive and thus less affordable. The increases in building regulation standards planned for 2010, 2013 and 2016 are based on the DCLG's Code for Sustainable Homes, which consists of six levels with Level 6 being "zero carbon". The FMB is aware of a project to build a two flat unit to Level 5 which meant that it was 24% more expensive than building to existing building regulations. In addition, the environmental modifications added an extra £40,850 per flat to the build cost. There is therefore an inherent tension within the Government's policy between standards and affordability which needs to be acknowledged and dealt with before the Government can be said to have a coherent housing strategy.

14. Secondly, there are concerns about customers' attitude and adaptability to higher specifications. Anecdotal evidence suggests that low pressure showers and energy efficient light bulbs are often removed on occupation. The development mentioned above experienced similar problems once the tenants took up residency. The mechanical ventilation with heat recovery was switched off to save electricity, the thermal stores were switched off and the biomass boiler fell into disuse once the initial store of pellets had run out. Similarly, the time and expense of maintaining environmental technologies from wind turbines and photovoltaic panels are also likely to be unpopular with many, especially as the latter are particularly vulnerable to vandalism. The FMB has heard of incidents where photovoltaic roof panels have burnt roof trusses, ground source heat pumps have caused permafrost and there are serious doubts about the pay back times on certain environmental technologies. At a time when the Office of Fair Trading (OFT) is demanding that the industry improve customer satisfaction, the FMB does not feel that it is fair or appropriate to use the private customer as a testing ground for new technologies.

More affordable homes to buy or rent

15. *Homes for the Future* states that, "Government will help deliver at least 180,000 new affordable homes over the next three years, and more than 70,000 affordable homes a year by 2010–11—with an ambition to increase further in the next spending review". It further commits to the provision of at least 45,000 new social homes a year by 2010–11, a goal of 50,000 new social rented homes a year, in the next spending review period, and over 25,000 shared ownership and shared equity homes a year funded mainly by the Housing Corporation/Homes and Communities Agency. The extent, to which these remain achievable targets following the credit crunch, depends on the extent to which the Government intends to rely on the private sector to deliver them via site specific contributions. Naturally, the drastic reduction in private homebuilding will considerably reduce the number of units that are delivered in this way, due to there being a smaller number of sites from which to solicit a contribution. The FMB would also suggest that the economic situation has serious implications for the Government's finances, particularly in terms of tax receipts, and therefore questions whether it will be able to maintain its £8 billion commitment to affordable housing.

16. However, the credit crunch is not the only contributor to rising un-affordability. The Government makes housing less affordable in a number of ways.The key challenges that the construction industry faces when trying to provide decent and affordable housing, is that the Government and the planning system consistently force up production costs. They do this in the following ways:

17. *Taxation*: stamp duty is paid on the purchase of land. The customer also has to pay stamp duty when purchasing the house. Given that that the stamp duty cost incurred by the land purchase will ultimately have to be passed onto the customer, this means that they effectively pay stamp duty twice. The final price paid by the private buyer will also have to cover some or all of the developer's Aggregate Tax, Landfill Tax, and Corporation Tax. Private buyers may soon also have to pay for the Community Infrastructure Levy as well, despite the likelihood of their already having contributed to local infrastructure via the site specific contributions made under Section 106 agreements.

18. *Excessive restriction of land supply*: land is the fundamental resource without which no development can take place. The planning system restricts the supply of land available for development, driving up land prices, and thereby driving up house prices. The planning system makes the process of gaining planning permission on land approved for development so difficult, time consuming, and expensive that the uplift in land value that occurs when planning permission is granted, is sufficient in the Government's view to warrant taxation in the form of its proposed Community Infrastructure Levy. Inefficiencies in the planning system are a prime driver behind restricting the supply of land with permission to develop thereby inflating its value. The FMB is concerned that the Government's reaction to the problem is to tax the outcome rather than deal with the cause.

19. *Planning fees and bureaucracy*: as well as the considerable planning fees that a planning authority may charge, planning officers can and do demand excessive numbers of technical reports covering everything from traffic flow to archaeology. These can cost thousands of pounds to produce, and when multiplied across the sheer number demanded, the final bill for professional and consultancy fees can be in the hundreds of thousands of pounds for even relatively modest developments.

20. *Planning delays*: while planners deliberate over an application, many developers will continue to have to pay considerable interest charges if they used a loan to purchase the land. The longer the application takes, the more the developer will have to pay in interest, and ultimately the more they will have to sell the final housing units for if they are not to go into bankruptcy. The recent report *A Call for Solutions,* published as part of the Killian Pretty Review of bureaucracy in planning, has suggested that there are around 29,000 units of housing caught up in the planning system at any one time. They further cite the Barker Review estimate that planning delays cost the overall economy between £700 million and £2.7billion.

21. *Section 106 agreements*: everything from contributions to education and health care, to building extra class rooms on schools and 10 year maintenance contracts for sports fields can be demanded by local authorities which only serves to push up the price of final housing units.

22. *Affordable and social housing provision*: when a local authority takes for example 30% of a site for social housing, and insists on another 10–20% for open amenity space, the developer only has 50% of their site with which to recover 100% of their total outlay. This effectively pushes up the price of the units for private sale, thus making them less affordable. The greater the costs put on the developer, the greater the cost of the units for private sale, the less affordable they become, and the more affordable housing units will be needed. Ironically, affordable housing provision ultimately makes the remaining units less affordable.

23. *Specification*: the FMB supports the green agenda but recognises that sustainability needs to be pursued in a sensible and sustainable way. The higher the specification created by standards such as the Code for Sustainable Homes are, the more expensive the final units become. As mentioned above, building to Level 5 is in the region of 24% more expensive than building to building regulations alone an could potentially add over £40,000 to the final sale price.

24. Ultimately the Government needs to understand that the each and every cost placed on the construction industry is in fact paid for by those who purchase its products. When the customer can no longer afford the products, the industry has no choice but to stop producing them. The credit crunch has had a massive impact on people's ability to afford housing. As a result production is expected to dip below 100,000 units this year as the industry cannot afford to build what it cannot sell.

The Effects of the Credit Crunch on the Financial Viability and Ongoing Business of Housing Associations

25. The FMB does not feel it appropriate to comment on this area, as the issue would be better addressed by bodies such as the Housing Corporation, the Northern Ireland Housing Executive, Communities Scotland, and the Welsh Assembly, who are responsible for the funding and regulation of housing associations in their respective areas.

The Likely Effectiveness of Measures to Help Existing and Prospective Homeowners affected by the Credit Crunch

26. The £1 billion package of measures announced by Hazel Blears MP, Secretary of State for Communities and Local Government, on 2 September 2008 is designed to assist first-time buyers who are frozen out of current mortgage markets, support vulnerable homeowners facing repossession, particularly those who would be eligible for social housing, and ensure we are as well-placed as possible to meet our housing needs, especially affordable housing in the short and long term. The £1 billion consists of four key commitments:

- offering up to 10,000 first-time buyers currently frozen out of the mortgage market the chance to get onto the property ladder through a new £300 million shared equity scheme;
- supporting up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home through a £200 million mortgage rescue scheme;
- improving the support offered through the benefit system to homeowners with mortgages who lose their jobs, at a cost of £100 million over the next two years; and
- bringing forward £400 million in order to deliver up to 5,500 new social homes over the next 18 months on top of current assumptions.

27. The FMB is of the view that the measures are unlikely to make a significant impact in terms of rescuing the aforementioned delivery targets because they are short term policies which do not tackle the core issues. The Government needs to understand that it is the cause of its own housing supply and affordability problems, and until it stops forcing up prices with planning restrictions, tax rises, higher specifications, and section 106 agreements, it will not get affordable housing.

28. Unfortunately, UK house prices have been allowed to inflate to an unsustainable degree due to lack of supply, rapid increases in land and production costs driven by counterproductive Government policy, and easily available credit. What is happening now can be seen as a sharp, unpleasant but necessary correction to the prices of existing stock reflecting how far beyond realistically affordable levels they had risen. Expectations of further falls in house prices are likely to be self fulfilling in the short term at least, as prospective buyers wait to see how far the market will fall before deciding to purchase. However, like the proposed measures, this correction does not address the basic problems of build costs being too high, and there not being enough developable land coming out of the planning system to satisfy demand. As such the intertwined supply and affordability problems will still be there when the billion has been spent.

29. In terms of the likely effects of the proposed increases in funding for shared equity schemes and social housing, even if they fulfilled their ceiling ambitions, they would still only account for 15,000 units at a time when the industry has lost demand for approaching 100,000 units, and expects to be down by a similar figure again next year. Beyond the impact of the current financial crisis, if the Government wants to meet its targets, it needs to resolve the complexity and contradictions within the planning system, ensure the supply of land available for development, drastically cut back on section 106 agreements, revise new build environmental targets to bring them back into line with what is financially viable to deliver, abandon the proposed Community Infrastructure Levy, and make better use of the existing housing stock.

30. Existing homeowners wanting to make their homes more energy efficient and thereby cut the cost of rising fuel bills could be helped further if the Government set out a clear, succinct strategy to tackle the refurbishment of the existing housing stock. The existing housing stock, which contributes 27% of the UK's total carbon emissions, has the potential to help achieve the Government's overall target to reduce carbon emissions by 80% by 2050. In 2050 an estimated two thirds of Britons will be living in homes that already exist today. If the Government wants to achieve its target of cutting carbon emissions by 80% by 2050 it must look at the existing housing stock. Existing homes can be renovated to meet eco excellent standards at a cost of £20,000, whereas building new homes, requires an infrastructure subsidy alone of around £35,000 per home plus the tens of thousands of pounds required to make them "zero carbon" in use. As such incentives are needed now to encourage homeowners to make their homes more energy efficient. The simplest and easiest way would be for the Government to reduce VAT from 17.5% to 5% on all repairs and maintenance work to existing homes. The FMB would also be keen for the Government to consider low interest loans, as Germany does, for upgrading houses and public buildings, which could bring the whole existing stock up to eco-excellent standards while regenerating all run–down areas by 2030.

November 2008

Memorandum by London Councils (CRED 47)

Summary

This paper sets out London Councils' evidence to the CLG Select Committee Inquiry on housing and the credit crunch. The key points are:

The local authority role

- London boroughs are willing and able to play their part in delivering government's mortgage rescue package. It is imperative that this package is operational at the earliest opportunity.
- Local authorities are ideally placed to do more than is currently envisaged by the mortgage rescue package, for example (depending on local circumstances) to ensure that regeneration projects go ahead by providing mortgage indemnities or by taking equity share in a home to allow people to access cheaper mortgages or if the viability of a scheme is in jeopardy they may be willing to purchase a small proportion of properties.

Mortgage rescue

- Consideration should be given to extending the mortgage rescue package to cover vulnerable households in negative equity. In particular those who can no longer access low rates because of the fall in their house value. The costs of doing so should be balanced against the costs of providing temporary accommodation to those households who might experience the trauma involved in repossession.

London housing affordability

- First time buyers in London continue to find themselves facing high property values and a limited supply of affordable housing. This has pushed households to the limit as they try to gain a foothold on the housing ladder.
- The "stamp duty holiday" does not take high London property values into account. The upper threshold for waiver of stamp duty should be regionalised and in London this should be increased to £250,000. There are other regions with high property values such as the South East which might also need this approach.
- The reforms to support for mortgage interest (SMI) should become effective at the earliest opportunity. The capital limit for SMI should be regionalised to reflect different levels of mortgage lending across the country. In London SMI should be increased to £250,000.

Further action

- Consideration should be given to mechanisms to enable low cost home ownership (LCHO) purchasers to "staircase" down as well as up.
- There is an immediate need to clarify the range of intermediate housing products on the market. The variety of schemes on offer and the complexity of their eligibility criteria creates confusion amongst potential purchasers and limits their take up.

— The current housing association development model of cross subsidising affordable housing through sales is no longer financially viable in many cases. The Homes and Communities Agency (HCA) will need to more flexibly support developments via increased grant payments or earlier release of funds.

1. Introduction

1.1 London Councils is committed to fighting for more resources for the capital and getting the best possible deal for London's 33 local authorities. We lobby key stakeholders, develop policy and do all we can to help our boroughs improve the services they deliver. We also run a range of services ourselves, all designed to make life better for Londoners.

1.2 This document sets out evidence from London Councils to the CLG Select Committee inquiry on housing and the credit crunch. It addresses the key points outlined in the brief and highlights the concerns and opportunities raised by London boroughs.

2. Background

2.1 By December 2007 London was already facing significant affordability issues for market housing:

— First time buyers were paying up to 51% of their combined take-home salary on mortgage payments compared with 29% in the most affordable region of North East England.[71]

— The upfront costs of buying a home in London amounted to 132% of combined take home pay for a couple on lower quartile earnings.[72]

2.2 Consequently, in London, the credit crunch takes place against a background of households already stretched to the limit with little or no capacity to meet increased mortgage payments.

2.3 The reliance of London on employment generated by the financial, property and the hospitality industries will also exacerbate the probable impact of the credit crunch in London.

3. Measures to Help Existing and Prospective Homeowners affected by the Credit Crunch

3.1 *Mortgage Rescue Package*

3.1.1 The announcement of the £200 million mortgage rescue package (MRP) combined with the July 2008 announcement of a £10 million package of measures to fund face-to-face debt advice provided by third sector partners is welcomed.

3.1.2 However, with mortgage repossessions already rising, we are concerned that the details of the MRP have yet to be announced and that the scheme is unlikely to operational until early in 2009.

3.1.3 London boroughs are willing and able to play their part in delivering the mortgage rescue package. It is imperative that this package is operational at the earliest opportunity.

3.1.4 We are also concerned that eligibility is restricted to those households that the LA would have to accommodate under homelessness legislation and are in positive equity. Households who would otherwise qualify but are now in negative equity, will not be helped.

3.1.5 Consideration should be given to extending the scheme to cover vulnerable households in negative equity and the costs of extending the scheme balanced against the costs of providing temporary accommodation to these households who might otherwise have to move into temporary accommodation.

3.1.6 The procedures developed for the package are overly complex. The householder is assessed under vulnerability criteria by the local authority, and then sent to a debt advice agency for debt advice and income assessment. They are then returned to the local authority which contacts a housing association to value the property and decide on the best option for the client.

3.1.7 A package which could be delivered by one agency would be preferable. Funding for local authorities to coordinate and facilitate the mortgage rescue package rather than acting as a gate keeper could simplify the process.

3.1.8 Local authorities with their strategic and place shaping roles are ideally placed to do more than is currently envisaged by the mortgage rescue package to ensure that regeneration projects go ahead: by providing mortgage indemnities or by taking an equity share in a home to allow people to access cheaper mortgages.

[71] RICS Affordability Index, Q4 2007.
[72] RICS Affordability Index, Q4 2007.

3.2 Stamp duty holiday for homes under £175,000

3.1.10 While the government's decision to give a stamp duty holiday for purchases of properties at or below £175,000 is welcomed, in London the amount of help given by this measure is minimal. The London Property Watch website lists 43,315 properties for sale of which less than 2% (1,022) are priced at £175,000 or below, and of those 65% are studios or one-bedroom flats.[73] In particular this measure offers no incentive to families, unlike some other parts of the country where a wide range of properties will fall under this limit.

3.1.11 The average house price in London is £328,927—nearly double the £175,000 upper threshold for waiver of stamp duty.[74] The average house price in the London Borough of Barking and Dagenham, the borough with the lowest average house prices in London, is £243,840—almost £75,000 above the £175,000 threshold.[75]

3.1.12 Despite falling house prices, the volume of sales in London has dropped by 60% from 15,500 for July 2007 to 6,000 for July 2008.[76] This drop is a result of a combination of:

— higher mortgage interest rates;

— lower income multiples when calculating mortgage affordability;

— stricter lending restrictions from mortgage lenders; and

— the growing uncertainty of employment prospects as recession looms.

3.1.13 London Councils considers that the upper threshold for waiver of stamp duty should be regional and that in London this should be increased to £250,000.[77]

3.2 *Support for mortgage interest (SMI)*

3.2.1 The reduction in waiting time for support for mortgage interest (SMI) from 39 to 13 weeks is welcomed as is the increase in the capital limit for new claims to £175,000.

3.2.2 However, given that mortgage repossessions orders made are rising,[78] the reforms to SMI should become effective at the earliest opportunity.

3.2.3 There is a concern that SMI like the stamp duty holiday fails to take account of high London property prices, and Londoners who claim SMI are unlikely to be covered for the total interest payable on their mortgage.

3.2.4 A further consequence of the high London property prices has been the number of mortgages where two incomes have to be taken into account. This creates a further disadvantage for London as if one of the couple is employed the likelihood of the household even qualifying for SMI is remote and they fail to gain any help.

3.2.5 London Councils considers that the capital limit for SMI should be regional and that in London this should be increased to £250,000.

3.3 *HomeBuy Direct and Rent to Buy*

3.3.1 The introduction of these products is welcomed. However, HomeBuy Direct is still very dependent on first time buyers regaining confidence in the market. The scheme may therefore only have a marginal effect on the market and it may be some time before confidence is restored enough for buyers to return if house values continue to drop as expected.

3.3.2 Rent to Buy has attracted a great deal of interest as this will allow householders to choose if they want to enter to the housing market. The increased flexibility allowing people to move from intermediate renting to shared ownership in the same property is welcomed.

3.3.3 London Councils is keen to ensure that home ownership is sustainable. In light of this consideration should also be given to mechanisms to enable purchasers to "staircase" down as well as up.

3.3.4 The low cost home ownership (LCHO) model needs to be improved. The variety of schemes on offer confuses potential purchasers, and many fail to set out the advantages and disadvantages of shared ownership. As a result a significant number of people do not realise they could be eligible to apply for shared ownership.

3.3.5 Consequently, there is an immediate need to clarify the range of intermediate products on the market as the different eligibility criteria and schemes add to customer confusion, making them less effective. There should be clear branding and promotion of a smaller range of shared ownership products.

[73] http://www.londonpropertywatch.co.uk/ as at 30 October 2008.
[74] Land Registry House price Index September 2008.
[75] Land Registry House price Index September 2008.
[76] From Land Registry House price Index September 2008.
[77] This figure has been arrived at with reference to the average lower quartile house price in London—£210,000. From www.communities.gov.uk, Table 583, Housing market: lower quartile house prices based on Land Registry data, by district, from 1996 (quarterly), figure given is for Q1 2008.
[78] From www.justice.gov.uk Repossession orders granted in London courts were up 12% on Q2 2007.

3.4 *Government clearing house for unsold property*

3.4.1 While the Government initiative to set up a clearing house funded by £200 million to allow housing associations to buy and manage this unsold stock is welcome, early indications from housing associations indicate they are wary of procuring these properties. In London, many of these unsold homes are one and two-bedroom flats which do not meet the demand for family homes or alleviate London's problems with over 200,000 overcrowd households. Equally the space and design standards do not reflect the aspirations of the HCA.

3.4.2 Housing associations in London will only consider purchase of homes which meet the required space standards, are of a size they want for their portfolio and are in the right location.

3.4.3 The number of "off the shelf" purchases resulting from the clearing house will not persuade builders back into the market for speculative development and there needs to be a more directed programme of house building to meet affordable housing demands.

3.5 *Bringing forward £400 million grant funding*

3.5.1 The Government's decision to prime the market by bringing forward £400 million of the Housing Corporation's grant funding and opening bidding to local authorities and housing associations is a move in the right direction, but with little lead-in time local authorities who have not been allowed to bid for funds and build new council stock for some time may find it difficult to take advantage of the relaxation in rules.

3.5.2 Housing associations with current plans and experience will be in a better position to bid but they are still faced with the economic viability of developing in this economic climate.

4. Achievement of the Government's House Building Targets

4.1 There are indications that the draft Mayor's Housing Strategy will aim for approximately 30,000 new homes per annum and a target in the region of 50,000 affordable homes for the next three years (2008–11). Indications are that this will be a testing target.

4.2 Eight organisations, including London Councils were invited to give evidence to the London Assembly Planning & Housing Committee on 13 October. The consensus was that meeting the current new build targets would be extremely challenging in the current financial and economic climate.

4.3 In the majority of developments the business plan for housing association new build is based on crossover funding from homes sold (both outright sale and low cost home ownership) in a development. In the current economic climate house prices are falling and both open market and shared ownership sales are drying up. In light of this housing associations will require greater levels of grant to deliver affordable housing. Some have decided to focus on small developments which can be completely grant funded and concentrate on the supply of larger properties. While this trend may alleviate London's overcrowding problem the numbers may not be sufficient to make a significant contribution while the reduction in overall supply could be disastrous. London needs both more affordable housing and more family sizes homes.

4.4 The Homes and Communities Agency (HCA) has agreed to look at grant rates and the possibility of paying grant before building starts. This will be necessary to get developments off the ground, but the effectiveness on the scale required to reach the government targets is doubtful.

4.5 Greater clarity on the use of local authority land to pump prime joint developments would be welcomed. Audit expectations are that local authorities should always get the best monetary value which may not be the case when using it to develop affordable housing sites.

4.6 *Effect of the credit crunch on housing schemes*

4.6.1 London Councils has asked London boroughs to provide information on the effect of the credit crunch on current and potential affordable housing schemes. Results from this survey are attached as Appendix 1.

4.6.2 Key trends emerging from the survey include the following:

— Six out of 15 boroughs have experienced schemes falling through but, in general the credit crunch is causing delays in delivery rather than complete withdrawals on schemes at this stage.

— Developers are building in time delays and pushing back start-on-site and completion dates.

— Affordable housing schemes which are primarily funded by free local authority land and developer cross subsidy from open market sales (due to free land) could be vulnerable and have a gap in their business plans.

— There has been a slow down in the intermediate sector, with sales of low cost home ownership still taking place but at a slower rate. Developers and housing associations are seeking to change the tenure of some shared ownership units to intermediate rent or social rent.

- On some sites, where housing associations have been unable to proceed, another housing association has approached the borough regarding the same site.
- Section 106:
  - Planning gain sites with a mix of tenures are being delayed or mothballed primarily as a result of the risk of not being able to sell the private units.
  - Some section 106 affordable housing schemes which were originally viable with no funding from the Housing Corporation (HC) now require some grant funding to proceed due to reduced income forecasted from the sale of the private units.
  - Developers have approached boroughs stating that they cannot provide the section 106 affordable housing quantum required by boroughs' individual planning policies. This has been supported by the evidence of independent assessors and appraisals and borough have had to accept this.
- In the short term completions look healthy but there is likely to be a dramatic fall as current schemes are completed and new schemes fail to go ahead.
- Some housing associations are telling the boroughs that they are not getting involved in new shared ownership that completes in the next two years and that they just want to work on small 100% social rent schemes.

Conclusion

London faces significant challenges in terms of affordability, homelessness and overcrowding exacerbated by the credit crunch. Recent improvements in providing affordable housing are at risk, but local authorities are ideally placed to work with government and their stakeholders to resolve the problems.

APPENDIX 1

AFFECT OF THE CREDIT CRUNCH ON AFFORDABLE HOUSING SCHEMES IN LONDON BOROUGHS

Borough	*Have schemes fallen through?*	*Comments*
1	No	To date no affordable housing schemes have fallen through as a result of the credit crunch. Perhaps in a different situation to many other boroughs because of emerging Local Housing Company.
2	No	Aware of three significant sites in the borough, which have planning permission and which cumulatively would deliver just over 200 affordable units, which have been put on hold by developers. In addition, the effect of falling values on financial viability has delayed any further progress of two proposed schemes (not yet with any planning permission) of about another 70 units combined. These are section 106 sites with a mix of tenures, where the risk of not being able to sell the private units is almost certainly what is holding things back. Cannot be sure that others won't be affected in due course as well. In terms of change of tenure, one recent example is a medium sized scheme where the eight shared ownership flats originally intended reverted to intermediate and social rented. The progression of the scheme was also clearly in jeopardy due to the Corporation's stance regarding the grant rate. A further scheme providing 30 affordable units, which just received planning consent, was to be delivered grant free but now will need grant due to reduced income forecasted from the sale of the private units. Conversely, there have been a few sites where developers have offered more units for affordable housing. The borough is considering the suitability and viability of these offers—although it is often the case that the properties are not up to the standards required to be funded as affordable housing.
3	No	Not aware of any developments that have been stopped on site because of the current conditions. Of those that are threatened — **Scheme A:** 20 units affordable (6-LCHO, 14- rented) with allocation and Planning Consent. Developer trying to convert additional 32 private units to affordable- intermediate rented. (Developer will lose purchase deposit if scheme shelved; funding provider pulled funding for market sale units- market too risky.) — **Scheme B:** funding providers reviewing overall cash flow rates—requiring reconsideration of phase 1 content. About 250 units affordable, including about 60+ Supported housing units, affected. So far only timing affected. There are rumoured delays to starts on sites of schemes with consent or awaiting Section 106 signing. These are two large schemes of mainly commercial content. No confirmed cases.

Borough	*Have schemes fallen through?*	*Comments*
4	No	Slowdown rather than complete stop. Still in discussions with developers about most of the potential sites in the borough, however the need to resolve things quickly and push on to planning permission etc is not there. Developers are certainly building in time delays and pushing back start on site and completion dates. Seeing readjustment of tenure from market to affordable as developers continue to try to stack schemes up and build more margin into their schemes. The borough has not seen a push to develop higher levels of affordable housing but this could be because the borough has high land values where even moving to a higher level of affordable housing doesn't work in terms of return against what it cost to buy the land in the first place. This may not be the case in other boroughs. There has been a slow down in the intermediate sector, with sales of LCHO still taking place but at a slower rate. The three-year pipeline represents the situation well: the next two years look pretty healthy with c. 750-800 homes (gross) being completed each year. However, year 3 (2011–12) is different with perhaps as few as 150–350 homes being completed.
5	Yes	Two Section 106 schemes which have fallen through as a result of the credit crunch:

Scheme	*Total number of units*	*Social rent*	*LCHO*	*Outright sale*	*Reason*
Scheme A	383	61	41	281	Developer has withdrawn from scheme due to market conditions
Scheme B	260	61	32	167	The council has withdrawn from disposal of land due to market conditions which have led to developer significantly reducing the tendered offer.
Total	643	122	73	448	

		Currently no schemes have had to be substantially revised (eg change of tenure from LCHO to social rent). However, the borough has been informally approached by one agent enquiring as to the possibility of changing outright sale units to an alternative tenure such as intermediate rent, but it has not yet received a formal proposal.
6	Yes	Affordable housing schemes that have fallen through or stopped because they have been abandoned by developers or RSLs we have the following: — **Scheme A:** RSL failed to complete purchase after exchange of contracts. 22 units—5 rent, 5 shared ownership, 12 private sale — **Scheme B:** RSL withdrew offer before exchange of contracts 30 units(approx)—7 rent, 8 shared ownership, 15 private sale

Borough	*Have schemes fallen through?*	*Comments*
		It is likely that there may be others arising from planned Council disposals but we are unable to release further details at present. We also have a significant number of sites where developers/RSLs appear to be delaying or seeking to re-configure the tenure due to the current market: — Scheme A: RSL seeking tenure change to 100% affordable due to claimed non viability of approx 30 private sale units. — Scheme B: Developer/RSL seeking tenure change to 100% affordable and reduced terms, change of 8 private sale units to intermediate tenure — Scheme C: RSL not wiling to commit to construction following planning consent. 8 rented and 19 shared ownership units deferred to later year — Scheme D: RSL claims to have acquired but not willing to commit to construction. 53 units, 15 rent, 26 shared ownership — Scheme E: Slow progress by developer, RSL partner uncertain of situation.414 units—164 affordable, 250 private sale, delivery uncertain. — Scheme F: Disposal of site deferred to later years Few RSLs can demonstrate that they are actively seeking sites or doing more than keeping previous leads live so in general terms it is more a problem of new schemes not coming forward rather than existing schemes failing (so far) that is going to cause a supply drop from next year when the lack of new starts in 2008/9 is reflected in completions. Our situation is blurred by the large supply of units in 2010/11 that were both committed in earlier years. Existing commitments will largely meet our three year supply target although 2009–10 as an individual year is currently below target due to the low level of starts so far in 2008–09. Our partners have been questioned on this and they claim to be active but this is not evidenced by schemes coming forward. There are however 2 exceptions (L&Q and Origin) that are noticeably active locally.
7	No	Whilst no schemes have totally fallen through as yet, the borough is finding that schemes both pre and post planning consent are changing with developers and/or RSLs looking to increase the amount of affordable housing in a scheme (subject to funding) or moving LCHO units to rent or rent to buy. Some specific examples of difficulties are: — Scheme of 99 units (51 full sale, 28 shared ownership, 20 rented) with full planning consent and a 07/08 HC allocation with grant already claimed. The private developer walked away from the full sale element this year although now both the developer and the RSL are separately looking at revising the scheme to make it work. — Large mixed tenure scheme largely complete, developer wanted to change 30 1 & 2 bed units from full sale to shared ownership. Rejected by LA and HC as too expensive. — Small mixed tenure scheme. Recently LA agreed to fund RSL to purchase 4x4bed houses. Developer then refused to sell houses to RSL without them also purchasing a block of small units. Borough negotiated directly with developer and purchase of houses only now re confirmed.

Borough	*Have schemes fallen through?*	*Comments*
		Estate Regeneration schemes — The council has four4 schemes with its Arms Length Management Organisation (ALMO) where the ALMO will own the affordable rented housing. Three of the schemes have some public funding but otherwise the schemes were to be funded by free local authority land and developer cross subsidy from open market sales (due to free land). Two of the four schemes have planning consent and one was due to start on site within a very short period. In all four cases there is now a gap in the business plan and the council is currently working on how these gaps can be filled.
8	No	Schemes are not falling through but the credit crunch is causing delays in delivery and some of them could eventually fall through but it is unclear at this stage, which way they will go. One site in the borough was owned by an RSL and had to be sold on because of financial difficulties. This resulted in the loss of 40 affordable housing units for both social rent and shared ownership. Over the past six months, more developers have stepped forward arguing that they cannot provide the section 106 affordable housing quantum and this as been supported by the evidence of independent assessors. Three independent appraisals have clearly demonstrated on three separate sites that no affordable housing can be carried and the borough has had to accept this decision.
9	No	Not aware of any affordable housing schemes falling through
10	Yes	Two mixed-use (commercial and residential) S106 Schemes have been mothballed: — **Scheme A:** The Housing Corporation (HC) had provided funding for 32 affordable units (20 social rent and 12 s/o). The grant has now been withdrawn. — **Scheme B:** A housing association was going to provide 48 affordable units (13 social rent and 35 s/o), but it did not apply for grant. The borough has received one application to change some s/o units into social rent. The borough is converting the 15 s/o units being provided in Scheme C into a fallback rent-now-buy-later scheme in case the RSL meets difficulty in marketing or selling any of these properties. The borough has recently run into difficulty with the HC in funding high value, expensive Section 106 schemes. — **Scheme D:** With a verified financial appraisal, the developer proposed providing 40% (62 units) of the residential habitable rooms as affordable housing with HC funding. However, the HC did not consider this as providing value for money when compared to obtaining 40% (40 units) without grant. This could place the scheme in jeopardy. — The borough has a number of other schemes that are similarly threatened.

Borough	Have schemes fallen through?	Comments
11	Yes	One scheme where the RSL has pulled out. This comprised 87 units of which 26 would have been affordable. The developer is now seeking to revise the scheme to deliver all affordable housing but has been unable to agree terms with an alternative RSL partner, to date.
12	No	Not aware of any casualties that could be attributed to the credit crunch
13	No	There is no definitive evidence of developers formally advising the borough of their intention not to proceed with proposals either those currently under construction or planned.
14	Yes	**Scheme A:** Approx 50-unit flatted development, developer was intending to fund CiL contribution through bank borrowing; however its funders have re-valued the scheme and are not able to forward any further funding. The borough has looked at bringing the affordable housing liability back on site; however the RSL is not impressed with the workmanship/quality/layout etc. and is not willing to take up the units. The borough is currently considering a deal on a neighbouring site. **Scheme B:** A 24-unit scheme brought to the borough RSL1, the borough had agreed to support the scheme ; however RSL1 has recently taken the decision not to proceed with the scheme due to the current market conditions. The borough has since been contacted by RSL2 on the same scheme.
15	Yes	One scheme where an RSL has pulled out of for explicitly "credit crunch" reasons: — **Scheme A:** 57 units (27 social rent and 30 Shared Ownership). The RSL stated that it could no longer make the shared ownership work. Since the RSL pulled out, another RSL has talked to the borough about it. Generally RSLs are not pulling out of schemes. What some are telling the borough is that they are not getting involved in new shared ownership that completes in the next two years. They just want to do small 100% social rent schemes. Whereas a year or two ago applicants were prepared to meet the council's 35% affordable provision; in most cases they now say this is not feasible. They are bringing along new applications with financial appraisals to justify the provision of Housing Corporation grant-funding, which has previously been against borough policy. The following schemes have been revised: — **Scheme B:** The affordable housing provision has been reduced from 188 to 151 units, (the approved scheme was 159 intermediate plus 29 social rented units, the revised one is 116 intermediate, 35 social rented). The reason given is that the changing market means the proportion of affordable housing can no longer be supported. — **Scheme C:** The affordable housing provision has been reduced from 28 to 18 units. Applicants explain that RSLs are in most cases not prepared to countenance shared ownership schemes because of the market uncertainty.

Borough	*Have schemes fallen through?*	*Comments*
		Discussions are still taking place in respect of: — **Scheme D:** 12 affordable units comprising 8 affordable rent and 4 S/O (shared ownership) might become all rented. — **Scheme E:** The affordable provision comprising 7 affordable rented and 3 S/O might become all rented.

November 2008

Memorandum by the Local Government Association (CRED 48)

The Local Government Association (LGA) represents over 400 councils in England and Wales. The LGA exists to promote better local government. We work with and for our member authorities to realise a shared vision of local government that enables local people to shape a distinctive and better future for their locality and its communities. We aim to put local councils at the heart of the drive to improve public services and to work with government to ensure that the policy, legislative and financial context in which they operate, supports that objective.

SUMMARY

1. The LGA welcomes the committee's inquiry and believes that councils have a vital role to play in ensuring that housing is provided to local residents, which should be delivered in partnership with developers and other housing providers. Improvements to the flexibility of funding streams and the review of local authority housing finance will allow councils to deliver more housing and to improve the efficiency of housing delivery.

2. The one billion pound housing package announced by Communities and Local Government (CLG) in September 2008 was a step in the right direction to keep hard working families in their own homes and take pressure off scarce council housing. However, the money made available will only help a small number of people who will need it over the next few years, at a time when there are 4 million people waiting to get a council house. The LGA believe that government should look seriously at allowing councils to lend competitive mortgages and borrow more money against their assets.

3. It is also unclear what steps have been taken to progress this package. Provision of further information should be progressed as a matter of urgency. It is vital that detailed guidance on the implementation of these measures is announced. There is particular concern over the slow progress in clarifying mortgage rescue schemes, as well as concerns about practical implementation, opportunities to utilise existing local authority schemes and powers to assist.

4. The mortgage rescue scheme, which allows councils and housing associations to buy out a stake in a resident's house, will be an effective way of preventing people becoming homeless or having to move into temporary accommodation. This responds to proposals which the LGA has argued for. However, town halls are going to face a difficult task of managing expectations locally; the money being made available really won't go that far. As those with local knowledge councils must be at the centre of deciding where and how any additional money is spent.

5. Whilst it is good news that a £400 million boost funding is being brought forward for affordable housing schemes to deal with the shortage of housing, this shouldn't mean that housebuilding in the future will suffer as a consequence. The LGA believes new money must be made available or problems will simply be stored up in other parts of the housing market.

6. The LGA, in principle, supports any programme—such as HomeBuy Direct—which brings housing within reach of hardworking people. However, it must be carefully targeted both in terms of the individuals who benefit and the housing schemes where it is available. This will ensure that those most in need benefit and that it supports the viability of schemes which bring the greatest community benefits.

7. In addition:

- There is a danger of losing skills and capacity in the industry (for example through threats to apprenticeship schemes). Local authorities and other public bodies should contribute to retaining these skills.
- Current delivery methods for new affordable housing are at risk (for example Section 106 developments) and new delivery mechanisms are essential.
- The LGA believes there needs to be greater flexibility within Housing Corporation grants to ensure local circumstances can be responded to at that time. Even where regional affordable housing targets might not be met on individual developments, this would assist in providing a level of confidence going forward.
- We welcome proposals to allow stock retaining local authorities to seek partnership status with the Housing Corporation to access National Affordable Housing Programme (NAHP) funding. However, there needs to be information provided on qualification requirements.
- Monitoring suggests shared ownership housing is becoming increasingly less affordable, due high property values and restricted mortgage lending criteria.

8. Developers must be willing to continue to do develop sites and there must be a viable market for the end product. Interventions are needed to:

- Mitigate the risk for the developer, without simply transferring this risk to the public and/or independent sector.
- Give buoyancy to the market and where possible guarantee an end user.

Achievement of the Government's House Building Targets, both for Market and for Social Housing

9. The current difficult economic climate is having a negative effect on councils' abilities to deliver government housing building targets. However, this not a universal affect nor a clear cut picture. The development pipeline means that it is still too earlier to judge the real impact of the economic slowdown on the total numbers of housing units built, both in the market and social housing sector. Indications are that what is currently in development will complete and that this year will be marginally below target. Delivery for future years remains in question.

Appendix A highlights what authorities have said about their ability to deliver these targets in the current economic situation.

Direct Impact of Credit Crunch

10. Where councils have reported a slowing of house sales in new developments there are a number of reasons:

— New purchasers are not coming forward due to market issues, a lack of confidence, a lack of available credit, and because they are waiting to see if prices correct.

— Shared ownership sales are almost non existent; reasons cited include the above pressures plus a reluctance to pay rent on top of a mortgage.

— People with existing mortgage offers are finding the offer is often not renewed if it lapses or at least reduced to a figure that undermines the possibility of a sale. This is a regular occurrence as development slows down.

11. This reduced market activity has meant that where developers were already on site the build rate has slowed down, and where developers are not yet on site they are reluctant to sign agreements.

12. A secondary impact is that developers want to sell the unsold stock to partner Registered Social Landlords (RSLs). Whilst there is a current demand for social rent there are concerns about selling stock in this way:

— Our primary concern is that this may replicate mono tenure estates rather than creating mixed tenure developments. Selling more units to RSLs makes mixed tenure less likely.

— Demand may be temporary and whilst we would expect this to remain strong for high quality new build it may undermine future demand in older, less desirable social stock.

Solutions to these Problems

13. The LGA believes there needs to be greater flexibility within Housing Corporation grants to ensure local circumstances can be responded to at that time. Even where regional affordable housing targets might not be met on individual developments, this would assist in providing a level of confidence going forward.

14. Flexibilities in relation to intermediate products are welcomed particularly on the rent and purchase type options that have and are being developed by the Housing Corporation. However, the products being developed need, particularly in relation to conversion from shared ownership, to respond to RSL financial imperatives to make schemes stack up financially. Cascade arrangements (for example moving from key worker only type intermediate schemes to accommodation being generally available) need to be abolished to allow for faster turnover on existing stock and on completion of new units.

15. We would also be interested to see more detail of the underwriting arrangements that English Partnerships/Housing Corporation and in turn the HCA may offer and would generally support such an initiative if the arrangements in securing this support were not onerous.

16. In our response to the Housing Green Paper 2007 and in our then Chairman, Sir Simon Milton's letter to Rt Hon Caroline Flint MP (then Housing Minister) in July 2008 we expressed our view that the push to meet house building targets should not be paramount. The targets are becoming increasingly unrealistic in the current economic climate and will potentially lead to negative outcomes such as:

— Perverse incentives to develop smaller units at the expense of building both market and affordable family housing.

— A continued concentration of quantity of dwellings developed, rather than a focus on quality of homes and public spaces.

— Public subsidies encourage the development of mono tenure social housing which is not conducive to achieving sustainable communities.

17. The LGA agrees that a realistic consideration of targets is needed, to ensure that this is balanced with a mix of tenure and property types. If this is not done the current problems will only be exacerbated in the future as the wrong types of property are developed in the wrong locations.

Regional Spatial Strategy (RSS) Targets

18. There is a growing recognition that RSS targets will not be met—either in total or for affordable housing—for 2008 and possibly subsequent years. However, underlying demand for more homes is strong and must be planned for. As the credit crunch resolves itself and finance is more available, house prices may accelerate due to demand exceeding supply. Plans must be in place to prevent or respond to this situation. This includes measures to control and improve land supply.

19. The current financial climate is putting a strain on delivery and the LGA would ask that the issue of the five year land supply is reconsidered.[79] If councils are unable to demonstrate that completions are occurring, and therefore do not have a five year supply, they would potentially have to give permissions in inappropriate locations or may lose appeals. This will in turn hinder councils work to develop sustainable communities.

Fees

20. Almost all local planning authorities use planning fees as a real source of income. The reduction in applications will have an impact on a council's ability to manage the service and move forward planning applications.

21. By initially rejecting the proposed amendment to the Planning Bill in the House of Lords,[80] the government have missed the opportunity to help redirect the approximately £10 million funding stream local planning authorities spend on advertising, to actually dealing with planning applications. In order to free up financial resources at a critical time, it would be helpful if the review of the General Development Procedure Order promised by Baroness Andrews and secondary legislation on this aspect were treated as a matter of urgency.

The Financial Viability and Ongoing Business of Housing Associations

22. The LGA would urge the Committee to consider the financial viability of council housing alongside that of housing associations. The LGA are in the process of developing our own local government ask for housing finance, which will allow authorities to manage their business and develop new housing for their tenants and residents.

23. The LGA and its partners believe that local authority housing finance needs a fundamental reform. This reform should be based on the following principles:

- A council's housing rents should be spent on that council's housing and their neighbourhoods, and not allocated elsewhere.
- Tenants should not pay a "tax" to government via a redistribution mechanism. Where there is a need for subsidy, this should be met from general taxation in the same way as any other public spending need.
- Decisions on resource allocation should be made at a local level and not by central government.
- The Local Government White Paper places councils at the centre of local decisions, with the new local area agreements (LAAs) giving the power to coordinate the work of partner agencies to ensure consistent services for the public. Yet local authority housing finance is centralised and creates a parent-child relationship with local government inconsistent with the new policy agenda.
- The LGA believes that local management and local decision making on spending and services will deliver services that best suit local needs. Councils deliver effective local services in conjunction with residents when empowered to do so.
- Councils have a vital role to play both as sustainable community planners and as housing providers and managers. The LGA want to see finance solutions which secure the long term viability of local authority housing as well as the well-being of tenants and residents.
- Councils are important deliverers of affordable housing and community services. Freeing them from the constraints of a defunct finance system will allow councils to deliver more housing and to assist the government in delivering on is Housing Green Paper pledge of producing three million new homes by 2020.

[79] Planning Policy Statement 3: Housing published in November 2006 set out a requirement for local planning authorities to ensure that there is a continuous five year supply of deliverable sites available for housing.

[80] In response to the amendments tabled by Baroness Hamwee in the Lords Committee stage of the Planning bill, Baroness Andrews stated: Amendments Nos. 412 and 413 insert new clauses that allow local planning authorities to advertise planning applications on the internet rather than in local newspapers. I understand the problem of accessibility and the case about cost. There is merit here, and I understand why the LGA is concerned. It may be that readership levels of local newspapers are not as high as they once were. However, they still serve a useful purpose, and I do not think we should exclude people because they are not online. My local newspaper has a tremendous following. This is an important point, and we will consider the publicity requirements for planning applications generally as part of the review and simplification of the Town and Country Planning (General Development Procedure) Order 1995. We are taking on board the issues raised by the noble Baroness. If we need to make a change, there is no need to do so in primary legislation. We could do it in secondary legislation. I hope the LGA will be satisfied with that.

What does Local Government Need to Deliver?

24. To deliver this agenda the LGA believes the following changes are essential. These form part of the LGA's "My rent went to Whitehall" campaign which is attached as an appendix:

The ring fence

25. We believe that in principle it is appropriate for a housing revenue account (HRA) ring fence, to ensure that resources are allocated to housing. However, we believe that councils should have the freedom to decide in agreement with their tenants how this money is spent. The local ring fence acts to protect tenants locally from leakage of HRA resources to other council priorities. A similar principle should operate at national level ensuring that council housing resources are ring fenced for council housing expenditure.

Capital Receipts

26. The LGA and its partners have long called for local authorities to be able to retain 100% of capital receipt from Right to Buy. Authorities would then be able to reinvest this money in additional housing provision. The current 25% retention is based on a historic notion of debt for the original build. However, this historic debt will have in fact been paid off by local authorities in previous years through the subsidy system. The retention of 100% of capital receipts will bring Right to Buy properties in line with the rules surrounding Social Homebuy and other non Right to Buy receipts.

Rent Setting

27. The LGA believes that councils should have enough resources to enable them to manage their properties effectively. Under the current rent restructuring system local authorities are not able to decide what rent is appropriate for their area. Current centrally decided rent levels contradict the government's commitment to localism in the Central-Local Concordat.

28. The working group believes councils with their tenants should to be able to determine the rent level that suits their management, maintenance and investment needs. We believe that rents should be reasonable and would expect councils to be able to justify their rent increases to tenants. Where tenants have a concern about the rents set by the council then the new tenant regulator could be asked to assess the acceptability of the rents set.

Housing Associations

29. As the private sector reduces the amount of housing it is producing it is more important then ever that housing associations work constructively with their local authority partners to deliver the affordable housing needed. The financial viability of these organisations is therefore essential.

30. In order to achieve this, the LGA recommends that:

- Housing Associations need to review their business plans and financial investment strategies up until 2020. They should then provide local authorities and the Homes and Communities Agency with an estimate of financial viability and year-on-year estimates of how many units their business and financial investment process could deliver.
- Housing Associations should also provide an estimate of what resources they might provide up until 2020 that will allow customers to access affordable housing opportunities.
- Authorities have noted that as it is becoming harder for associations to borrow there is a reduction in the amount of development coming forward from this sector.

Evidence from authorities on this issue is attached as Appendix B.

Housing Corporation Grant

31. The Housing Corporation ultimately needs to be more flexible. Its approach to value for money is not helpful and there is a reluctance to front fund development. The Corporation must take a more holistic approach with the districts working together.

LGA Proposals to Ensure the Financial Viability of Housing Associations

32. For Housing Associations to remain financially viable the following must be considered:

- Recycled Grant Funding should be used for land purchase and not for units as is currently the case.
- The Housing Corporation needs to increase the grant rates for units in both urban and rural schemes whilst taking into consideration differing land values.

- Interest rates should be reduced for loans for Housing Associations.
- PPS3 and Sustainable Community requirements have increased the provision of shared ownership flats which are standing empty. Grants should be made available for these units to make schemes viable.
- Increasingly shared ownership applicants are unable to access mortgages. This in turn increases the pressure on the limited amounts of affordable rented housing. The continuing preference for Housing Associations to develop shared ownership will not be financially viable.
- Housing Corporation grants to developers are being allocated for lower standard units than is the case for Housing Associations.
- It is essential that support for developers' capacity and skill retention is given, for example by bringing forward improvements.
- All Regional Housing Board funded schemes should include a clause in the contract to use local labour.
- Off the shelf homes should be available for purchase from private developers by Housing Associations if of acceptable quality.
- More flexibility may be required for local authorities in the sales of low cost home ownership.
- There should be an increased ability to use commuted sums, capital receipts and partner organisations to purchase completed homes and land.
- Housing Associations should be supported to buy land and the Housing Corporation should be encouraged to provide funding. For example, through more flexibility in the payment of grants such as an increase of the start on site payment to 60%, or a reversion to an acquisition tranche, enabling housing associations to purchase and landbank sites.
- Housing Associations should be able to switch the tenures in on-going and planned schemes from shared ownership/discounted sale to gain more rented housing. The Housing Corporation is currently considering this on a case by case basis.
- There is the potential for Housing Corporation/HCA to provide additional grant/equity stake to support the development of rented homes, which are later sold and the investment repaid.
- Sub-regionally it will be necessary to review the delivery requirements for affordable housing programmes over the next two years in the context of pressures on section 106 negotiations and to alleviate pressures on waiting lists and the potential for overcrowding.
- There should be assistance for the remediation costs of brownfield sites.

Measures to Help Existing and Prospective Homeowners affected by the Credit Crunch

33. Councils are actively working to help people affected by the credit crunch and are developing a range of initiatives to help. These include:

- In many authorities housing options work is increasingly focused on early intervention and prevention of homelessness. Much of this work links up with training and employment advice.
- The development of Tenants' Accreditation Scheme alongside the various Landlord Accreditation Schemes.
- Rent guarantee schemes which assists the financially disadvantaged to access the private rented sector. A deposit or rent guarantee is provided to landlords, with the properties being managed by councils.
- Housing Associations to be able to change the tenures in ongoing and planned schemes from shared ownership/discounted sale to gain more rented housing (the Housing Corporation is currently considering this on a case by case basis).
- There is potential for the Housing Corporation/HCA to provide an additional grant or equity stake to support the development of rented homes. These are later sold and the investment repaid.
- Encourage and support landlords to rent out empty homes, substituting rental income for capital growth.

Attached as Appendix C are a number of further measures that LGA members are taking to protect residents affected by the current economic conditions.

APPENDICES TO LGA EVIDENCE

APPENDIX A

EVIDENCE SUBMITTED TO THE LGA BY MEMBER COUNCILS

Sunderland City Council

Sunderland's five year land supply hopes to see the development of 7,642 properties by March 2013. 82.9% of these will be delivered on brownfield land. Currently 2,132 are under construction or have full planning permission. However these, and other properties included in the 7,642 remain open to the effects of the current housing climate and credit crunch. Anecdotal evidence suggests that starts on further new housing may be slower than a few months ago.

Over recent years RSLs developing new build schemes in Sunderland have used a model of mixed tenure. This increased options for housing supply and made the build financially viable, as the capital generated by property sales cross-subsidised the rental units. As, in the current housing market, properties are not selling this format is not currently workable, therefore another means of providing this capital is required, if mixed tenure, (or other developments) are to be delivered successfully.

London Borough of Hammersmith and Fulham

Each borough will clearly have its own characteristics which may facilitate development using the extra £400 million made available and existing SHG resources. For Hammersmith and Fulham for year three of the development programme we are currently monitoring (2010–11) we have identified a significant downturn in the numbers of units that may be delivered in the borough.

Although discussions continue with both RSL and private developers there has been generally a slow down in approach and nervousness in terms of how the housing market will go over the next one to two years. Officers have not perceived the offer of additional social housing grant as having a positive effect with both sectors being risk averse in an uncertain market. RSLs are also concerned as to their existing commitments in terms of the decreasing value of their landbanks (a potentially significant issue in a high value borough) and the uncertainty over the shared ownership and market elements of their completing developments.

North Tyneside Council

In some areas reducing house prices means that the house price to income ratio is decreasing making housing more affordable for a wider range of people. In two schemes which were about to go ahead, changes have been made to ensure the schemes are not affected by the crunch. In one scheme, the developers have agreed to change the house types (moving away from the standard has allowed more flexibility in costs) and in the second scheme, the amount of affordable housing has been increased with the Council applying for further Housing Corporation grant to cover the difference.

Bournemouth

However, some councils are seeing early and real difficulties with delivery of numbers and tenure mix. In Bournemouth many developers are not commencing construction on developments where planning consents and section 106 agreements for affordable housing quotas are signed because of falling property values and inability to sell on completion. It is not anticipated that construction will begin until signs of a market recovery are seen.

While a small number of landowners may make sites available because of cash flow problems most landowners are retaining their land holdings pending an increase in land values. Developers are not coming forward at the same rate for planning consents that require affordable housing quotas.

Some developers see the present diminishing housing market as a good time to seek planning consents on sites where affordable housing quotas are required under Planning Policy. This is because viability appraisals may reveal that affordable housing quotas are not viable because of the reduced and diminishing values and therefore developers may hope that significantly reduced affordable housing will be required. We are addressing this by agreeing an initial quota with an uplift included to account for any subsequent increase in values.

Where negotiations are able to take place for Section 106 affordable housing contributions it is difficult to agree a tenure split for the affordable housing (rented/shared ownership) because of the uncertainty about the likelihood of being able to sell the shared ownership homes.

APPENDIX B

EVIDENCE SUBMITTED TO THE LGA BY MEMBER COUNCILS

Bournemouth Council

Because of the level of Housing Corporation grant into RSL schemes, viability has relied upon a percentage of schemes being sold on shared ownership. Due to the lack of shared ownership mortgage products shared ownership properties are difficult to sell, as it is increasingly difficult for people to obtain the mortgages they need.

Consequently RSL schemes that require some shared ownership units for viability reasons will not proceed.

We are very actively pursuing options for the future delivery of affordable housing through a local asset backed vehicle. An independent options appraisal is being commissioned, but in the light of the credit crunch and the current state of the property market it may not be appropriate at this time for the Council to put land assets forward if market sales are to be relied upon. However, other mechanisms may be viable with collaboration with the Homes & Communities Agency.

It is our view that the demand for rented housing will increase, not just in the short term because the inability of people to obtain mortgages at present, but also in the longer term. When mortgages become more available lenders will require bigger deposits than in the past. This will affect those on lower incomes who will find it more difficult to save for a deposit.

As a stock-retaining authority we are concerned that, notwithstanding housing benefits, the credit crunch will result in higher levels of rent arrears as some people's incomes are adversely affected. This may also be the case for private sector rented housing. This in turn may lead to increased levels of homelessness.

As far as existing homeowners are concerned higher levels of mortgage arrears are anticipated. The combination of increased rent and mortgage arrears will place a significant pressure upon local authorities.

Actions to address these issues:

- We are encouraging and supporting our RSL partners in following up opportunities to buy for renting (at intermediate rent levels if necessary) "off the peg" from developers who cannot sell completed or near to completed schemes subject to funding from the Housing Corporation/Homes & Communities Agency.
- We are hoping that the new regular market engagement process through the Housing Corporation/Homes & Communities Agency will provide a significantly more speedy response to opportunities that arise and that sufficient levels of SHG will be made available.
- We are hoping that the "national clearing house" approach to the acquisition of privately constructed dwellings from big volume builders by RSLs with Housing Corporation/Homes & Communities Agency funding will not work against local authorities such as ours where there are no sizeable developments.
- RSL partners are following up opportunities to purchase for affordable housing schemes sites that property owners need to sell subject to funding from the Housing Corporation/Homes & Communities Agency.
- We are currently developing the Development Plan Document for affordable housing under the Local Development Framework. We believe central government should be encouraging flexibility within these documents to enable local authorities to respond to changes in identified needs and the property market. At present we are experiencing resistance from GOSW to such flexibility.
- We will need to adopt a flexible approach within Section 106 Agreements regarding tenure split to allow a switch of tenures if shared ownership units cannot be sold.
- The Housing Corporation/Homes & Communities Agency will need to make grant available to turn planned shared ownership units into rented to deal with the serious viability issues being experienced by some RSLs.
- Share ownership mortgages have been a niche service with only a relatively small number of lenders offering shared ownership products. Government needs to strongly encourage more lenders to offer shared ownership mortgages.
- We are working strongly with the private sector to arrange nomination agreements for intermediate rented housing.
- We are taking steps to make more use of empty homes through a new Empty Property Strategy. It is expected that additional intermediate rented will be generated.
- We are re-examining the provision of housing advice at the court desk for people subject to possession cases for mortgage arrears to step up homelessness prevention. We are aware that CLG is working to establish a viable mortgage rescue scheme. We consider this approach to be essential to prevent homelessness, but we fear that the scheme may not be sufficient to meet demand.

Three Rivers

Some RSL's have stated difficulties in the credit crunch, whereas before the credit crunch RSL's had money to fund ambitious projects and now we have to cut prices on land values and in return they are having to provide us with more social housing than first stated, due the lack of people obtaining a mortgage, and therefore they are unable to sell housing in the current market and shared ownership is showing the same problem. This is seen as a benefit for Local authorities to receive more social rented accommodation.

We have been selling land at the purchase price of £1 to allow affordable housing to be provided. On an elderly development site, we will give the land at a purchase price of £1 to develop the site, which will give us 45 elderly properties on this site for socially renting.

On a current scheme we agreed to a decrease the selling price on the land for a new development, to allow the RSL to proceed with planning submission, as soon as possible.

The Credit crunch has allowed RSLs to provide more social rented housing and the possible use of intermediate renting schemes to allow people in the long run to acquire home ownership through shared ownership.

The financial viability of the RSLs is beginning to show. Most RSLs are performing an economic appraisal on projects coming through, some are having problems with funding as they are not able to pay for legal costs are part of the section 106 agreement and therefore they have to go to Board Members to agree funds to proceed with projects.

Developers are trying to apply for grants and assistance and asking the local authorities to support their application, but we are unable to, even though the accommodation would be for homeless families but they are not of the required Code of sustainable homes standards.

Staffs are being trained on debt management, as there has been an increase in people applying for bankruptcy and approaching as homeless and seeking assistance. This has helped staff understand how people can fall into debt and them they can make the necessary enquiries while conducting their investigations. This is also hoping to help them assess applicants regarding mortgage rescue measures come into effect from the Government in January 2009. It will be the Local Authority who will assess people's priority need and financial situation to see if the where "reckless". If applicants showed signs of recklessness then it is unlikely that they will be assisted by CAB and the mortgage rescue scheme.

There has also been an increase of people applying to the Housing Register as compared to last year due to the fact that people are facing difficulties and therefore applying for social housing.

Housing Register applications received in the 6 months from 1st April 2007—30th September 2007 compared to the number received from 1 April 2008—30 September 2008

	2007	*2008*
April	65	85
May	55	85
June	69	55
July	58	78
August	71	78
September	53	57
Total	**371**	**438**

South Gloucestershire DC

We are advised by RSL partners that access to bank funding is effectively closed and is only likely to be achievable by the most financially robust RSLs. Banks are unlikely to be open for normal RSL business for two to five years. The alternative mechanisms available for development funding are costly and probably only open to large RSLs that have a very strong credit rating. I understand that new banking rules are to be introduced which will require RSLs to be "BASIL" rated, which will mean that in the current market, only those with an A rating will be extended credit. For those with a B or poorer credit rating, the implications are obvious.

One of our smaller RSL partners has commented that their capacity to subsidise and deliver new developments is hindered by the call on resources to meet the Decent Homes Standard, and that their capacity to deliver new homes and general financial strength would be increased if the Government were to fund major repair programmes. This would also provide local job opportunities and increase resident satisfaction.

We have not yet had an RSL partner pull out of a development but they are extremely reluctant to take on any new intermediate units.

GUILDFORD

At least three of our RSL partners are pulling out of shared ownership as the lack of mortgage finance is particularly hitting potential purchasers because:

- They are seen as high risk by lenders and unable to get competitive rates.
- Most are unable to secure the deposits now required.

The consequence of this is that the cross subsidy from sales is not available for social rented elements—on one of our schemes this has resulted in a 200% increase in subsidy requirement. It would seem from this that any bringing forward of expenditure from future years is likely to be needed to meet increased subsidy requirements rather than provide any additional homes. In the Guildford area shared ownership was in any event rapidly becoming unaffordable for the vast majority unable to access the market. What is needed is a subsidy model for intermediate rent that is becoming the only alternative to social rented. Even this if provided at 80% of market rents would be too expensive to give any hope of tenants who can afford it being able to save and move to home ownership.

Our RSL partners are also reconsidering providing private sales on a site to cross subsidise as their boards are not prepared to take the risk. Any diverting of funding into supporting schemes with a higher proportion of rented accommodation would therefore be beneficial both in keeping schemes moving and delivering a higher number of rented units that originally envisages and in keeping business available for building firms thus securing jobs in the community. One of our sites which include selective development of Council homes is running into trouble at the 11th hour because of this.

The possibility of LA's bidding for Corporation funding is not a practical proposition for LA's in negative subsidy as 50% of gross rents will go back to Government. For Councils in this position this would only work financially if homes so funded were exempt from the subsidy regime.

We have been in lengthy discussions with CLG and HM Treasury regarding the liability for pooling on receipts from sales of LA owned shared ownership. This has also affected a development by GBC under the Starter Home Initiative where 10 out of 26 flats are standing empty, some for nearly two years, because the Council is in the invidious position of having to pool the receipt from resale at a rate of 75% or risk repayment of the original subsidy. On future surrenders of leases we will have to choose between repurchasing and leaving empty or foregoing our right of first refusal and repay subsidy received when the scheme was developed, if non key workers purchase. The other effect is on our general Shared Ownership stock where only direct sales to the incoming purchaser are possible and removes the option of reducing shares purchased that taking up the option for the council to repurchase offers. Frankly it is disgrace that the Council is put in this position because Government has failed to get its act together over the last two years.

As we have yet to see any details or guidance on how the mortgage rescue scheme will actual operate (paraments for nominations to purchasing RSL's, who they are, processes etc) and the schemes aren't up and running yet it is impossible to comment on their effectiveness. It is to be hoped however that this will provided another useful tool in the prevention of homelessness. The delay between announcement and putting the schemes in place has been something of an embarrassment as we have been receiving enquires from people seeking assistance under the schemes but are as yet unable to provide it.

The Government package does not, as far we are aware, provide financial support for RSLs and Councils to repurchase equity from their existing Shared Ownership lessees when they get into difficulty or to convert them to social rent. Clarification on this would be welcome.

APPENDIX C

EVIDENCE SUBMITTED TO THE LGA BY MEMBER COUNCILS

LEEDS CITY COUNCIL

Currently in development or already developed:

- Golden Triangle Mortgage Rescue Scheme.
- Introduction of mortgage tax relief on a staircasing basis to help either first-time buyers or those encountering financial difficulties in terms of servicing their mortgage.—Review the mortgage tax relief model that is being developed by the French.
- Tax Relief that parents could claim in terms of releasing equity to support their children either purchasing property or servicing their mortgage, depending upon financial circumstances and any difficulties in terms of servicing the mortgage.
- Working with the Council of Mortgage Lenders to review equity sharing models to ensure that they are financially viable both from the local authorities and housing association perspective, together with their prospective owner.
- Schemes need to be developed in terms of financial viability within each region, based upon average salaries, lower quartile thresholds and the value within the local housing market.

— Where such schemes cannot work locally, the local authority would work with partners to deliver a wider range of social and intermediate rented accommodation with a potential of moving to home ownership once financial circumstances had changed.

Broadland DC

Working in conjunction with sub-regional partners (Norwich and South Norfolk) we are looking to promote the transfer of the uncommitted National Affordable Housing Programme budget for the sub-region, into the Regional Infrastructure Fund, as we consider that by investing in infrastructure, housing sites that are currently constrained will by infrastructure limitations will be able to be brought forward and contribute a proportion of affordable housing without the need for public subsidy, that would have been required through the NAHP.

Warwickshire DC

We are developing a Mortgage Rescue Packages. At present provision it is only available for those households with one charge against the property, any with more than one charge would not meet the criteria for assistance.

South Derbyshire DC

We are working with our RSL partners and the Housing Corporation to "buy-up" unsold open market new housing to meet a social housing need. Initially this strategy proved successful, however, in recent weeks we have found it more difficult. Several of our RSL partners are now reporting difficulty obtaining credit. It means that several simply do not have funds to secure tenders being offered by developers and those that do cannot offer a price attractive enough for the developer to accept. As result the negative effective of the credit crunch on building work is being compounded still further.

A lack of funds, or lending in the system, is also affecting delivery/viability of new small site developments which are within the control of the RSLs—both rural and urban developments. Many of the RSLs now need Housing Corporation grant levels above that previously requested prior to the "credit crunch". Our experience at a recent meeting with the East Midlands Housing Corporation is that they still have an expectation that grant levels requested today are to be at similar levels to those secured 12 months ago. If this strategy continues we may be struggling to secure grant of sufficient levels to deliver affordable housing.

Liverpool City Council

Initiatives being pursued:

Council Facilitated Mortgages

The City Council is in discussion with major lenders regarding the potential to facilitate Mortgages. The aim is to give access to mortgages to households who have the means to become home owners and could secure a mortgage in more normal times but have difficulty in the current climate.

Equity Loans for Purchase

The City Council currently provides Equity loans for Re-location. These are intended to provide all or part of the finance required by low income owner occupiers to bridge the gap between the compensation money available for the current dwelling and the purchase price of a replacement home. The loan is secured as a percentage of the value at purchase and the same percentage of value is repayable on the disposal of the property. No interest is payable during the life of the loan.

The Council is also investigating the options of whether this same model could be used to support first time buyers in acquiring a new-build property or a second hand property off-the-shelf. The level of public subsidy required would be similar to that provided to shared ownership but the product would have a significant number of advantages:

— It is simple and easy to understand for purchasers and lenders.

— It is likely to be perceived as fairer as there is no rent to pay.

— If the equity loan acts in lieu of a deposit, the product is likely to provide access for many households who would currently have difficulty accessing credit.

Rent to Mortgage

Various products are being developed which are aimed at people who can afford to rent at market rent or intermediate levels with the aim that they purchase at a later date.

The advantage of these products is that they can be used to attract households who have both the means and a strong intention to buy but are unable or unwilling to purchase at present due to the lack of a deposit and/or caution about the state of the housing market.

Proposal

The City is working up a proposal in partnership with RSLs that would ask the Homes and Communities Agency to allow RSLs flexible use of grant already committed on shared ownership projects. This would allow them to offer customers a menu of options including shared ownership, equity loan and rent to mortgage. We would also be seeking to discuss the possibility of the HCA making funds available from the Affordable Housing Programme to finance equity loans for purchase.

The City has established asset backed regeneration vehicles to lead regeneration and new development in Norris Green and in Anfield. The long term nature of the partnerships and the risk-sharing involved will mean that the partnerships can better plan its response to market conditions taking a long term view. Our experience to date is that this produces a less volatile response to market conditions.

As set out above, the credit crunch also has a potential impact on owners and landlords investment in their own homes. The City and our partners have a number of products to support home owners including:

- Equity loan for improvement.
- Handypersons scheme.
- Group repair.
- Energy efficiency measures.

The City has recently negotiated with the PCT resourcing of a Healthy Homes Initiative with particular focus on the private rented sector. In addition we are in conjunction with the Supporting People commissioning body reviewing our requirements for assistance to vulnerable home owners in maintaining their homes.

Tewkesbury

Offer an (oversubscribed) Decent Homes Grant which helps vulnerable people (people on benefits) improve their homes and offers assistance to people in Borough to buy empty homes.

The grant has financial limits and enquiries always outstrip available budget, but through the new South West Regional bidding regime for Private Sector Housing Renewal Funding, we hope next year to introduce a system of loans as per government good practice. However, as part of a Gloucestershire consortium bid (alongside initial proposals for a Gloucestershire Private Housing Strategy Framework) we are aware that the credit crunch will mean that grants are still necessary for those in the most need. Therefore I would suggest that PSR money should remain, continue and will always find a good home for those affected by the "credit crunch" if it was increased. I think you would receive a similar response from my peers in other authorities.

We also help contribute to the Gloucestershire Warm and Well project, operated on our behalf by Severn Wye Energy Agency. This has several funding streams. They take a lead in the Gloucestershire LAA and can be seen as a good practice model in the area of affordable warmth, fuel poverty as well as best use of funding.

November 2008

Memorandum by the National Landlords Association (NLA) (CRED 49)

Introduction

We welcome the committee's inquiry into what effect the "credit crunch" is having on the Government's housing policies. We understand that the private rented sector is removed from the remit of the committee's inquiry, probably because the Government does not currently have any housing policy or targets for the sector which could be affected by the housing crunch.

However, we also believe that the private rented sector has a vital role to play in housing people who cannot get into the other two tenures and therefore any assessment of the impact of the crunch on the Government's targets for owner-occupation or social housing must also take into account the ability of the private rented sector to continue to offer housing.

Therefore, of the three aspects highlighted by the committee for consideration, it is the third aspect which our contribution we wish to contribute to; namely the examination of measures to help existing and prospective homeowners affected by the credit crunch.

Whilst much focus has been given to the mortgages of homeowners and the lack of properties for social renting, the effects of the current crisis on landlords within the private rented sector (PRS) has received scarce attention.

This submission is intended to outline how the current economic crisis is affecting the PRS; to highlight what specific dangers are putting homes within the PRS at risk; and suggests what directions housing policy could follow to ensure effective protection for both landlords and tenants in this important part of the housing sector.

Summary of Points

— Many landlords are in a good financial position with low gearing or no mortgage at all.

— The growth in buy-to-let mortgages in the past few years can to a large extent be accounted for by long-term investors refinancing their existing portfolios.

— Short-term speculators who have bought properties in the wrong place at the wrong time will face problems but professional landlords who consider the best locations for demand and buy at the right price should face fewer difficulties.

— There is anecdotal evidence of a growth in "accidental" landlords—owner-occupiers who have to move away but are seeking to let out their homes and ride out the market hiatus rather than sell them immediately at a loss.

— The lack of available finance for mortgages has seen an increased demand for private rentals from people who would otherwise be first-time buyers. At the same time there remains sustained demand from other tenant groups.

— Complaints about an increase in rents as a result of higher demand for private rented property are too simplistic. Landlords face increased costs as a result of rising interest rates on all sorts of finance and can only recover those costs through rent. At the same time, the growth in available properties means that tenants can shop around and a property offered at too high a rent could be more difficult to fill.

— The wider economic crisis may impact on tenants' ability to pay the rent regularly. Landlords rely on the rent as the only way to repay their borrowing on the property (and other costs) and irregular or non-existent rent payments will leave them out of pocket. There is a risk that there may be a rise in tenants losing their homes because of rent arrears but the committee needs to understand that the alternative is that the homes would be repossessed by the lender, making them unavailable to other potential tenants.

— The current rate of repossessions for buy-to-let mortgages is the same as for owner-occupier mortgages. The recently announced protocol for lenders seeking possession will apply to buy-to-let mortgages which is welcome. However, we believe there may be a need for tenants to be kept informed by the lender that they are pursuing action against the landlord. At the same time, the timing of this is crucial since a misperception by tenants that they are inevitably going to lose their home may lead them to move out when their rent is actually helping the landlord to repay the borrowing commitments.

About the NLA

1. The National Landlords Association (NLA) exists to protect and promote the interests of private residential landlords. With almost 20,000 individual landlords from around the United Kingdom and over 90 local authority associates, it provides a comprehensive range of benefits and services to its members and strives to raise standards in rented accommodation. The NLA seeks to safeguard landlords' legitimate interests by making their collective voice heard by local and central government and the media. The NLA seeks a fair legislative and regulatory environment for the private-rented sector while aiming to ensure that landlords are aware of their statutory rights and responsibilities towards their tenants.

The Contribution of the PRS and Buy to Let

2. Whilst there is no need to remind committee members of the importance and contribution of the PRS (especially in light of the clarity offered by the recently published review of the sector by Dr Julie Rugg and David Rhodes), it is worth reiterating some pertinent statistics relating to the size and supply of PRS housing.

3. Current figures indicate that the PRS provides homes for around 2.7 million households in England[1]. This represents 13 per cent of the total number of households in England, or around one in ten households with the UK as a whole[2]. This figure may grow as a result of the impact of the credit crunch on the other two forms of housing tenure.

4. The recently published review of the PRS conducted by Dr Julie Rugg[3] has estimated that there are around 1.2 million landlords providing PRS housing in England. Within the sector is much diversity, both in terms of supply and demand. The majority of landlords in England are neither institutional nor own large property portfolios. The overwhelming majority, 73%, of landlords are individuals or couples, and amongst this group portfolios are small: 44% have only one property and a further 27% own between two and four properties.

5. Despite popular opinion (however misguided), the PRS has proved to be popular and has grown substantially over the last twenty years. In fact Dr Rugg has suggested that ". . the vast majority of individuals will have some experience of renting privately at some stage in their lives".[4] In terms of size, the number of homes in the PRS has grown twice as much as owner occupation in the period between 1988 and 2006, whilst the social rented sector has seen a steady decline.[5] Whilst the Rugg review found that 40% of renters in the PRS had lived in their current address for less than 12 months, it also found that 21% had been in their current property for over five years.[6]

Buy to Let

6. The growth in the private rented sector has been partly down to the growth of the buy to let market, which in the UK is currently worth around £120 billion.[7] The Rugg review has suggested that it represents 28% of the PRS.[8]

7. Rugg also concludes that "small-scale landlordism does not necessarily mean financial instability" with many landlords in a good financial position: most have low loan-to-value ratios and many have unmortgaged properties. The growth in buy-to-let mortgages does not mean a direct growth in the number of landlords: in 2007, 46% of gross advances of buy-to-let mortgages were remortgages: existing landlords were using buy-to-let products to refinance their existing properties.

8. All the indicators seem to show that the vast majority of buy-to-let investors have approached their investment looking at the long term. The Association of Residential Letting Agent's (ARLA) authoritative quarterly survey of the buy-to-let market found that 78% of investors were not thinking of selling any of their properties in the next 12 months.[9] In fact, around a third of investors responded that they are looking at how they can strategically increase their portfolios.

9. Whilst there is every possibility that the remaining 22% of buy to let investors are still retaining a viable and sustainable letting business, there is likely to be a distinct minority who, before the current credit crisis, had been enticed in too the buy to let market by the opportunity for short term property speculation. They may have over-levereged their investments and will find a more challenging economic climate has suddenly made their investments unsustainable.

Effect of the Credit Crunch on the Private Rented Sector—Growth of "Accidental" Landlords

10. As with all sectors of the housing market, the situation is changing on a frequent basis and therefore the information we provide here can only be a snapshot of the market at the point of writing this submission.

11. There is anecdotal evidence of a growth in people who have become "accidental" landlords by letting out their homes rather than selling them. If an owner's circumstances change and they are forced to move from their home (for instance to take up a job elsewhere in the country) normally they might sell their property. In the current market, rather than sell for a low price or leave the property on the market for a long time with few viewers, some owners will consider holding onto their homes for the short to medium term until the market picks up again.

12. This option might not be possible for recent buyers who will have little equity in the property and will therefore rely on selling in order to finance the purchase of a new home elsewhere. But figures from the Survey of English Housing indicate that 54% of all owner-occupiers will have owned their properties for 10 years or longer (37% of owners who still have a mortgage on the property) so there will be a substantial group of owners who have sufficient equity to ride out a short-term drop in values by renting out their homes.

13. We would urge such accidental landlords either to join a landlords' association who can provide them with the advice and help they need on their legal obligations as landlords, or use a reputable letting agent to manage the property.

Effect of the Credit Crunch on the Private Rented Sector—Level of Demand

14. The difficulties in accessing finance for people who would otherwise be first-time buyers has led to a growth in demand for private rentals. The average tenant is now staying in a property for 16.7 months—a slight increase in tenancy length. There continues to be sustained demand from other tenant groups—students, migrant workers, low-income tenants, and other people whose lifestyles do not lend themselves to the commitment of a mortgage. We believe that the private rented sector will be well-placed overall to meet this demand since most landlords look on property investment as a long-term endeavour.

Growth of Rents in the Private Rented Sector

15. There have been complaints recently that the increased demand for private rentals has led to an increase in rents in the private sector. We believe that such a link is too simplistic. It is particularly important to note that private landlords are also faced with an increase in costs—the withdrawal of buy-to-let mortgages and increased interest rates on all sources of finance will leave landlords with higher running costs. The rent is the only way of recovering those costs.

16. While longer tenancies might make landlords feel more secure in asking for a slightly higher rent, the growth in the market from "accidental" landlords may leave tenants able to shop around and this will limit the rents that landlords will ask. For professional landlords it is more important to have a property occupied and returning some rent rather than left empty because the rent demanded was too high compared to neighbouring properties.

Rent Arrears

17. The current economic climate is likely to have an affect on everyone's incomes. Although most renters correctly see their rental payments as a priority, in these difficult times many may face difficult financial decisions and may be tempted to consider the rent an optional cost.

18. The difficulty for many landlords is that the rent is the only way to recover their costs, particularly that of the mortgage or other finance mechanism. Whilst a delay in one month's rent may be absorbed by a landlord, non-payment, chaotic or regular non-payment cannot be tolerated for long as the finance lender will be expecting regular payments to be maintained by the landlord who will be left considerably out-of-pocket. Tenants who do not pay the rent on time increase the risk of mortgage arrears and/or repossession by the lender.

19. So far there has been little evidence of a growth in landlords seeking to evict tenants for non-payment of rent. However, as the effects of the credit crunch bite and if a recession begins (which will impact on tenants' incomes) this situation may change (although we stress that this is not inevitable). The committee needs to understand, however, that landlords have no option but to seek possession for rent arrears if private rented properties are to remain available rather than being taken back by the lenders and sold.

Repossession of Private Rented Properties—The Effect on Tenants and Homelessness

20. Figures from the Council of Mortgage Lenders indicate that currently only 1.1% of buy-to-let mortgages are in arrears of more than three months (compared to 1.33% in the wider market). The rate of repossessions is the same as for owner-occupied property: 0.16%.

21. If a mortgage lender takes possession of a rented property with tenants in situ they have two options: to evict the tenants in order to sell the property with vacant possession or to take over the tenancy as the landlord. In the current housing market the lenders may be more inclined to keep the tenants on and recover the value of the property by selling at a later date.

22. If the lender does wish to gain vacant possession of the property it can do so in two ways (assuming the tenants are on an assured shorthold tenancy). It can either serve a section 21 notice which will give the tenants two months notice to find another home before the lender goes to court for a possession order. Alternatively the lender can serve a notice under Section 8 of the Housing Act 1988, citing ground 2 for the reason for possession: that the mortgage lender has taken over possession of the property. In this case it is possible for the court to allow possession without a notice period having been given.

23. The Government's action to encourage lenders to use repossession as a last resort (by moving forward the Civil Justice Council's work on a pre-action protocol for mortgage arrears) was both welcome and reasonable. Repossessed properties represent a reduced asset and significant costs to the lender who has to maintain an empty property till it can be auctioned, usually at a significant reduction of its mortgage value.

24. Whilst the Government's action was primarily designed to protect owner occupiers, the pre-action protocol does apply to buy to let mortgages. However, we believe that the particular situation of landlords with tenants in situ present requires further action—in particular the tenants may need greater notification that the lenders are pursuing action against their landlord. The timing of this, however, is crucial because

we do not want to see tenants moving out because of a misperception that they might be about to lose their home when their rent payments are actually enabling the landlord to continue to meet some or all of the borrowing commitments.

Sale and Rent Back

25. The recent restriction in the availability of credit and deflationary trend being experienced in the residential housing market has led to the development of a relatively new sub-market within the housing market. This "sale and rent back" (SRB) market generally focuses on individual owner occupiers who for various reasons encounter financial difficulties and are having difficulty servicing existing loans. Over the course of the last decade these individuals have been able to take advantage of escalating property values by further leveraging their homes thus consolidating extraneous debts in the form of secured finance. As the credit market has contracted home-owners have been unable to continue this trend and therefore face financial difficulty. Subsequent to the inflated value of residential property these people often have sufficient equity in their homes to repay some or all of their outstanding loans but are unable to release said capital to do so. SRB firms essentially offer to purchase property from owner-occupiers on the condition that the vendor may remain resident as a private tenant.

26. Theoretically SRB is a very effective means of releasing capital previously accrued in individuals' homes whilst allowing them to remain part of the local community without the need to seek other accommodation. It is also an effective means for residential landlords to efficiently expand their portfolios without experiencing potentially costly void periods. It is also common for prices agreed in respect of SRB deals to be below market value, reflecting the comparatively low demand for tenanted property relative to that which has vacant possession.

27. In practice, whilst the majority of landlords engaged in SRB have operated ethically and responsibly, a small minority of property investors have highlighted the potential for consumer detriment and as such the OFT has called for FSA regulation. If this sector can be effectively "cleaned up" to such an extent that consumer confidence is boosted SRB could provide a significant measure to help prevent repossessions.

28. The NLA are intend on ensuring that the private rented sector is in a position to provide a viable solution to many potential repossessions and a means for responsible and successful landlords to expand their portfolios in a sustainable manner.

Conclusion

29. We hope that the committee will welcome these comments on the private rented sector which is the nation's third housing option and consider them alongside their deliberations on Government policy and targets for owner-occupation and social housing. Please do not hesitate to contact me if you have any further queries.

References

[1] Communities and Local Government, Housing in England 2006/2007 report, September 2008. (http://www.communities.gov.uk/publications/corporate/statistics/housingengland2006-07)

[2] Rugg, J and Rhodes, D, The Private Rented Sector: its contribution and potential, Centre for Housing Studies, University of York, October 2008. (http://www.york.ac.uk/inst/chp/Projects/PRSreview.htm)

[3] Op. cit.

[4] Op. cit.

[5] Op. cit.

[6] Op. cit.

[7] CML, Buy to let market summary, CML Research, 2008. (http://www.cml.org.uk/cml/statistics)

[8] Op. cit.

[9] Need citation.

November 2008

Memorandum by the Chartered Institute of Housing (CRED 50)

1. Introduction

1.1 The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 21,000 people—both in the public and private sectors—living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities.

1.2 We welcome this inquiry into housing and the credit crunch. We would however caveat our submission in acknowledging that current housing market conditions and the wider economic environment remain fluid and changes of significant magnitude have until recently been occurring on an almost day-to-day basis.

1.3 n light of this, we suggest that the Committee may wish to revisit this issue at a later stage when a more complete picture of the impact of the credit crunch on housing is possible and when analysis of government and sectoral initiatives may be more revealing.

1.4 As requested by the Committee our submission considers the issues around:

(a) Achievement of the Government's house building targets.

(b) The fancial viability of housing associations.

(c) Further measures to help existing and prospective homeowners.

1.5 It is not the intention of our submission to dwell on the causes of the credit crunch and the spread of financial contagion; but needless to say the UK, and other economies, have experienced unparalleled problems in international credit markets over the past year, a weakening of our domestic and global economy, and a dramatic slowdown in the UK residential property market. Today, both housing providers and housing consumers of all tenures (renting and ownership) in the UK are experiencing particularly tough and challenging times.

2. Achievement of the Government's House Building Targets are Threatened

2.1 In 2007 the CIH, LGA, NFA, Shelter and the NHF worked together to provide evidence to inform the government's comprehensive spending review and in July 2007 CIH welcomed the Housing Green Paper, *Homes for the future: more affordable, more sustainable*. It contained stretching and ambitious targets around market and affordable housing supply, notably targets around 2 million new homes by 2016, and 3 million new homes by 2020. It also contained significant measures around higher environmental standards and commitments to take forward new approaches to housing delivery.

2.2 The Green Paper was accompanied by records levels of public investment with over £8 billion allocated for the 2008-11 national affordable housing programme.

2.3 In the current climate, it is difficult to predict how these targets are going to shape up for 2016 or 2020. Put simply, there are a number of variables that cannot be accounted for—what new policy prescriptions could be adopted over this time, or indeed what other market changes could take place. However what does appear apparent at this stage, and certainly in the short term, is that these targets are under significant threat and what were stretching targets in stable economic conditions now appear unrealistic without significant changes to "how we do housing".

2.4 Current conditions have seen market house building stall as private developers have adjusted to the twin challenge of falling demand from customers and unprecedented pressure on their asset values and business models. Affordable housing providers, although better positioned, have not been immune to the downturn, especially in light of development programmes that in recent years have become increasingly reliant on cross subsidy from shared ownership and open market sale properties.

3. Starts are Down and Continuing to Fall

3.1 NHBC's figures for September 2008 show that there were 23,185 applications to start new homes in the combined private and public sectors in the three months to the end of September. This is 54% lower than the same period a year ago (50,250). Of that total, 13,358 related to private sector activity (ie excluding housing associations), showing a 67% decrease on the same three month period in 2007 (40,876).

3.2 This severe impact on the output of new homes is continuing, particularly in the private sector. New home starts in England during the third quarter fell 50% year-on-year to 20,239. Importantly, there were regional differentials with the biggest regional decrease being in the North East where starts fell by 81% against the same quarter last year—344 compared with 1,783.

4. Completions are also Down

4.1 The total number of new home completions also fell during the third quarter of 2008. NHBC statistics show new build (in both the private and public sector) completions totalled 33,299 in the three months to the end of September—20% lower on the same period last year when 41,389 new homes were completed.

5. Skills and Capacity

5.1 What remains unclear and of particular concern is what the short and longer term impact of housing redundancies and associated businesses failing will be on housing supply.

5.2 Prior to the current market downturn a number of sectoral bodies including CIH and CIOB had identified significant skills and capacity gaps in relation to both housing supply and management. We have already seen both market and affordable housing providers make significant redundancies, with flow-on effects impacting on smaller business and the wider supply chain. It remains unclear what the hollowing out of this capacity might mean in relation to businesses ability to build new homes when the market conditions improve. Those made redundant from the construction industry in the last market downturn did not return to the sector when the market recovered, leading to a significant loss of skills. We can expect this to happen again if action is not taken to retain people working in the sector. There are several approaches that can help maintain skills and capacity:

(a) Local authorities and other agencies to work proactively in the current market to create developer confidence where it may not otherwise exist.

(b) Increased public investment in house building to keep volumes of development up.

(c) Specific programmes of public investment to use the skills of the construction sector on other beneficial projects such as retrofitting existing homes.

5.3 Some local authorities and agencies such as Housing Market Renewal Pathfinders are working on ways to give developers confidence to continue building. Work to attract and facilitate development has become unfamiliar in many areas, but the skills developed and held in areas with weak markets can be utilised in other areas to help encourage more development than may otherwise take place. The Chancellor has recently indicated his desire to use public spending to sustain the economy. Housing development led by the public and third sectors can maintain some momentum and employment opportunities, but it certainly cannot pick up the slack left by the decline of commercial housebuilding. There is also a risk that investment in rented housing to the exclusion of other tenures could recreate problems of mono-tenure areas. A new approach to allocations or flexibility of tenure could help prevent this. A number of organisations, including CIH, are considering how public investment in environmental improvements to existing housing stock could provide opportunities to sustain businesses and individuals involved in the construction industry as well as providing a much needed boost to the energy efficiency of existing stock. We hope these ideas can be taken further by government.

5.4 Skills and capacity in planning for housing provision also need to be maintained so that there can be a return to starts on site as soon as they become financially viable. This requires site identification, pre-application discussions, and maintenance of relationships between developers and planning professionals in this quiet period. We are concerned about anecdotal evidence that planning departments are being scaled back at a time when in fact proactive planning may require more not less resources. Scaling back planning teams now could leave us in a position where under-resourced, under-skilled and under-prepared teams slow recovery as the economy picks up.

6. First Time Buyers and Mortgage Lending

6.1 Figures for July 2008 from the Council for Mortgage Lenders show that first time buyers continue to be squeezed out of the market. In July 2008 there were 17,300 home loans made to first-time buyers, a 5% reduction from June and 48% down on July 2007.

6.2 The amount of deposits required by borrowers has also risen significantly. On average, July 2008 borrowers had to put down a deposit of 15% of the value of the property, compared to 13% in June, and 10% a year ago. The last time deposits of this size were required by lenders was the early 1980s. While prices may have fallen, much more risk adverse lending criteria have made it more difficult for first-time buyers to buy.

6.3 It is unlikely that the availability of funds and the terms on which funds are advanced will improve in the short term for first time buyers or indeed for home owners looking to remortgage with little or no equity. Furthermore, there appears to be reluctance by many first time buyers to enter the market at a time when prices are predicted to fall further and when government and sector initiatives may provide further incentives for those with finance in place.

6.4 The housing market is also not immune from wider consumer concerns about the impact of an economic downturn and the possibility of increased unemployment in the UK in the short term.

6.5 The housing association development model has for some time relied on offering ownership products to (mostly) first time buyers and using income from this to cross-subsidise social rented housing. The risks and disbenefits of ownership for lower income groups are currently being highlighted, and so debates are now taking place within the sector about whether it is appropriate for the sector to be creating potentially vulnerable homeowners. These debates are important, and associations do need to be clear that their financial business objectives are compatible with their wider social objectives. It is worth highlighting that the level of advice and assessment that new owners are given when accessing ownership through the housing association sector are perhaps greater than for those entering the sector through other routes.

6.6 We have some concerns about the shared equity products currently being offered to first time buyers by private developers. There is certainly no need for shared equity to be the preserve of the housing association sector, and we are keen that it should move away from being a niche product that is poorly understood by potential homeowners. These products have developed as a way to keep new buyers moving into the market and we are concerned that insufficient thought has been given to what happens once the owners are expected to staircase to full ownership (usually after five years). People keen to get onto the housing ladder do not always project their future circumstances well, and may find they are unable to afford to purchase the remaining share when they are required to. The consequences for these households are currently unclear.

6.7 The rent to mortgage (try before you buy) products that housing associations are starting to offer may be a good way to work with first time buyers in future. However we, like many housing providers, are aware that more work is needed to refine these products.

6.8 The need for good quality financial and housing advice cannot be stressed strongly enough for potential first time buyers at this time.

7. When Will they Return?

7.1 On the demand side, buyers will have to be confident that prices are not going to fall further. Buyers would also need to feel confident about their employment prospects, which will depend on the UK economy moving out of recession, which forecasts suggest may be unlikely to happen pre 2010.

7.2 On the supply side, lenders look set to continue to require higher deposits for the foreseeable future. They remain risk averse and are subsequently charging higher fees and focusing on smaller loan to income multiples. Much of banks willingness to open up mortgage products and pass on interest rate cuts will depend upon the wider recovery of the banking system from the current credit crunch.

7.3 In any event, when the dust eventually settles it does appear likely that there will be a re-adjustment of the first-time buyer market. Banks will at some point resume lending to first-time buyers to buy houses. These homes are likely to be lower in price, but larger deposits will be required by the buyers and the loan will represent a smaller multiple of the first-time buyer's income.

8. Financial Viability of Housing Associations—Affordable Housing Holding Up but Pressured

8.1 The vast majority of housing associations continue to be well placed to weather any downturn.

8.2 Demand for social rented housing remains strong with the LGA suggesting that an average of 90,000 families are joining waiting lists each year and that numbers on council housing registers could top 5 million by 2010.

8.3 Developing housing associations are however facing challenging conditions, in particular those associations who are exposed to cross subsidy from low cost home ownership receipts and market sales.[81]

8.4 The significant levels of private finance and the increased importance of shared ownership sales means that some organisations are facing increasing levels of exposure in the current climate. It is important to note that different organisations within the sector are not all in the same position. Levels of borrowing, property and land assets without debt, loan terms and agreements differ between organisations.

8.5 The Housing Corporation is undertaking regular surveys of housing associations and is maintaining a close regulatory watch on developing associations who have high levels of exposure to cross subsidy. While their latest survey has not been published at the time of this submission, it has been their view that current volatility should not as a matter of routine lead to failure or insolvency but that it could result in some restructuring in the market leading to new mergers, consolidations and a slow down in development activity until the housing market achieves stability.

8.6 Our discussions with key people in the sector have shown that the sector is responding appropriately to manage the risks of changing circumstances. Findings from a survey of CIH members, conducted by the earlier this year (May 08) showed that whilst the impact of the credit crunch on individual households could be seen, with increase demand for debt and homelessness advice and difficulties accessing mortgages, most

[81] It is important to distinguish between developing housing associations and those who do not or can not access the Housing Corporation's development programme. An unresolved question for debate remains how it may be possible to unlock the (significant) capacity of non-developing associations to support future development.

members reported little impact on development or loan/finance plans. However, over the last six months the sector has experienced rapid change, and housing professionals are continuing to respond in a timely and responsible manner—boards are meeting regularly, schemes and business plans are being reviewed, and negotiations with contractors and lenders are active.

8.7 It is important to remember that development is not housing associations' sole business, and that the current financial market will also impact on their ability to deliver "non-core" activities around community investment such as investment in non-physical regeneration, training schemes etc.

9. Attracting Finance

9.1 It would appear that the immediate concern for housing associations remains the performance of the housing market, rather than their ability to obtain finance at a reasonable price.

9.2 The Corporation's July survey confirmed that most associations have facilities of more than two years worth of projected draw downs. The survey shows that of the £5.6 billion associations intending to drawdown in the next 12 months, only £0.4 billion is new debt which has still to be arranged.

9.3 It is however clear from conversations the CIH has had with its members that bank's credit committees are now taking a much tougher line in their dealings with the sector and that associations are having to be mindful that the conditions in loan agreements can be met not only when the finance is agreed, but also at the point when finance is needed.

9.4 There is also some evidence from members that where new debt is required the existing agreed facilities are also being re-examined by cautious lenders. In some instances this has led to a renegotiation of the price on existing debt. Yet, despite this, there remains evidence that banks are still willing to do business with associations and that associations are still able to access new borrowing. It does appear that track records and existing relationships are carrying important weight, with funding from existing funders continuing to be easier than accessing funds from new lenders.

9.5 While there are short term pressures, in terms of price and the number of providers in the market, the longer-term outlook for raising private finance for affordable housing remains strong. Affordable housing continues to be underpinned by RPI-linked income growth, over 60% of which comes in the form of Treasury backed housing benefit.

9.6 The housing benefit rental stream is of particular interest and importance to lenders at this time. It is worth noting that they are likely to have strong views on any changes considered by DWP and HMT in their internal deliberations on housing benefit reform which is due to report in December 2008.

10. Cross Subsidy Risk

10.1 A much more significant and real risk to developing housing associations at this time is the impact of a fall in house prices on the surpluses associations are able to generate from low cost home ownership and outright market sales. The associations most at risk here are those that are not generating sufficient cash from ongoing activities to meet interest cover payments without the inclusion of sales proceeds.

10.2 The Housing Corporation's April survey reported that as well as seeing a slowdown in stair casing sales there was some evidence that sales of first tranches are also slowing. This was confirmed by their July survey which reported a national slowdown.

10.3 As with the wider market, there is evidence that demand is still strong in pockets of the market especially for larger family homes. Flats, however, are much less attractive as market conditions continue to decline.

10.4 There remains a very real risk that some developing housing associations could be over-exposed if they cannot sell properties in sufficient volumes and at appropriate prices. Again, Housing Corporation analysis suggested that a 20% fall in sales values could be tolerated by most providers.

10.5 There are also questions being raised about the impact on business models of using balance sheet capacity for tenure conversion, in other words, where homes were built with the intention of outright sale or shared ownership they are now being converted into market or intermediate rent. While this may provide a revenue stream and income, they are consuming balance sheet capacity which would otherwise have been used for new development.

11. Section 106

11.1 One of the most notable impacts of the slowdown in the housing market has been the impact on affordable housing secured through section 106, something which in recent years has provided for over 50% of stock in England. There has been a slowdown in Section 106 development—as house builders hold back on new starts, Section 106 opportunities have reduced. Developers have recently been renegotiating section 106 deals to increase proportions of affordable housing, as housing associations are seen as more certain purchasers than owner occupiers or property investors at this time and can therefore help schemes to stack up financially. This has brought an unexpected benefit for affordable housing supply at local level, although it is small in overall scale and may not last long. Although affordable housing provision has benefited strongly from section 106 completions in recent years, the current environment raises significant questions about whether the section 106 model is the best way to capture planning gains in future.

11.2 It is also interesting to note that commercial developers that already had diversified businesses are now shifting more of their work into affordable housing which could lead to notable shifts in the market of affordable housing provision, towards the mixed market of providers sought by the HCA and TSA.

12. Operating Costs

12.1 CIH has long argued that a key element of housing associations' businesses that warrants greater focus is core operational activities. More money is spent annually on management and maintenance than new development, and the impact of these activities reach and improve services for a significant number of existing tenants.

12.2 Significant savings have been made here in recent years by leading associations and the government's Gershon efficiency targets have been exceeded. But although the spend in this area across the sector is of fundamental importance the costs per home can vary by 100% between associations. With no immediate or apparent link between expenditure and tenant satisfaction there remain very real opportunities for action here—especially in a tight fiscal environment where efficiencies are even more pressing and important.

13. Opportunities around Land Prices?

13.1 Residential land values are forecast to decline in the short term to a greater extent than residential property values and in doing so look set to repeat the pattern observed in previous residential property downturns.

13.2 It is forecast that residential land values will continue to fall through to the end of 2009, primarily due to a lack of willingness on the part of banks to provide finance, before bottoming out ahead of the housing market.

13.3 The ability of landowners to hold onto their land banks through the downturn will however ultimately determine the extent of property price falls. Where distressed selling occurs land values could fall significantly below their peak 2007 levels.

13.4 If land prices fall, there may be opportunities for housing associations and public sector more widely to capitalise on falling land prices which could, depending on cost and scale of acquisitions, provide an important opportunity to boost supply once financial and consumer conditions stabilise.

Measures to Help Existing and Prospective Homeowners

14. Economic Stability First and Foremost

14.1 In the early stages of the downturn and with the primary concerns addressing constrained liquidity, government and Bank of England activity was largely focused on injecting funding into the UK banking system.

14.2 In April 2008, the Bank of England introduced a £50 billion Special Liquidity Scheme (SLS).

14.3 In July, CIH was part of consortium including the Council of Mortgage Lenders, the Home Builders Federation, the National Housing Federation and the Royal Institution of Chartered Surveyors that published a proposal for reopening the UK mortgage finance markets, which remained closed in spite of the SLS.

14.4 Essentially, the proposal would have involved financial institutions selling newly originated mortgage back securities or covered bonds to investors, who could then offer them to the Bank of England in return for Government loans. In September, in response to worsening money market conditions, the Bank of England announced a three-month extension of the period in which banks could arrange swaps under the SLS. More significantly, in October it announced it would accept securities linked to loans to companies as security for three-month funding—a major relaxation of its lending terms.

14.5 In October the government announced a far-reaching package that dwarfed previous initiatives:

- Up to £50 billion available to eight major UK banks (and others on application) to increase their capital base. The money would be available as loans or in exchange for preference shares.
- Up to £200 billion would be available in short-term loans from the Bank of England.
- Up to £250 billion in loan guarantees would be made available at commercial rates to encourage banks to lend to each other.

14.6 In return for assistance under this £500 billion package of measures, participating institutions were required to agree to restrictions on pay and dividends, as well as the acceptance of non-executive Government appointed board members, and to extend normal credit lines to homeowners and small businesses, as well as work closely to support distressed borrowers.

14.7 At the time of writing however it remains unclear what precisely the Government has secured in the way of commitments around resumptions of competitive lending and products from banks and what additional support will be provided to borrowers at risk. CIH would welcome clarification from government as to what its expectations are in this area.

15. Housing Market Initiatives

15.1 While much of its attention has been focused on wider economy stability and measures to improve bank liquidity, the government has also introduced a number of measures targeted specifically at housing markets. Debt advice services were strengthened early in the year and £9 million was made available for face-to-face debt advice for homeowners in trouble. Other measures announced included permission for the Housing Corporation to spend £200 million buying new properties off the open market, and modification of the eligibility criteria for shared equity schemes so that now all households with an income below £60,000 could apply.

15.2 A further raft of measures for England followed in July. These were:

(a) An extra £270 million allocated through the Housing Corporation for use over the period 2008–11.

(b) Establishment of a national clearing house through which house builders can approach the Housing Corporation with proposals to sell unsold stock as affordable housing.

(c) Increasing flexibility with respect to when providers can bid to the Housing Corporation for funding from the affordable housing programme, with providers now able to come forward with proposals at any time, rather than waiting for the quarterly bidding round as previously required.

(d) Increased funding flexibility so that the Housing Corporation can now offer more payment at the start of schemes delivering affordable and social housing.

(e) Announcement of the sixth round of the housing private finance initiative, with councils able to bid for a share of up to £1.87 billion to build new homes or refurbish existing houses and estates.

15.3 September brought yet more reforms, the first two of which apply throughout the UK:

(a) A 12 month rise in the house purchase stamp duty threshold from £125,000 to £175,000.

(b) Reform of Income Support for Mortgage Interest (ISMI) for owners of working age. From April 2009 the waiting period before ISMI is payable will reduce from 39 to 13 weeks and the capital limit for new Claims will increase to £175,000. This is an important recognition of the low take up of mortgage payment protection insurance and a partial reinstatement of the position prior to the mid-1990s.

(c) A new £300 million shared equity scheme targeted mainly at first time buyers. Homebuy Direct will provide an equity loan of up to 30% of the value of a new property, co-funded by the government and the developer, free of charge for five years. As with other shared equity schemes, buyers with a household income under £60,000 will be eligible

(d) £200 million for mortgage rescue (involving RSLs offering shared ownership, shared equity or sale and rent back options to eligible households).

(e) £400 million affordable housing programme funding brought forward from 2010–11 for use in 2008–9 and 2009–10. Local authorities with existing stock are allowed to apply for this grant to build social housing.

15.4 CIH welcomes these measures and believes they offer important support for the construction industry, first-time buyers and some of the most vulnerable households facing repossession.

15.5 In addition to these important proposals CIH believes it is important that work starts in earnest to look at what change is needed to secure more stable and effective housing markets in the UK going forwards.

16. Homebuy Direct

16.1 Homebuy direct has the potential to provide a way forward for first time buyers currently frozen out of the mortgage market by providing interest free loans for deposits. It could also provide an important lifeline for developers, helping to support their short term viability and improve prospects for a return to much needed market house building. We look forward to details of this scheme, in particular around developer contributions and any fees for consumers that might be leveraged on the loans.

16.2 An important element of the scheme will be the need to make sure that the people accessing the loans will be able to sustain their home ownership over the long term and that this doesn't just create a new tier of deferred sub-prime borrowers.

16.3 We would also hope that if the government is effectively underwriting deposits, that there would be some kind of quid pro quo from lenders. We would hope that this would include an appropriate re-pricing of risk on interest rates and application fees.

16.4 If this product is targeted at empty or newly developed homes we also need to recognise its limitations in helping home owners up the chain who need to move. There is a degree of risk that this if this product is targeted at empty or new homes then it could inadvertently undermine sales of occupied first time properties on the open market and therefore stall movement for existing home owners looking to move.

16.5 There are other products that will however compliment this initiative by supporting buyers wishing to pursue already owned housing (for example the new Mychoice Homebuy and Ownhome products). It will be important to ensure that eligibility criteria is complimentary and that this full range of options is provided to potential consumers.

16.6 A number of questions will need to be considered in looking at the detail:

(a) How best to coordinate and market the options to potential purchasers?

(b) Are allocations first come first served—what happens if there is considerable demand for the product?

(c) Why would a purchaser do this rather than take the shared equity deal developers are already marketing?

(d) What will developers do with the extra help they're getting?

17. Mortgage Rescue

17.1 The government has announced that it wishes to support up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home through a £200 million mortgage rescue scheme.

17.2 In early 2008 CIH worked closely with government, its agencies, lenders, local authorities and housing providers to develop a detailed working model for a mortgage rescue package.

17.3 Commissioned by the Housing Corporation, the government agency charged with delivering the housing rescue package, the CIH mortgage rescue model helped inform the government's decision to introduce a new scheme. We are very pleased to see the primacy of roles proposed for housing advice services and financial assessments in the government scheme, and we similarly welcome the decision to offer a number of rescue options that can be used to meet individual circumstances.

17.4 However, while full details of the government scheme are yet to be announced, we are concerned that its emerging design will limit its capacity to deliver benefits to individuals and communities.

17.5 The CIH model proposed a new national "vehicle" for managing the funding and administration of any new rescue scheme. This approach was considered preferable to administration through housing association Zone Agents because it offers:

(a) Avoidance of a postcode lottery for mortgage rescue eligibility (which will arise if local flexibility to fund or extend the scheme beyond priority homeless groups is given in the government scheme).

(b) More effective negotiation with mortgage lenders through one central point staffed by skilled and dedicated negotiators—this is particularly important given the predominance of repossessions initiated by non-mainstream lenders who offer less flexibility in their arrears recovery procedures.

(c) The ability to lever in funding from beyond the £200 of public money and to use it consistently across the country to extend mortgage rescue beyond priority homeless households. CIH proposed raising funds through a levy on mortgage lenders benefiting from mortgage rescue that may otherwise have had to write off debts—a proportion of the value of the rescue would have to be paid to the scheme in the form of a short term loan. It would also be possible for other bodies wishing to support mortgage rescue (housing associations, local authorities, regional assemblies etc) to put funds into the national vehicle and get a return in the long term.

(d) Avoidance of reliance solely on housing associations whose funds are already squeezed by the current market downturn.

(e) Housing associations and local authorities who do not have sufficient skills and financial resources to deliver mortgage rescue on the scale required would have access to a national expertise and funding.

17.6 CIH has a particular concern about limiting the mortgage rescue scheme to priority homeless households. This approach does not recognize the differing scale of the impact of repossession in areas with already weak housing markets. It may be prudent to rescue households that would not be considered priority homeless in order to protect the wider housing market and therefore the wider community. This could help to protect money already invested through market renewal pathfinders, for example. We are aware that some organizations are already considering offering supplementary rescue products in particular areas—this clearly meets a need but will be confusing for households and mortgage lenders alike.

17.7 In addition, there seems to be no ambition to use the mortgage rescue beyond the length of the current housing market problems. We feel there is merit in exploring whether a mortgage rescue type vehicle could be adapted in future to create greater flexibility in the housing market eg by creating a real tenure ladder on which households can move between full ownership, part ownership, and renting in the same property as their needs change. This could be useful to many, in particular to households whose incomes fall but who are not at risk of repossession (eg on the birth of a child, or loss of household income) and to older people who need to release equity or reduce their property maintenance commitments. This would be a radical new approach to tenure in the UK which has to date only been partially approached by HomeBuy, mortgage rescue, and commercial equity release schemes.

17.8 If we are to avoid the need for mortgage rescue in the future, work needs to be started now to enable households to better protect their status as owners eg by making mortgage payment protection insurance a viable and attractive product for more households. A more effective safety net for homeowners (which involves a culture of advice seeking and provision, Support for Mortgage Interest, payment protection insurance) will reduce the need for emergency measures like mortgage rescue schemes.

18. SMI Reform

18.1 CIH has for some time called for reform of income support for mortgage interest and the announcements from DWP are welcome. SMI will be particularly important if unemployment levels continue to rise and the numbers of home owners out of work hits new levels. We recognise that changes to the system will take time and although the April 2009 deadline seems a long way off, these measures will be pressing if levels of unemployment rise sharply.

18.2 It will be important to fully integrate SMI with the other measures announced today and to also take a long term view on a new approach to income protection for home owners. SMI shouldn't be distinct from wider mortgage rescue offers—it needs to be a step on a spectrum of support—from SMI and support to retrain or find a new job and therefore getting back in to employment, through to today's measures on moves from full ownership into shared ownership, shared equity or sale and rent back for people whose ability to clear the capital on a full mortgage is not going to improve over time.

19. Fast Tracked Social Housing Investment

19.1 A key advantage of work that has been done in recent years to modernise the government's affordable housing programme is its new ability to engage with the market as and when needed. In this instance this has the potential to pay dividends and help maintain social housing supply at a time when market conditions have eroded development across the entire housing sector. Notably falling house prices and land sales by developers may provide some opportunities for investment that previously weren't possible.

19.2 Importantly it will both provide much needed new social housing, but also help maintain capacity in the sector by providing employment for people in the construction sector. Consideration must be given to the capacity of social housing providers to bring forward the additional funding and staff provision needed to support increasing their proposed development programmes.

19.3 We must also be careful not to sacrifice the goals of mixed and sustainable communities by increasing social house building without matching market housing.

19.4 It is clear that in looking ahead new thinking is required to address the risks associated with the over reliance on market housing and planning gains to deliver social housing provision. Again, one of the unintended risks of this approach could be undermining attempts to mix estates. If we have to choose between halting all development and keeping some of it going by bringing forward the social housing element in a non-pepper-potted way then we will clearly go for the latter. Importantly we need to understand the impact down the line of our actions now in continuing to concentrate social housing in distinct areas.

20. Working with Regional Development Agencies to Support the most Critical Regeneration Schemes with the Most Potential to Transform their Communities

20.1 CIH welcomes government's commitment in this area. A real risk in current market conditions is that they will undermine the achievements and plans in market renewal and regeneration areas.

20.2 While new housing is often critical to successful regeneration schemes and taking steps to address the collapse in new supply must be to the fore, it is equally important not to sideline investment in existing communities.

20.3 John Hills' work on social housing highlighted the importance of transforming existing estates and better meeting the needs of people in current housing.

20.4 Similarly, evidence from the housing market pathfinders and market renewal areas has shown the economic and social transformation that can be brought about by reinvigorating existing homes and neighbourhoods.

20.5 Accordingly, we would ask the government not to lose sight of its commitments or limit its ambitions around existing communities. Funding for today's housing market package must not come at the expense of investment in regeneration and market renewal.

20.6 We also urge government not to delay or hold back on its housing reform agenda. Transforming communities is about not only the quality and supply of housing, but also the way in which those homes contribute to people's lives.

21. Stamp Duty Holiday

21.1 CIH welcomes clarity from government on this and believes that the proposed holiday will provide a financial benefit to people looking to buy properties under £175,000. The impact of this announcement has been twofold. First a degree of financial relief for purchasers in securing a mortgage, secondly clarity and confidence about how the tax system will operate. CIH believes however that a longer term, more considered view on stamp duty is required. The current system remains cumbersome and can skew house prices around the various thresholds.

21.2 While the housing market announcements were positive steps and together constitute a welcome cross government response to challenging conditions, it does appear that their impact will remain limited until liquidity returns to lending markets and wider economic confidence.

22. Where Next?

22.1 Most commentators, not unsurprisingly, are forecasting declines in residential property prices in 2008 and 2009 with some commentators suggesting that the price decline will continue into 2010.

22.2 Capital Economics, who for a long time suggested a correction in UK residential property prices has been overdue, are forecasting a 15% reduction in prices in 2008 followed by further reductions of 12% in 2009 and 10% in 2010.

22.3 The Centre for Economic and Business Research (CEBR) also forecasts a short-term outlook of declining property prices, but suggest that between 2009 and 2012 property prices will recover and rise by 30%. This is primarily due to the ongoing shortfall in housing supply.

22.4 Both HBOS and Nationwide, the two largest mortgage providers in the UK, are predicting a sharp downturn in property prices perhaps by as much as 25% up to the end of 2009 with recovery thereafter.

23. Recovery?

23.1 A recovery in house prices in the medium term is supported by a number of factors:

23.2 Firstly, supply constraints in the UK still exist. It is highly unlikely that the current supply of new build properties will meet the levels of demand identified in official reports (such as Kate Barker's review and the Housing Green Paper) over the medium term to longer term.

23.3 Second, interest-rates are at historically low levels and are likely to fall in the short to medium term. Furthermore, mortgage interest payments are a smaller proportion of household disposable income than they were in the housing crash of the early 1990s—it should be recalled that interest rates peaked at 15% at that time with drastic implication for the affordability of mortgages.

23.4 Third, the UK economy is predicted to start growing at around its long-term trend rate from 2011 onwards; this should provide the foundation for the income and employment growth which would be required to drive housing demand.

23.5 Finally, as the "baby boomer" generation approaches retirement, intergenerational transfers of wealth (at or before death!) should help to alleviate affordability issues for siblings who are first-time buyers.

24. Conclusions

24.1 Has the policy response been sufficient? Now that the £500 billion UK bank stabilisation programme and a range of housing specific measures have been announced, should we adopt a wait and see approach?

24.2 Clearly more should be done, both short term and long term, to help the housing system through its current difficulties and to prevent new problems emerging through the development of future housing market bubbles. The current situation offers opportunities for government and its agencies, housing organisations, and individual households to reconsider what policy and practice approaches should be taken to all parts of the housing market.

24.3 This is not necessarily an ideal time or environment to be best determining long term policy positions—we need a better understanding of how the economy will be in future to make sound judgements about what policies will be feasible or effective. However, two important things need to happen:

(a) Government, its agencies and organisations involved in housing must keep working towards long-term goals.

(b) Government, its agencies and organisations involved in housing must start to explore and articulate what policy positions could be achievable and desirable in the future.

24.4 On the former point, of course a lot of energy must be deployed on keeping businesses and households afloat in the current conditions, but this must not be at the expense of long term strategic planning and preparation. Work to secure control of land for new housing, masterplan new developments, and set out aspirations for development must continue so providers can start delivering as soon as the market allows. Failure to undertake these activities will lead to a longer than necessary hiatus in new housing provision. Efforts to build mixed tenure communities must continue, and it may be better not to build social housing in some areas than to risk re-creating mono-tenure areas which history shows do not work.

24.5 On the latter, we set out key questions which need to be asked, and options which should be explored:

(a) *How can government create an environment in which future housing market volatility is curtailed?* While the credit crunch has served as the catalyst to trigger the current housing market down turn, the levels of house price inflation and pronounced issues around housing affordability before the downturn suggest that for the large part our housing markets were failing to provide for an increasing number of people in society—whether in employment or not—whether seeking home ownership or affordable rental in any tenure. How best then can government create an environment in which the return to pre 2007 status quo is not the only or accepted option?

(b) *Does government and society want to maintain its preference for homeownership to be the majority tenure?* Current reports of negative equity, rising mortgage costs and repossessions have generated questions as to whether individual ownership is as desirable or appropriate as first thought—the benefits can be great, but risks and penalties can be high too. CIH has always been an advocate of renting as a legitimate tenure of choice, and has also explored ways to deliver the benefits of ownership while minimising the risks (see our work on HomeSave and Save with Rent). We are currently sitting on the Inquiry into Mutual and Co-Ownership Housing, and can see that there is a positive case for growing mutual rather than individual ownership options in the future. However we are aware that these options are not necessarily considered desirable by society in general, and this awareness raises questions about whether housing policy should in future seek to deliver what people want or should be more open to options that might be considered better and safer options for society. The proposed rented housing green paper provides an ideal opportunity to plan for a stronger social and private rented sector and CIH thinking on reform is included in our recent publication Rethinking Housing.

(c) *Is it desirable for capital gains in housing to continue to play such an important role in wealth accumulation?* Home ownership, especially where multiple properties are owned, is known to create an asset gap between those who own and those who do not. However, it has also become a key way for individuals to provide for their future income needs. House price inflation could be curbed, although some of the means to do so (eg capital gains tax) may never be politically desirable. If people cannot gain assets through investment in property, difficult questions must be asked about how else they can meet their needs for income in later life. This takes us beyond the realm of housing and into policy for pensions and personal care.

(d) *How can we make it easier to move smoothly between tenures without moving house?* Certain tenures can meet a household's needs best at different stages in their lives, eg by growing or releasing assets, gaining or reducing responsibility for maintenance, increasing or reducing housing costs. But flexibility between tenures is underdeveloped in the UK. For example, Social Homebuy helps people to move from social renting to part ownership, but take-up is low and availability limited. The new government mortgage rescue scheme will help people to move from full ownership to part ownership or renting, but only when they have reached a crisis point with their mortgage. Commercial equity release allows owners to access the value of their home, but can be a poor financial offer for many. The rent to mortgage scheme now being offered by some housing associations could provide the foundations of a good model, but it currently requires more work to turn it from a rapid response to the difficulties caused by the collapse of the housing market into an attractive offer for providers and households. The idea of all households having the ability to change tenure as their needs and aspirations is attractive, but work is needed to explore vehicles that could be used to make this a financially viable norm.

(e) *What model of development funding can best deliver social and affordable housing?* The use of government money to lever private funds through investment and cross-subsidy by housing associations and other providers has been effective over the last 20 years. Similarly, the use of planning gain (section 106) to secure affordable housing provision through market housing development has enabled provision of significant amounts of housing without dependence on public funding. It is clear that neither model is suitable to deliver sufficient volume of properties in the current market. There have been calls for a return to a state-led model, but this swing between two models is undesirable. State-funded provision is inefficient in a buoyant economy, and market-led provision can quickly make delivery stop in a downturn like the current one. The ideal seems to be a model that has the flexibility to maintain stability in delivery in changing markets. The Housing Corporation and English Partnerships have certainly shown responsiveness and flexibility within their own policy approaches, but this needs to be taken wider and a suitable model for national policy developed. The challenge for the new Homes and Communities Agency is to expand the mixed economy of provision, in particular identifying and nurturing the role of local authorities as local leaders and facilitators of housing provision—it is important that this emphasis is not lost irrespective of whether an authority chooses or is able to develop directly.

(f) *How can we maintain a focus on providing housing that households want and need, rather than what organisations are able to/most benefit from providing?* Some delivery models, and the products they offer, have been developed to meet the needs and aspirations of providers but are not ideal for households or society. Flatted developments with off plan sales to investors have made development possible in a time of high land prices, but communities do not want or aspire to life in small flats with low levels of management. There has been criticism of shared ownership on the grounds that it is expensive for purchasers compared to the benefits they receive, but its provision has been central to funding of social housing in many areas in recent years. Consideration must be given to ways to provide the housing we want rather than the housing we are able deliver in the market context—more intervention may lead to better long term outcomes.

(g) *Can shared ownership be considered a tenure in itself rather than a stepping stone to full ownership?* There is a growing base of evidence which shows that shared owners are not staircasing into full ownership, and that some purchasing in this way may never be able to do so (see *Achieving mobility in the intermediate housing market*, CIH/JRF). If this is the case, the offer to these people, long term property management, and housing organisations' business models need reconsidering.

November 2008

Memorandum by Citizens Advice (CRED 52)

1. Introduction 1.1 The CAB service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. The service aims both to provide the advice people need for the problems they face, and to improve the policies and practices that affect people's lives.

1.2 The CAB network is the largest independent network of free advice centres in Europe, providing advice from over 3,200 outlets throughout Wales, England and Northern Ireland. We provide advice from a range of outlets, including GPs' surgeries, hospitals, community centres, county courts and magistrates' courts, and mobile services both in rural areas and to serve particular dispersed groups.

1.3 In 2007–08 bureaux in England and Wales advised around two million people with new or ongoing problems and dealt with 5.5 million enquiries in total. Of these, 399,000 concerned housing issues and 64,000 concerned mortgages and secured loan arrears.

2. Background to CAB Experience of Mortgage and Secured Loan Arrears Problems

Enquiry statistics

2.1 Enquiries to the CAB service about mortgage and secured loan arrears problems have been rising since 2005. As the following table shows, these have increased by around a quarter over the last three years.

MORTGAGE AND SECURED LOAN ARREARS ENQUIRIES TO CITIZENS ADVICE BUREAUX IN ENGLAND AND WALES

Year	*Enquiries*
2005–06	51,530
2006–07	57,372
2007–08	64,053

2.2 However the number of enquiries about mortgage and secured loan possessions seems to have accelerated through the last half of 2007–08 and 2008–09 so far. For instance, the first four months of 2008–09 have produced around 27,300 enquiries, compared to roughly 18,200 enquiries in the first four months of 2007–08—an increase of around 45%. Projecting the current level of enquiries forwards would produce over 80,000 mortgage and secured loans arrears problems this year.

2.3 However a client or household can be recorded with more than one enquiry about a mortgage or secured loan problem and so the number of households with arrears problems will be somewhat less than this. Even so based on current levels, the CAB service is likely to see something like 56,000 households with mortgage arrears problems this year.

Reasons for mortgage arrears problems

2.4 A recent snapshot survey, which is yet to be published, of around 400 households seeking advice from the CAB service about mortgage arrears during the last week of June 2008 found that borrowers faced financial difficulties for a variety of reasons. The table below shows that there was no single clear reason given by CAB clients for their mortgage arrears problems.

Main reason for arrears	*Percentage*
Job loss or business failure	20%
Ill health	17%
Relationship breakdown	16%
Drop in wages or income	13%
Low income	7%
Increase in mortgage payments	2%
Other	25%
Total	100%

2.5 Unemployment was a significant, but not a dominant cause of the problems. However, around 40% of the borrowers in this survey who were in receipt of or claiming a means tested benefit which provided income support for mortgage interest (ISMI) payments, were in arrears due to *job loss or business failure*.

2.6 This suggests that, not surprisingly, a downturn in the economy leading to a sharp rise in unemployment and business failure would increase the levels of mortgage arrears inquiries we are seeing. In which case ISMI benefits for the unemployed are likely to become more important in supporting homeowners. We welcome the recent changes to ISMI, which we discuss later in the submission.

2.7 It is also notable that rising mortgage costs were given as a main reason in very few cases. Given that many of these CAB clients will have mortgages with sub prime lenders that charge high reversionary rates and may also find re-mortgaging difficult, we might have expected this to be a more significant reason. However homeowners may be squeezed by a combination of rising mortgage costs, increases in the basic cost of living and a slowing economy. This would reduce resilience against income shocks, such as a drop in wages, a period of ill health or even a relationship breakdown that would be felt by lower income borrowers in particular. The reasons given by CAB clients seem to show this.

2.8 In summary, we believe that the immediate effect of the credit crunch has been to significantly increase growth in enquiries to the CAB service about mortgage difficulties, that we started to see in 2005. We believe that this growth was in large part a story of borrowers on the margins of the mortgage market (lower income households and sub prime borrowers in particular) who were getting into difficulties. We have no evidence as yet to suggest that the credit crunch is now starting to pull a much wider range of borrowers into difficulties in a way similar to the recession of the early 1990's. However any significant increase in unemployment could change this.

3. The Problems facing CAB Clients and some Recommended Solutions

3.1 In December 2007 we published an evidence report, Set up to fail, which highlighted the problems CAB clients were facing and analysing some of the causes, including irresponsible lending, arrears management practices and the court process, sale and rent back and the inadequacy of existing safety nets.

Problems with lending practices and the advice of brokers

3.2 CAB evidence highlighted cases where borrowers were entering into mortgage or secured loan agreements which appeared to be unaffordable from the outset, or unsustainable, or which made the borrower very vulnerable to debt problems. We recommended that FSA responsible lending rules should be tightened up, particularly in respect of self certification type loans and mortgages taken out by people exercising the right to buy their local authority home. We also recommended that the Office of Fair trading needed to develop a better selling regime for secured loans. We urged both regulators to toughen up monitoring of lending practices to ensure that lenders complied with the rules.

3.3 To an extent the need to deal with irresponsible lending practices has become less urgent since the credit crunch, as mortgage and equity withdrawal lending has declined. However the issue is still very much alive and we would hope to see improvements in place for when the market picks up. In this regard we welcomed the results of the FSA's responsible lending project and hope that these translate into better practices in the market. We also welcome the OFT's own irresponsible lending project and hope that the resulting guidance will give a clear message to second charge lenders about the steps they will need to take to ensure that they only sell credit that is affordable and suitable for the borrower's needs.

Problems with arrears management practices and the court process

3.4 CAB evidence highlighted cases where some lenders did not seem to be doing enough to help borrowers deal with arrears, and seemed instead to be using the courts as a first resort rather than as a last resort. We were also concerned that the court process for mortgage possession did not include sufficient safeguards to prevent lenders from going to court where this was not necessary. As a result we recommended that the FSA and OFT should clarify their respective rules and guidance on arrears management, and work harder to ensure that lenders complied with them. We also recommended that the court process should include a pre-action protocol for mortgage arrears that would set out the steps that lenders should take before coming to court. This would empower the court to adjourn cases or disallow costs where lenders have not taken these steps.

The specific problems of people who entered into unregulated sale and rent back agreements

3.5 CAB evidence also highlighted cases of people who had entered into sale and rent back agreements in an attempt to avoid losing their home (generally as a result of mortgage arrears). Sale and rent back agreements are often marketed as a form of mortgage rescue scheme by commercial providers. However the schemes and the conduct of the providers/landlords are not regulated and in the some of the cases we saw the consumers had suffered severe detriment. As a result Citizens Advice, along with the Council of Mortgage Lenders and Shelter, called on the Government to bring the sale and rent back sector under regulation by the FSA.

Safety nets were failing to support borrowers

3.6 Uptake of mortgage payment protection policies continued to decline and CAB evidence highlighted how the rules limiting the timing and amount of payments from the benefit system towards mortgage interest meant that help was often too little and too late. As a result we recommended that the Government should consider reforming aspects of the ISMI scheme as a matter of urgency, including reducing the waiting period before payment, increasing the maximum size of loan on which interest could be paid and abolishing the standard interest rate.

3.7 Finally we argued that the increasing level of people seeking advice about mortgage arrears was a problem that could only be addressed through co-ordinated action across government.

4. Citizens Advice's Views on the Housing Package

4.1 Citizens Advice gives a very warm welcome the initiatives that the Government has taken so far to support homeowners in financial difficulties. Here we would highlight the following points.

4.2 We have seen cross departmental co-operation to address the growth of mortgage repossessions and borrowers in financial difficulty. Citizens Advice has been impressed with the urgency and breadth of the Government's response so far.

4.3 Last week the Government, the Civil Justice Council and the judiciary jointly announced the launch of a pre-action protocol for mortgage arrears. This has been introduced in a very timely manner and should help ensure that lenders help borrowers to find solutions to mortgage arrears problems.

4.4 We also welcome the guidance issued by the Council of Mortgage Lenders that clarifies the FSA rules on good arrears management practices for CML members. The guidance is comprehensive, well written and sends a clear message to lenders as to how they are expected to help borrowers in difficulties. Citizens Advice congratulates the CML for this thoughtful and progressive response. We would urge the Finance and Leasing Association, which represents many second charge lenders, to adopt similar guidance for their members.

4.5 The housing package reforms of ISMI to help with mortgage interest payments are also very welcome. Based on the evidence of our small snap shot survey, we estimate that of the 55,000 households projected to seek advice from the CAB service about mortgage arrears this year, around 9,500 would benefit from the changes to the ISMI waiting period and around 2,750 would benefit from the increase in the capital limit (these two groups will overlap in some cases, so the numbers cannot be added together).

4.6 Again based on the small snapshot survey, we estimate that around 59% of the households currently seeking advice about mortgage arrears would be likely to be classed as being in priority need under homelessness legislation. Therefore we believe that the mortgage rescue scheme announced in the housing package is a very sensible and cost effective way to support homeowners to whom local authorities might otherwise owe a housing duty. Citizens Advice are currently working closely with the DCLG team on implementing the mortgage rescue package.

4.7 So in general terms, Citizens Advice strongly supports the package of measures aimed at supporting homeowners in financial difficulties. However, we believe that some of these measures need to go further.

4.8 The DWP announced that the ISMI reforms would come into effect in April 2009. However we understand that these will only apply to people who claim after the introduction date and not to existing claimants. This means that someone who has been waiting 20 weeks for help before April 2009 would have to wait another 19 weeks while a new claimant would only have to wait 13 weeks. This seems unfair. Introducing the reforms in this way could also put people in the bizarre position of delaying their claim and suffering hardship in order to benefit from the ISMI changes. We would also point out that the period between now and April 2009 could prove to be the most acute period of mortgage arrears problems, when the help from government is most needed.

4.9 We note the statement by the Secretary of State for Work and Pensions in Parliament on 20 October 2008 that the changes to ISMI might be brought forward to January if there were cross-party support. Citizens Advice would urge Parliamentarians of all parties to support the introduction of the ISMI reforms as soon as possible and to have them introduced in such a way that they apply to all pending applications, as well as new applications.

4.10 The ISMI reforms did not include any proposals to reform the standard interest rate paid under the ISMI scheme. Under current rules, help with mortgage interest payments is based on a standard interest rate that is set at 1.58% above Bank of England base rates. We understand that this method is efficient from the point of view of administering payments, but it also means that borrowers may not get all the financial help they need to cover their mortgage payments in full. In particular we are concerned about borrowers of sub prime lenders where the discounted period on the mortgage has ended, and the interest charged has moved to a reversionary rate. These rates often track LIBOR rather than the Bank of England Rate and will often be considerably higher than 1.58% above base rate. In Set up to fail we set out figures showing how the shortfall between the standard interest rate and the rates charged on sub prime mortgages could be the equivalent of over 40% of a couple's income based jobseekers allowance applicable amount.

4.11 The housing package announcement commits funds to the mortgage rescue package that would be sufficient to prevent an estimated 6,000 possessions across England. This is very welcome, but if the number of borrowers facing repossession continues to grow, further resources may be needed. Citizens Advice would urge the Government to keep a watching brief on this.

5. Beyond the Housing Package—Is There a Need for Further Support?

5.1 Citizens Advice believes that the housing package and the pre-action protocol provide significant additional help for borrowers in financial difficulties. However we believe there are some outstanding issues.

5.2 Firstly, the pre-action protocol gives the courts power to address poor arrears management practices, but it does not go beyond this to set any thresholds for reasonable forbearance for lenders. For instance, the protocol is silent as to whether lenders should refrain from moving for repossession while a borrower is in the newly reduced 13 week waiting period for ISMI. The FSA mortgage conduct of business (MCOB) rules establish that repossession should be a last resort, but they are silent on the question as to how much time a lender should give a borrower that has suffered a severe income shock to recover (perhaps by finding a new job after previously being made redundant) before moving to repossess.

5.3 The general practice of courts is to allow borrowers to stay in their homes if they can pay the current mortgage payments as they fall due, plus an amount to repay the arrears within the remaining term of the loan. However, it is not clear that the courts have sufficient flexibility to keep a borrower in their home where the borrower can meet some, but not all, of their monthly mortgage instalment. However the courts have different powers to deal with secured loans that are regulated by the Consumer Credit Act 1974. Here the court has the option to make a Time Order, a flexible order that can allow the borrower to pay reduced contractual payments, possibly over a longer period. Citizens Advice believes that a similar provision should be available for first charge mortgages.

5.4 Help with housing costs for low income households is currently uneven and organised in a way that arbitrarily excludes certain households. Help with mortgage payments from the ISMI scheme is only available to homeowners who are not in work. The housing benefit scheme helps low income tenants both in-work and out of work. But there is currently no help available for low income homeowners who are in work.

6. Rented Accommodation

6.1 Unlike home owners, tenants who face sudden income drops as a result of loss or reduction in employment can claim help with managing their housing costs through the housing benefit scheme. However tenants are not immune from the impact of the credit crunch, as many buy to let landlords are amongst those no longer able to meet the costs of their mortgage and therefore facing repossession. This can put the tenant on a fast track to homelessness, even where they are fully up to date with their rental payment.

Landlord mortgage arrears

6.2 A specific problem which needs urgent attention is the position of tenants where their landlord gets into mortgage arrears and is repossessed by the lender. In these circumstances, the tenant, who may have an unblemished rent account, is often not entitled to even the limited protection which an assured short hold tenancy normally offers—ie two months' notice followed by a possession order through the accelerated possession route. Instead, the rights of the lender to repossess the property normally override those of the tenant, who, as "occupier", is only entitled to receive notification of the possession proceedings and eviction date.

6.3 We believe that it is only reasonable that, in these circumstances, the lender should honour the terms of the tenancy and step into the shoes of the former landlord. This would mean that, if after repossessing the borrower, the lender wants vacant possession, legislation should require that the lender serve notice on the tenant and seek a possession order through the courts before the tenant is evicted.

6.4 Where there is a buy to let mortgage, there is a case for going further. The Rugg review suggests that lenders "should be encouraged to create tenancy protection strategies, to ensure ongoing management for repossessed properties purchased with buy to let mortgages".

Private Rented Sector standards

6.5 This is also be a good time for a switch in focus onto increasing resources for improving property standards in the PRS, especially as more people will, through lack of choice, now end up in that tenure. If there is slippage in the new build targets for rented social housing, then a change in emphasis is needed to instead focus greater investment on improving the stock of housing we already have. This would have the added benefit of creating much needed local jobs in terms of repairs or improvements. The importance of this is acknowledged in the recently published Rugg review of the private rented sector, and Citizens Advice believes this should be supported by Government setting an unambiguous decent homes target for the PRS, together with a time line for its achievement, against which local authorities should be assessed. Obviously this would need to be accompanied by additional resources channelled though local authorities, in the form of grants or loans to landlords, with appropriate conditions attached relating to continued renting in the sector. There may also be the potential to link this work to the new requirement for Energy Performance Certificates in the private rented sector, so enabling authorities to target action on those properties with the poorest EPC rating.

6.6 In order to incentivise landlords, a fiscal change to allow landlords to claim tax relief on improvements would also support such a strategy.

November 2008

Memorandum by the Campaign to Protect Rural England (CPRE) (CRED 53)

INTRODUCTION

1. The Campaign to Protect Rural England (CPRE) welcomes the CLG Committee's decision to conduct an inquiry into housing and the credit crunch. New housing has the greatest impact of all development in terms of land-take and associated activity. It is vital that new homes are provided in a way which meets identified needs and avoids harm to the environment.

2. We welcome many of the measures announced recently by the Government to assist the housing market and those affected by it. We particularly welcome measures intended to support vulnerable householders facing repossession; the decision to bring forward funding for affordable housing; the use of a fund to enable housing associations to buy homes from developers; and permitting more grant flexibility for the Housing Corporation.

3. In our view, these measures are a good start but do not go nearly far enough. Housing in this country has historically been characterised by periods of boom and bust. The sector is highly vulnerable to changes in the economy, since it accounts for such a large and growing proportion of the nation's wealth, currently around 60% (Office for National Statistics press release, 28 October 2008). We believe this situation is socially, economically and environmentally unsustainable in the long term. We urge the committee to ask whether the model of housing we have adopted in this country is the right one, particularly in view of its environmental consequences, and whether the time has come to radically rethink our attitudes to homes and how they are provided.

4. Our submission relates mainly to the first topic of this inquiry: namely, the achievement of the Government's housebuilding targets, both for market and for social housing, and the effectiveness of the Government's measures with regard to these.

Achieving the Housebuilding Targets

5. CPRE recognises that we need more homes to house a growing number of households. We are deeply sceptical, however, of the basis for the national target of three million new homes by 2020. This target is reminiscent of the discredited "predict and provide" approach which in 1999 the present Government deemed no longer appropriate. Rt Hon John Prescott MP who was then Deputy Prime Minister, said:

> "We want to replace the top-down, 'predict and provide' mentality of the past with a more responsive and accountable system that is better able to revitalise our towns and cities and protect a living countryside that we all enjoy".
> (Hansard, 23 February 1998, column 24)

6. We understand the three million homes target was adopted partly on the basis of the household projections, but that it also includes an additional allowance for homes above the projected rate of household formation. Accordingly, the target aspires to a build-rate of 240,000 homes per year compared with a projected rate of 223,000 new households per year. A fundamental drawback of this approach, for CPRE, is that it assumes past trends will continue into the future and that a nominal increase in housebuilding will secure significant improvements in affordability. We question each of these assumptions below.

Household Formation

7. The rate at which new households form is affected by many factors, including economic conditions which have a strong bearing on migration. For example, during a downturn immigration might be expected to fall due to less attractive employment prospects. Questions need to be asked about the reliability of the household projections in the light of more realistic assumptions about future economic performance.

8. Through successive reviews of regional spatial strategies the Government has sought further increases in housing targets over and above that deemed appropriate by regional assemblies. In some cases increases have been accompanied by optimistic levels of economic growth. For example, in the South West, the Government proposes that housebuilding should increase by 29% over the next 18 years and assumes a rate of growth of 3.2 GVA per annum and 484,500 additional jobs for the region (letter from the Government Office for the South West to the Regional Assembly, 22 July 2008).

9. Predicting household growth and setting targets based on this is inherently problematic. David Miles, Chief Economist at Morgan Stanley explained this to the Treasury Select Committee earlier this month (14 October), as follows:

> "I think that the amount of uncertainty about the scale of household formation is actually extremely large and it is not just uncertainty about what the scale of net migration into the UK might be. It also touches on issues you raised [ ] about longevity, people's changing patterns of sharing homes, changing attitudes towards home ownership and the risk, rather than just the upside of owning your own home. And also when people choose to leave the family home. [ ]all these things are affected by conditions in the housing market and the economy and they are all going to change in ways that I think it would be extremely difficult to forecast right now. I think it is one reason why having some kind of inflexible target for how many homes we need to build is a very dangerous road to go down".

Affordability

10. CPRE has long maintained that we cannot build our way out of the affordability problem, since worsening affordability is largely the result of demand side factors, namely ability to pay, which is determined through a combination of income and other factors. Access to cheap credit has fuelled property speculation and further house price rises (evidence for this is set out in CPRE's earlier reports *A Basis on which to Build*, 2004 and *Building on Barker*, 2005). It would take a very large increase in housebuilding—at a significantly higher level than anyone has seriously proposed—to have any discernable effect on affordability (*Planning for Housing Affordability*, CPRE, 2007). The only effective way to make homes more affordable, we suggest, is by addressing demand side factors and ensuring new homes better match identified needs, in terms of tenure, size and affordability.

11. The National Planning and Housing Advice Unit (NHPAU) recommends regions test a range of higher housebuilding scenarios above the target proposed by Government, in order to secure marginal improvements in affordability (*Meeting the housing requirements of an aspiring and growing nation: taking the medium and long-term view: Advice to the Minister about the housing supply range to be tested by Regional Planning Authorities*, 2008). None of the ranges the NHPAU propose should be tested produces an acceptable affordability ratio even with housebuilding rates above the national target of three million homes by 2020 (ratios under their higher building scenarios would be 7.25:1 by 2026). The measure of affordability, ie the ratio of lower quartile house prices to lower quartile earnings, is inadequate since it excludes information about mortgage rates and money supply. Fundamental questions therefore need to be asked about the validity of this approach and assumptions it makes about the level of homeownership that is either desirable or realistic among low income groups.

A New Approach

12. We believe that a disproportionate focus by the Government on homeownership, a failure to champion the role of other tenures and a tendency to view housing as a commodity or investment, rather than a service, lies at the heart of the current housing and economic crisis. The market downturn is a good opportunity to rethink carefully how we should or can meet our housing needs, as opposed to demand, in future.

13. The market downturn, and the effects that this is having, demonstrate starkly the weakness of a demand driven approach to housing. For too long, in part due to weak planning controls, housebuilders have not been building the right kind of homes. The scandal of apartment blocks lying empty in city centres, often areas where there is an acute lack of affordable housing, is testimony to this. Historically low rates of housebuilding, compared with the post-war period, are the result of a fall in social housing construction as market build rates remain close to the average for the past 50 years. Insufficient public investment in affordable housing and the loss of stock through Right to Buy, without replacement, has left an acute shortage of affordable housing. The recent decision to bring forward Government funding for affordable housing is a welcome step in the right direction, since it will ensure some homes continue to get built. We also welcome the decision to allow housing associations to buy unsold private stock. We suggest that far more needs to be done, however, to restore balance to the sector as a whole.

14. Market demand has fallen, as the glut of properties on the market for sale demonstrates. The underlying reason for this is the lack of mortgage finance. It is important, however, not to assume that latent demand equates to the level of demand we have seen in recent years, since the high level of demand was partly the result of levels of borrowers and lenders overstretching themselves—with the catastrophic consequences we are now experiencing. A key question we suggest the Committee considers is what would demand be if lending is reinstated at responsible levels?

15. The credit crunch appears to be affecting rural and urban areas differently. Rural areas have experienced a sharp rise in the number of repossessions. We are aware, for example, that the North Yorkshire Housing Advice Resource Project dealt with 76 court repossession and mortgage default cases in the first quarter of this year and 150 in the second (*Inside Housing* 3 October 2008). This needs to be seen in the context of a rise in the number of households on waiting lists in rural districts for an affordable home, a figure which rose by 40% between 2003 and 2007. Anecdotal evidence suggests that the downturn is having a greater affect on development schemes within urban areas where many have been put on hold or abandoned (see Annex A to this submission regarding the situation in the West Midlands).

16. According to the Royal Institute of Chartered Surveyors, fewer than 100,000 homes may be built next year (RICS press release, 7 October 2008). With provision for more than 200,000 homes made in regional spatial strategies and major housebuilders, such as Barratts, scaling back plans and reducing the size of their landbank, there is evidently more land available than the market requires. Analysis carried out by CPRE suggests that over 2,250 hectares of greenfield land is at risk of being developed for housing as a result of regional planning targets (see Annex B to this submission). Some unfortunate outcomes could result from developers "cherry picking" greenfield land, unless the supply of land made available for development is carefully phased to support development in line with wider sustainability criteria, such as urban regeneration, and conservation and enhancement of the built and natural environment.

The Case for a Plan-led Approach

17. We wish to draw to the Committee's attention the key role of the planning system, since it has the potential to help or hinder the delivery of new homes in urban and rural areas. CPRE strongly supports the approach set out in PPS3 *Housing* to rural affordable housing. If all local planning authorities followed the example of the best, an estimated 2,400 additional homes could be provided in rural settlements each year (CLG press release, 2006). In other respects, however, PPS3 is woefully inadequate.

18. Careful consideration needs to be given to the relationship between planning and the market. It is in this area that we believe that policies are deficient and require further clarification from Government as to how they should apply in practice. We do not believe it is the role of planning to slavishly follow market forces. Instead, planning should harness resources and steer the market in ways that benefit society as a whole.

19. Recent planning reforms, reflected in planning policies PPS12 and PPS3, designed to make the planning system respond to market forces and development plans "deliverable" were drawn up during the height of the recent housing boom. These changes take forward recommendations made by Kate Barker in her reviews of Housing Supply and Affordability and Land Use Planning. In our view, these policies are predicated on a continuing buoyant economy and are ill-equipped to deal with the economic downturn. Neither PPS12 nor PPS3 address the question of what a market responsive approach means when the market collapses; there appears to be an implicit assumption that housebuilding rates will continue to rise and that the private sector will continue to cross-subsidise affordable housing provision. Kate Barker, when giving evidence to the Environmental Audit Committee in 2004, made it clear that her intention was to make

planning responsive to the market and that she had never intended the target to operate in one direction only, ie. upward. She accepted that there may be circumstances where a target needed to be cut, eg. during an economic downturn. Yet, this aspect of her analysis seems to have been forgotten by Government.

20. The current approach to planning for housing is placing local planning authorities in a very difficult position. Planning guidelines, namely PPS12 and PPS3, require local planning authorities to allocate land to meet targets for additional homes set out in regional spatial strategies. These targets contribute towards achieving the national target of three million homes. Under the approach set out in PPS12 and PPS3, development plans, policies and land allocations must be "deliverable", ie capable of being developed within five years. Asking local authorities to produce "deliverable" plans on the basis of unachievable housing targets handed down to them from the regions (whose housing targets do not have to be "deliverable") is asking the impossible.

21. Whether a particular site is capable of being developed within five years depends largely on external market conditions and capacity within the housebuilding industry. Falling construction rates suggest that housing targets will be missed in many areas. Leading developers have declared they intend to be far more selective about where they develop in future. A Housing and Planning Delivery Grant rewards local authorities for allocating land for housing and increasing their housing stock by more than 0.75%.

22. A combination of the grant and policies, clearly designed for different market conditions, unrealistic targets and planning rules, could lead to perverse outcomes. For example, it could place an incentive on local authorities to allocate greenfield land, even where brownfield land suitable for housing is available, jeopardising regeneration plans, in a desperate attempt to attract development and meet Government targets. To avoid this occurring, it is vital that the Government upholds the sequential approach. A recent statement by the under Secretary of State, Iain Wright MP calls into question the Government's commitment to securing effective use of previously developed land before greenfield land is used. Responding to concerns raised by Martin Horwood MP (7 October, HoC), that in a downturn there was a danger that developers would cherry pick green fields, the Minister said "I do not think that a sequential test is the right approach, because it would be rigid and old-fashioned, and it would say, 'It would be wrong to provide that site for development before that site'. If we can be as flexible as possible, certainly during the current economic difficulties, that is the approach to take".

23. A more flexible approach to site and land allocation will do little to assist the market downturn and risks making things worse. This is because developers thrive in a climate of certainty and land allocations are often a significant source of local controversy: this is minimised where clear principles and agreed plans and policies are followed. A plan-led approach helps foster consensus about the level and location of new development. The alternative is "planning by appeal"—a lengthy, expensive process with an uncertain outcome.

24. Experience of the past decade demonstrates that a sequential approach helps secure more efficient use of land, has played an important role in increasing housing supply, and delivers proven benefits, safeguarding the countryside from unnecessary development and regenerating urban areas. Housebuilding levels rose to their highest level since 1990 throughout the time that PPG3 was in force—a policy that contained a clear presumption in favour of developing urban brownfield sites in locations with good access to public transport rather than greenfield locations. Urban centres have been transformed as a result of this policy. Far from being an obstacle to development, a sequential, brownfield first approach, by sending a clear message to developers and communities about where development should and should not take place, may even have encouraged it. Abandoning the sequential approach, which is retained in PPS3, would be a grave mistake since it would foster confusion, delay and uncertainty, as well as undermining regeneration. The last thing developers need now is a vague policy. In today's challenging circumstances, decision makers and investors need more, not less, clarity and certainty.

25. We believe the Homes and Communities Agency (HCA) has a crucial role to play in helping to bring about a housing recovery through a wide range of measures. In particular, in seeking to make the best use of public sector land, and land and homes acquired from private developers, it will be crucial that the HCA operates within a plan-led approach, and that it avoids creating "social housing ghettos" and developing in areas which lack facilities such as public transport and other services.

Suggested Steps Towards a Housing Recovery

26. Recent events highlight the weakness of the "predict and provide" and increasingly market-driven models of housing provision which successive governments have followed for the past thirty years. CPRE supports many of the Government's measures to support homeowners, secure stability in the banking system and more affordable homes. At the same time, we believe there is a strong case for fundamental change in the way housing is provided in this country, based around the following principles.

27. First, the Government and others in the sector, need to press the case for housing to be viewed primarily as a service, rather than a commodity or investment. As the country's wealth has become increasingly concentrated in housing, this has pushed prices up and diverted investment away from productive economic activity.

28. Second, we need a plan-led approach, with the level, location and type of new housing based on identified housing needs, rather than market demand, and an emphasis on efficient use of land. Clear aims should replace top-down targets, with incentives, policies, regulation, funding and taxation to support quality and address genuine needs and circumstances. The size, type and tenure of new homes should be effectively controlled through the planning system and the potential of bringing back into use or converting empty property should be considered. Effective regulation, supported by a robust planning policy framework, agreed with stakeholders at local, regional and national level and stable financing arrangements are preconditions for any housing recovery.

29. Maintaining the drive to use land efficiently is crucial. Tremendous progress has been made in recent years in the efficiency with which land is developed for housing. More than three quarters of homes are now built on brownfield land at an average density of 44 homes per hectare compared with less than 60% on brownfield land and average densities of less than 25 homes per hectare in the early 1990s (Land Use Change Statistics, CLG, October 2008). Contrary to common assumptions, a growing body of evidence demonstrates that it is not only possible to provide family housing at medium to high densities but highly desirable, since local services, shops and public transport require population densities above a certain level in order to be viable (for example, see Proximity Principle, CPRE, 2007). Around 70% of projected household growth is expected to comprise single person households. Therefore a mix of dwelling types and tenures, including smaller flats as well as family houses, and more specialist accommodation to meet the needs of a growing ageing population is required.

30. Third, better use should be made of existing property. It is scandalous that the number of empty properties in England (750,000) rose last year. As the British Property Federation recently observed (*The Future of the private rented sector*, 2008, Smith Institute), second hand does not mean second best. Much could be achieved through measures to realise potential from existing stock and other properties. In the North West region alone, there are around 130,000 homes lying empty—more than five times the number of new homes planned for the region (23,000 per year). In addition to domestic property, around 9% of commercial property nationally is estimated to be vacant, (Hansard debate, 13 June 2007). Some of these properties could be converted to provide homes.

31. Fourth, we need an end to reckless lending. It is crucial that the right regulatory and fiscal framework is in place to secure responsible levels of lending and transparent accounting. There should be a requirement for banks to maintain healthy ratios of capital to debt. We believe it would be unwise to return to 2007 levels of lending, as the Prime Minister recently remarked, (press conference 13 October 2008), even if it were possible. Instead, we suggest that other funding arrangements need to be found.

32. Fifth, we need to end the obsession with home ownership and recognise that a diversity of housing options would benefit society as a whole. Homeownership has undoubtedly brought many benefits, but there will always be some people who cannot afford or do not wish to own their own home whose needs should be catered for. Consideration should be given to other ways in which people might benefit from a stake, financial or otherwise, in their homes eg via intermediate and shared equity options or Community Land Trusts. We welcome the Government's current consultation on CLTs.

33. It would be beneficial to expand the private rented sector to bring us in line with our European counterparts. Private renting is set to become increasingly important in future—over the past year demand for rented homes has risen by 50%. Private renting is important for the economy since it is crucial for labour mobility. We recommend that the Committee examines the potential role Real Estate Investment Trusts could play in supporting the private rented sector, along the lines called for by the British Property Federation (*The Future of the private rented sector*, 2008, Smith Institute).

34. We need a renewed commitment to affordable social rented housing, an end to its residualisation and a recognition that it is a respectable tenure, a proactive choice for some, rather than the tenure of last resort. We support the more flexible use of Housing Corporation funding to secure affordable housing in recognition of the expected shortfall that is likely to occur because of reduced contributions from private housebuilders via Section 106 Agreements.

35. Lastly, it is important to maintain the drive towards higher design standards and skills. High environmental standards in new and existing buildings will make homes more durable, cheaper to run and resilient in the face of growing international volatility and competition for scarce resources such as fuel. In the current economic climate, there is a real danger that standards may be relaxed in an effort to encourage development and respond to those members of the development industry who view good design as an unnecessary expense rather than sound investment. Enlightened developers embrace innovation as this can improve competitiveness and give them a lead in the market. Similarly, sensible regulation can act as a spur to innovation.

36. Currently, the private sector does not have to achieve the same high standards required by social housing. Ending this anomaly would lower costs for everyone as a result of economies of scale and specialist skills becoming more mainstream. Lowering standards in the short-term would be a big mistake, and would

increase costs in the long-term (*The cost of bad design*, CABE, 2008). On the other hand, maintaining the drive towards high environmental standards in new and existing buildings would potentially create thousands of jobs, stimulate the economy, reduce bills (*Green New Deal*, 2008) and bring other benefits (*The Proximity Principle*, CPRE, 2008). While the recent focus has been on improving environmental standards in new building, we need to do more to invest in existing property and encourage occupiers to take action themselves. For example, in Germany low interest loans are made available for older properties to reach new build energy standards and there are feed in tariff for photovoltaics. Both these measures should be adopted here.

Annex A

SUPPORTING MATERIAL FOR CPRE's SUBMISSION TO CLG's INQUIRY INTO HOUSING AND THE CREDIT CRUNCH

The Effect of the Downturn on the West Midlands

According to Nathaniel Lichfields, net housing completions in the West Midlands are estimated as follows: 2006–07—16,300; 2007–08—14,670; 2008–09—8,150; 2009–10—8,150. They anticipate that completions will rise from 2010–11 onwards, although it is unclear on what basis they make this judgement.

Within the region, completions in the major urban areas (MUAs) have fallen faster than those in the shire counties. Profit margins were already small on brownfield sites in the MUAs: the credit crunch has led to many sites becoming uneconomic to develop, at least in the short-term. Although the West Midlands has a planning strategy based on urban regeneration, the practical effect may be very different. John Callcut argued in his report that housebuilders would not "cherry pick" greenfield sites, but housebuilders declared at a recent seminar, hosted by WMRA to discuss the Nathaniel Lichfields and Partners' report on 9 September, that they would do just that.

A considerable proportion of homes built in the MUAs up to 2006–07 were flats. The "apartment boom" appears to be well and truly over. Vacancy rates are high in recently built flats in urban areas, and developers are turning their attention much more to houses. These are less profitable in urban areas but are still expected to sell well in the shires in the long-term.

Source: CPRE West Midlands

Annex B

SUPPORTING MATERIAL FOR CPRE's SUBMISSION TO CLG's INQUIRY INTO HOUSING AND THE CREDIT CRUNCH

Figure 1

PLANNED USE OF GREENFIELD LAND ACCORDING TO EXISTING AND EMERGING REGIONAL SPATIAL STRATEGIES

Region	*Latest housing target per year*	*Target for use of brownfield land (%)*[1]	*Implied no of houses on greenfield land per year*
NW23,111	70	6,933	
NE	7,592	72	2,126
Y&H	22,260	65	7,791
WM	18,280	70	5,484
EM	21,109	60	8,444
EE	25,400	60	10,160
SW	29,623	50	14,812
SE	33,125	60	13,250
London	30,500	96	1,220
Total new dwellings per year	**211,000**	**Total new dwellings per year on greenfield land**	**70,220**

Based on Figure 1 above 33% of new homes per year will be built on greenfield land
Using an average of 31 dwellings per hectare (dph) [2] this would mean over 2,265 hectares (ha) of greenfield land will be built on each year

Figure 2

PLANNED HOUSING DELIVERY TO 2020

	No of new homes	*No on greenfield land*
Delivery from 2009 to 2020 (inclusive)[3]	2,532,000	842,640

Based on targets in existing and emerging Regional Spatial Strategies and using an average of 31 dph, by 2020 27,182ha of greenfield land will be lost.

Notes

[1] Targets set out in plans for use of previously developed land

[2] National average housing density delivered on greenfield land according to Land Use Change Statistics, January 2008

[3] Based on annual housing targets from plans being delivered over 12 years

November 2008

Memorandum by Shelter (CRED 54)

Summary

1. Households across all tenures are struggling to meet their housing costs. Restrictions on access to mortgage finance have meant that house price falls have led to little improvement in affordability for first time buyers, while the number of cases of mortgage repossessions has risen sharply.

2. Shelter welcomes many of the Government's measures to help homeowners avoid repossession, such as changes to Support for Mortgage Interest (SMI), establishment of a national mortgage rescue scheme and the proposed regulation of the private sale and rent back market. However we believe that further action is needed to minimise the rise in repossessions, including:

— A more robust approach from the Financial Services Authority (FSA) to the regulation of lenders' arrears management behaviour.

— Bringing forward the timescale for the FSA's review of the Mortgage Code of Business (MCOB) rules.

— Wholesale review of mortgage law, to close legal loopholes and to increase the courts' discretion.

— Increased funding for advice, including time-limited funding for legal aid specifically for homeowners at risk of repossession.

— Greater protection for tenants in properties where the landlord is being repossessed.

3. The credit crunch and economic downturn have had a dramatic effect on the overall level of housebuilding and are likely to impact negatively on social housing completions without radical remedial action.

4. Despite falling levels of housebuilding, housing need and demand continue to grow. New Shelter research from Cambridge University sets out that to meet newly arising housing need, a higher proportion of new homes built must be for social renting and low cost home ownership (Annex A).

5. Shelter has welcomed a number of the measures introduced by Government to boost housing delivery, in particular the frontloading of expenditure on the delivery of new social homes. However, we consider that the overall impact of the measures announced to date will be limited, and that more radical solutions are required from the Government, the Homes and Communities Agency (HCA) and local authorities to ensure that we build the extra housing we need. These should include:

— Increasing the grant rate for housing associations, to fill the gap left by the drying up of cross subsidy from Low Cost Home Ownership (LCHO) and market sales.

— Reviewing schemes whose financial viability has been affected by the credit crunch, in order to find ways of allowing them to go ahead.

— Shifting the balance of housebuilding activity towards a more public led model, with a greater proportion of subsided housing for social renting and low cost home ownership.

— Provision of £500 million over three years for the HCA to buy up land at low cost during the market downturn.

— Better use of public sector land, by selling it off at sub-market levels for affordable housing or as part of joint ownership and development initiatives such as Local Housing Companies.

6. New LCHO measures such as Homebuy Direct may not be in the best interests of first time buyers at present given that prices are falling rapidly and likely to continue doing so. The Government's recent announcements on LCHO appear to do little to move us towards the goal of creating a simpler range of LCHO products that are affordable for those on below average incomes.

Introduction

7. We welcome the Committee's decision to examine the impact of the credit crunch on the Government's housing policies and the opportunity to contribute to its inquiry. Our submission focuses in particular on measures to help existing and prospective homeowners, and on the delivery of the Government's housebuilding targets.

Impact of the Credit Crunch on Housing need and Affordability

8. While the impact of the credit crunch has been greatest for homeowners, its effects are being felt by households across all housing tenures. Many are struggling to meet their housing costs, as a result of increasing mortgage and rent payments, high levels of personal debt and recent price rises. A MORI poll[82] conducted for Shelter in March 2008 found that:

— 400,000 households were falling behind with their rent or mortgage payments.

— 16% of households (4.1 million) had used a credit card to help meet housing costs in the last twelve months, one in nine (three million) had sold possessions, and one in 11 (2.2 million) had reduced spending on clothing for their children.

— Nearly one quarter of households (six million) say they are suffering from stress or depression because of their housing costs.

9. As the economic downturn deepens and unemployment increases, these affordability pressures are likely to increase.

10. Despite substantial house price falls, there has been little improvement in affordability so far for first time buyers. The reason for this is the impact that the credit crunch has had on mortgage deals, as lenders have responded to the lack of liquidity and declining house prices by increasing rates and tightening their lending criteria. Existing homeowners are also being affected, with many lenders failing to pass on interest rate cuts and borrowers without at least 25% equity in their home facing a substantial premium when they look to remortgage. While the availability of mortgages is expected to improve over the coming year as the credit markets resume, this will be a gradual process, and lenders are likely to remain cautious while further house price falls are anticipated.

11. In the private rented sector, the impact of the credit crunch on affordability has been mixed. On the one hand, there has been a sharp increase in the level of tenant demand, generated in part by the inability of first time buyers to access mortgage finance. On the other hand, this has helped create an increase in supply to the market, as would be vendors have decided that letting is a better option than selling in the current housing market environment. According to the RICS residential lettings survey for April–July 2008, the overall impact has been a continued rise in the level of rents, although expectations are now beginning to come down slightly[83]. One specific factor behind rent increases in the buy to let sector is the rise in buy to let mortgage costs, which some landlords are attempting to pass onto their tenants.

Tackling Mortgage Arrears and Preventing Repossession

12. The number of cases of mortgage arrears and repossessions has risen sharply and is likely to continue doing so into 2009. The number of owner occupiers with a first charge mortgage repossessed in the first half of 2008 was 18,900, a 48% increase since the same period last year, and the CML predicts that this will rise to 45,000 by the end of the year. These figures are mirrored by Shelter's own experience: between February and July 2008 the number of people coming to us for help with mortgage repossession actions increased by 55%.

13. The current context for repossession action differs from the early 1990s in a number of ways. More borrowers are reliant on dual incomes, and a greater proportion have high levels of personal debt. Many consumers are now on relatively short-term fixed interest mortgage products. Sub-prime mortgages have seen rapid growth in recent years, and until the onset of the credit crunch, a rising proportion of mortgage lending was being securitised and sold on through the wholesale markets. One positive change is that since October 2004, all new first charge residential mortgages are regulated by the FSA.

14. In recent months, the Government has announced a number of measures designed to protect struggling homeowners from repossession. These include:

[82] Breaking Point: how unaffordable housing is pushing us to the limit, Shelter, June 2008.
[83] Residential lettings survey Great Britain, RICS Economics, July 2008.

— Strengthening the state safety net for homeowners, by reducing the waiting time before Support for Mortgage Interest (SMI) becomes payable from 39 to 13 weeks with effect from 1 January 2009, and increasing to £175,000 the capital limit on the amount of mortgage that SMI will cover.

— The introduction of a pre-action protocol for mortgage possession cases, which sets out guidelines that lenders should follow ahead of taking court action against homeowners.

— Establishment of a national mortgage rescue scheme to enable families at risk of becoming statutorily homeless to stay in their homes as tenants or on a shared equity/shared ownership basis.

— Proposed FSA regulation of the private sale and rent back market to protect vulnerable consumers from exploitative practice, as recommended by the Office of Fair Trading in its recent study.

— Some additional funding to increase advice provision for homeowners facing repossession, and to expand the coverage of county court desk services.

15. In addition, mortgage lenders themselves have taken various steps, most notably the publication of new industry guidance setting out good practice when dealing with mortgage arrears and possessions.

16. While the measures listed above are welcome, Shelter believes that the Government needs to do more to minimise the rise in repossessions. We set out below the key areas in which we consider further action is needed.

Lenders' repossession behaviour

17. Too many lenders are taking an aggressive approach to arrears management and failing to treat repossession as a last resort. The FSA's recent study of arrears management practices[84] highlighted a range of problems, including that lenders:

— could have done more to consider customers' individual circumstances and offer more options to resolve arrears;

— imposed charges in circumstances that could have resulted in the unfair treatment of customers; and

— did not exercise sufficient oversight of third parties contracted to carry out mortgage arrears and repossession handling activities on behalf of lenders.

18. In addition, the study highlighted the following issues with the arrears management practices of sub-prime lenders specifically:

— operation of a one size fits all approach, which focuses too strongly on recovering arrears according to a strict mandate, without reference to borrowers' circumstances;

— an over-readiness to take court action; and

— lower standards of systems and controls in place to control mortgage arrears handling, including training and competency arrangements.

19. Shelter believes that a more robust approach to the regulation of lenders' arrears management behaviour is needed from the FSA. We hope that the FSA's recent comments about the end of light touch regulation may signal the beginning of a change in this direction. We urge the Government and the FSA to ensure that arrears management is treated as a regulatory priority, and to invest more resources into monitoring this aspect of lender behaviour and enforcing compliance with Treating Customers Fairly and the MCOB rules.

20. We would also like the timescale for the FSA's review of the MCOB rules to be urgently brought forward. Despite having been ongoing since 2005, the review currently has no end date. We believe that the MCOB rules require tightening in significant respects: for instance to define more clearly what is meant by "reasonable efforts" to reach an agreement for repaying a payment shortfall, and to require lenders to publish their arrears management policies. We therefore recommend that the Government should ask the FSA to publish by the end of the year proposals for amending the section of the MCOB rules on arrears and repossessions (Chapter 13), so that the opportunity can be taken to make improvements to provide greater protection to the growing number of households at risk of repossession.

21. Equally important to the FSA's regulatory framework, are the standards applied by the courts when lenders bring possession claims. Although a breach of the MCOB rules may result in enforcement action by the FSA, it does not follow from this that a borrower will be able to avoid a possession order. Courts do have power to adjourn possession proceedings or to make a suspended possession order, but only if it appears the borrower is likely to be able to pay any sums due "within a reasonable period". Whether the borrower is able to pay the arrears and keep up the regular monthly instalments may depend on whether the lender is willing to vary the terms of payment so that the mortgage becomes more affordable. A court may consider that the lender has not done enough to assist the borrower, for example by agreeing to restructure payments

[84] http://www.fsa.gov.uk/pages/Library/Communication/PR/2008/087.shtml

or to capitalise arrears, or that possession is not genuinely the last resort—but as the law stands, it has no power to refuse to grant possession on those grounds. This means that the courts are not in a position to require compliance with the rules for lender behaviour set down by the FSA.

22. Shelter warmly welcomes the introduction of the pre-action protocol on mortgage arrears. However, despite the publicity it has received, the protocol cannot require lenders to consider alternatives to possession action, and it offers the courts no sanctions for non-compliance. This reflects the underlying legal situation outlined above, in which the courts' discretion to refuse possession is strictly limited.

23. As well as the limitations on courts' discretion, other fundamental problems with the legal framework for mortgages also exist. In the recent case of *Horsham Properties v Clark and Beech*[85], the High Court ruled that a lender could exercise its power of sale with the borrower still in possession, without going to court first. The new owner then successfully brought proceedings to evict the borrower as a trespasser. This would appear to expose a legal loophole under which lenders could choose to circumvent the courts altogether by exercising a power of sale. Another anomaly is lenders' power to use the common law remedy of foreclosure, enabling them to obtain an order for possession, but in so doing extinguishing the borrower's equity of redemption, so that the lender keeps the entire proceeds of the sale.

24. Shelter believes that mortgage law is outdated, complex and obscure and needs wholesale reform to lift it into the 21st century. We believe that the current Banking Bill provides the Government with an opportunity to introduce legislation to:

- require a lender which wishes to enforce its security to do so only through the courts;
- to give the court a general discretion in mortgage cases to make orders which are just according to the circumstances of the case;
- to restrict the lender's statutory and/or contractual power of sale by making it subject to the requirement to obtain an order of the court; and
- to abolish the common law remedy of foreclosure in relation to residential mortgages.

25. In the meantime, we urge the Government and lenders to promote the pre-action protocol so that borrowers, lenders and the judiciary are fully aware of the behaviours that should be expected of lenders in dealing with arrears. Implementation of the protocol should be monitored carefully and data should be gathered on its use and impact.

26. Finally, with the Government having nationalised two banks and taken public stakes in several others, it must use the influence that this gives it to insist on responsible lending behaviour. While we recognise that these institutions will be run at arms length and on commercial principles, the Government has a duty to ensure that banks being bailed out with taxpayers' money only repossess as a last resort and have sound arrears management policies in place.

Advice and prevention

27. Shelter sees many clients with mortgage arrears problems who are not eligible for ongoing LSC-funded free legal aid, even if they are thousands of pounds in arrears. Whilst court duty desk funding has been hugely welcome, the lack of legal aid funding means we are severely constrained in our ability to help borrowers or engage in casework before crisis point or past the court stage, if legal support is needed. This problem has been becoming increasingly evident in the wake of the credit crunch and demand continues to rise.

28. Shelter believes that the Government and mortgage lenders should be working more closely with advice agencies to facilitate access to free, independent advice. This should include the following measures:

- Time-limited provision of funding for legal aid tailored specifically for homeowners at risk of repossession, to enable caseworkers to engage in preventative work and negotiation with lenders.
- Additional funding for advice to ensure there is capacity for Shelter and other advice agencies to meet the steep rise in demand.
- Funding to effectively market debt advice services to homeowners most at risk.

29. One major difficulty in preventing repossession actions is identifying and reaching at-risk groups. Whilst we warmly welcome the Government's mortgage rescue package, we are concerned that this will not be effective unless the existence of this help is effectively communicated to the most vulnerable households. Research is needed into why some borrowers do not seek advice or talk to their lenders early and to explore effective outreach methods. We would also like to see the FSA take a more pro-active approach by requiring lenders to refer borrowers to advice agencies.

[85] [2008] EWHC 2327 (Ch)

Tenants in repossessed properties

30. Shelter is calling for greater protection for tenants in properties where the landlord is being repossessed. Under the existing legal framework, tenants have no status in this situation and become trespassers once a possession order takes effect, even if they have been lawful tenants for a long time. Shelter believes that this situation is deeply unfair and that tenants need to be given more time to find suitable accommodation once a possession order has been granted. Legislation should be enacted to ensure that this is the case. In particular:

— Courts should be able to defer possession for whatever period they think just, up to a maximum of 90 days, thus enabling the tenant to take stock of their situation and look for somewhere else. The court could have flexibility to decide how long to allow, according to the circumstances.

— This protection should extend not only to tenants, but also to lodgers and other licensees who were living lawfully in the premises. The protection would also apply where the landlord is not a buy-to-let landlord, but a borrower under a mainstream residential mortgage.

31. We recognise the difficulty in reaching tenants in advance of action—but we suggest that lenders need to try to make contact as early as possible in the process. There is scope for notices to be sent in an envelope marked with a message such as "Your home is at risk".

The state safety net

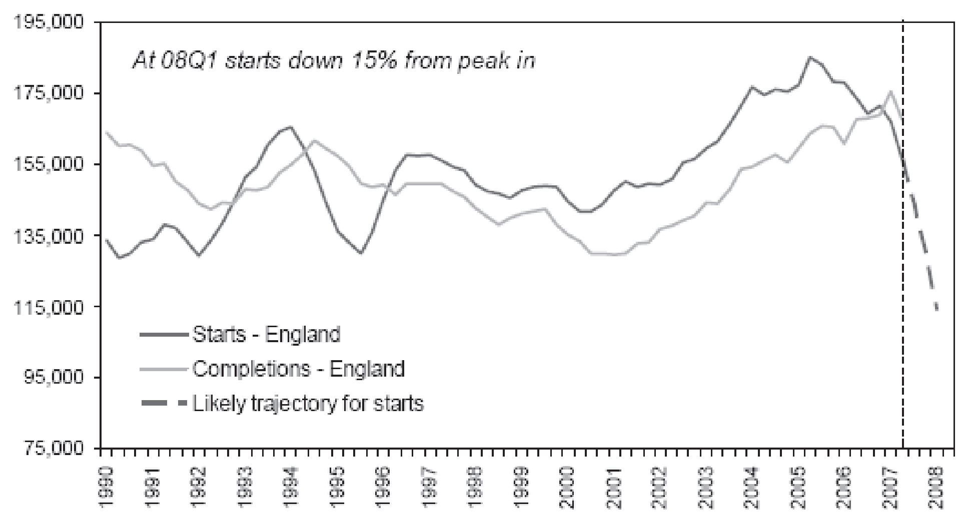
32. The repossessions crisis has highlighted the need for reform of the state safety net for homeowners. Take-up of private insurance products has been low and many households can fall through the gaps even where they do have payment protection policies. We welcome the cut in the waiting time for state support from 39 to 13 weeks but would like greater clarity regarding the details of this change, particularly in relation to the status of existing claims.

33. Over the longer term, the Government should give consideration to a more fundamental overhaul of the state safety net. A good starting point for debate would be the Joseph Rowntree Foundation proposals for a Sustainable Home Ownership Partnership (SHOP), funded by contributions from lenders, borrowers and Government.

Impact of the Credit Crunch on the Achievement of the Government's Housebuilding Targets

34. The credit crunch and economic downturn have had a dramatic effect on the level of house building. This will not only have an impact on housing output in the short to medium term, but the subsequent contraction of the construction industry will also have an effect both on unemployment and on the long-term ability of the sector to deliver increased house building. Indications are that housing completions will drop dramatically from the 167,000 new build completions in 2007–08, with starts anticipated to be below 100,000 next year (Figure 1). The number of social housing completions has held up better so far, but there are also fears that without radical remedial action this too could fall sharply over the next few quarters.

Figure 1



Source: CLG / Hometrack

35. The drop in the level of housebuilding is explained by two main factors. First, the lack of mortgage finance and worsening economic prospects have driven a steep decline both in house prices and in the number of sales. Second, the credit crunch has affected the ability of developers and housing associations to access finance. Together, these pressures have led to many new schemes being put on ice, and some developers having to sell off land in order to improve cashflow.

36. This overall climate is affecting the delivery of social and intermediate housing in a number of ways:

— In recent years, an increasing proportion of affordable housing has been delivered through section 106 agreements as part of private schemes, many of which are now on hold.

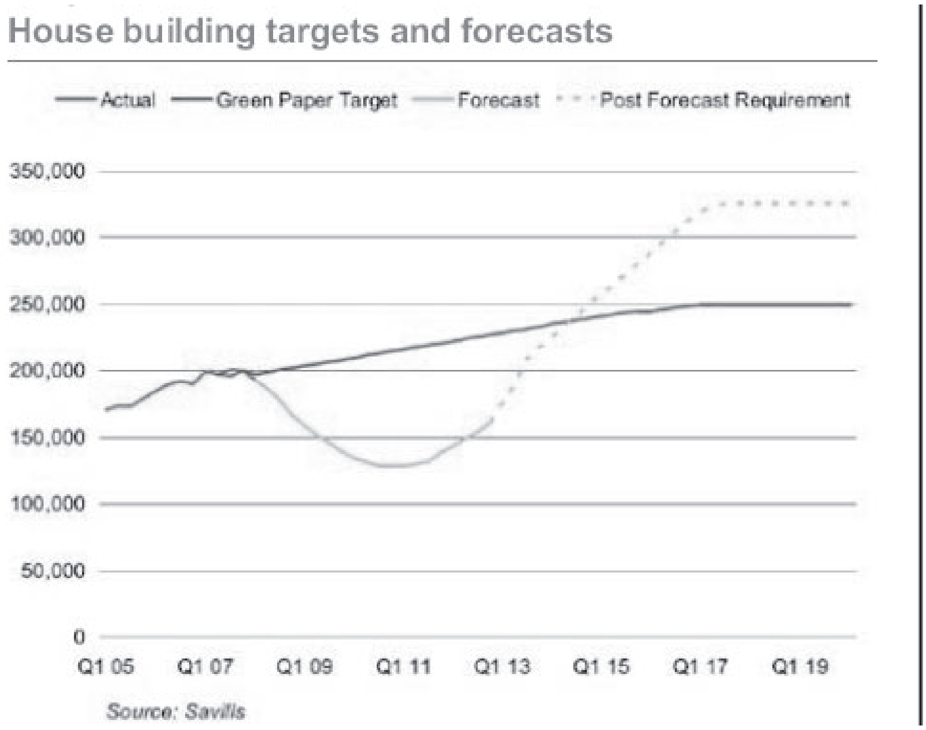
— Housing associations' access to finance has worsened as a result of the credit crisis, while their borrowing costs have substantially increased.

— The lack of private and LCHO sales has resulted in a drying up of cross subsidy for social housing.

— Even where private schemes do go ahead, lower land values mean that the size of private sector contribution available for affordable housing is less.

37. These trends clearly have significant implications for the delivery of the Government's housing targets, over both the short and longer term. Recent analysis by Savills[86] (Figure 2), based on their forecasts of the size of the downturn in housing delivery, suggests that in order to achieve the Government's target of three million homes by 2020, housebuilding would need to recover to a level of 325,000 (the highest level since the 1960s) by 2016 and remain at that level for four years. Savills note that there is often a significant time lag between a housing market recovery and developers increasing housing supply, and that this could lead to further sharp price rises once the market bottoms out.

Figure 2



38. Despite falling levels of housebuilding, housing need and demand continue to grow. The credit crunch and the economic downturn are likely to lead to increases in the numbers experiencing homelessness and bad housing, and in the length of social housing waiting lists. And while the National Housing and Planning Advice Unit expects house prices to dip and affordability to improve in the immediate future, they predict that these will be back to their long term trend by 2017 due to the continued shortfall in housing supply.

39. Looking ahead, there is a need to re-evaluate how new housing delivered should be split between tenures, in order to ensure that need is met and to avoid future problems with households overstretching themselves in order to access homeownership. Shelter will shortly be publishing research by the Cambridge Centre for Housing and Planning Research, setting out new estimates for housing need and demand up until 2026. A confidential draft of this is attached for the Committee's information as Annex A. It shows that, while the Government's target of 240,000 new homes per year is about the right level to meet newly arising housing need and demand, a higher proportion of new homes built must be for social housing and low cost home ownership than at present.

[86] The Residential Property Focus, September 2008, Savills Research

Action to Ensure that New Housing is Delivered

40. The Government has already announced a number of measures intended to stimulate the housing market and housing delivery, including:

— Frontloading £400 million from the existing social housing budget, to deliver up to 5,500 extra homes by April 2010.

— Increased funding flexibility so that the Housing Corporation can offer more of the payment to housing associations and other developers delivering affordable and social housing at the start of schemes, helping improve providers' cash flow.

— £200 million for affordable housing providers to purchase unsold stock from house builders, which can then be used for social or affordable housing, and the establishment of a national clearing house to help facilitate this.

— A year long stamp duty holiday for residential property of less than £175,000 starting in September 2008.

41. Shelter has welcomed a number of these measures, particularly the frontloading of money for social housing. We support the principle of buying up unsold stock for use as social or affordable housing, provided that the homes purchased are built to Housing Corporation standards, are suitably sized and are in the right locations. On the other hand, we are sceptical whether the £600 million cost of the stamp duty holiday represents the best use of money, given the experience of the stamp duty holiday in 1992–93 which would appear to have had little impact on the overall number of housing market transactions.

42. Although Shelter considers the Government's overall package to encourage housing delivery to be positive, we believe that its impact will be limited. More radical solutions are therefore required to ensure that we continue to build the extra housing, including affordable housing, that we need for the future.

43. Shelter has recently commissioned housing expert Kelvin MacDonald to produce a report, due to be published shortly, exploring the challenges and opportunities for affordable housing delivery in the current environment. We draw on this below in setting out some of the priority areas in which we believe the greatest scope exists for Government, the HCA and local authorities to have an impact.

Increase the grant rate for housing associations

44. The funding settlement for social housing in the current spending review period was predicated on a grant rate of around 40%, with roughly 50% of the total cost secured through private borrowing and 10% financed from cross subsidy from low cost home ownership schemes and market housing sales. As noted above, the current economic and financial situation has undermined housing associations' ability to secure this 10% cross subsidy, creating a gap which needs to be filled by increasing the grant rate. The average shortfall is approximately £20,000 per unit, which for the 80,000 social rented homes to be delivered in years two and three of the CSR period would amount to £1.6 billion additional investment. Although the Government has reportedly committed to raise grant rates, housing associations claim that this is not being translated into practice by the Housing Corporation[87]. We recommend that Government, the Housing Corporation and the HCA urgently increase the level of grant rate available to housing associations.

Review schemes whose financial viability has been affected by the credit crunch

45. As a result of the housing market downturn, some previously agreed developments may no longer be financially viable, due to lower market values and reduced scope for cross-subsidy of infrastructure and affordable housing requirements. In such circumstances, it is vital that the Housing Corporation and local authorities work together in order to find ways of overcoming financial barriers and allowing schemes to go ahead. This should include active consideration by the Housing Corporation of whether additional grant should be made available. In some cases, local authorities may also need review section 106 agreements. Where this is done, priority should be given to ensuring that social housing provision does not lose out to low cost home ownership or to other types of infrastructure. For example, in Walsall, the local authority recently renegotiated the affordable housing requirement on a site down from 33 to 17, but with a change in the type of housing to be provided from shared equity to social rented[88].

Shift the balance of provision between public and private sector housebuilding

46. To date, the house building sector has been based on a market led approach, with up to 65% of social rented housing delivered through section 106 agreements. With the collapse of the private sector, we believe there is a strong case for shifting the balance of provision towards a public-led model, with a greater proportion of overall house building subsidised into the affordable sector. Clearly this would require

[87] "Regulator is stagnating", Inside Housing, 12 September 2008.

[88] Walsall Council Development Control Committee, Report of Head of Planning and Building Control, 22 April 2008: http://www2.walsall.gov.uk/CMISWebPublic/Binary.ashx?Document = 5552

significant additional investment to increase the output of social rented homes over and above the 110,000 target for 2008–11 but we believe it would also make the achievement of the Government's overall housing targets significantly more likely.

Invest in buying up land for future development

47. Land prices are falling dramatically, which provides a real opportunity for the public sector to buy up land to ensure a steady supply for housing development over future years. We recommend that the Government funds an additional pot of around £500 million over the next three years for the HCA to buy up land at low cost during the market downturn. We estimate that this could provide land for over 10,000 social rented homes.

Make best use of public sector land

48. Over a quarter of the land we could potentially use to build homes is publicly owned—by central government departments such and the MoD and DoH and by local authorities. We believe the Government needs to do more to exploit the use of this land for affordable housing, either through selling it off at sub-market levels for affordable housing development, or through exploring joint ownership and development initiatives along the lines of local housing companies. Local authorities already have considerable flexibility to dispose of land at below market prices to further social objectives[89]; however, awareness of this is low amongst lead officers and councillors and the belief prevails that there is a duty to obtain best price for the land. We recommend that the Government should promote better understanding of the rules by issuing guidance for local authorities on this point. In addition, we call on the Treasury to lift the constraints on central government departments, to give them the same flexibility as local authorities to dispose of land at below market rates to support affordable housing development.

Low Cost Home Ownership Initiatives

49. The Government has introduced two specific LCHO measures designed to respond to credit crunch by helping individuals into home ownership and supporting the market for new homes. Firstly, in May it announced a major expansion of eligibility for the Homebuy programme so that first time buyers with a household income of less than £60,000 a year would be able to apply[90]. Previously the scheme had been open only to key workers such as nurses and teachers, social tenants and some buyers identified as a priority regionally. Secondly, in September it announced Homebuy Direct[91], a £300 million scheme which aims to help 10,000 first time buyers. Buyers are offered an equity loan of up to 30% to purchase new build properties, co-funded by the government and the developer and free of charge for five years. The aim of the scheme is to provide a boost to the housing market and make more homes accessible to first time buyers.

50. The majority of commentators expect that house prices will continue to fall rapidly throughout 2009. At present, those taking up LCHO schemes such as Homebuy Direct could quickly find themselves in a position of negative equity or having lost much of the original equity in their homes. It is unclear what evidence there is that these products are currently in the interests of consumers or indeed that consumers are currently interested in them. Shelter believes that the priority for LCHO should be to create a simpler range of products that are affordable for those on below average incomes. The Government's recent policy announcements on LCHO unfortunately appear to do little to move us towards this goal.

Memorandum by Barton Willmore (CRED 56)

Executive Summary

- Regional Spatial Strategies were beginning to move towards providing sufficient houses to meet Government targets.
- The effect of the credit crunch is to reduce completion levels significantly. However, the fundamentals of demographic change and increasing prosperity mean that the need for housing remains unchanged.
- Two key problems have to be addressed:
  1. The availability of sufficient finance to purchase housing.
  2. The availability of sufficient land with planning permission for houses.
- A step change in the level of housebuilding requires a step change in mortgage availability.

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[89] CLG, *Circular 06/03: Local Government Act 1972 General Disposal Consent (England) 2003—disposal of land for less than the best consideration that can reasonably be obtained*, 2003, paragraph 6.
[90] CLG Press release, *Helping first time buyers onto the property ladder*, 14 May 2008
[91] CLG Press release, *Ensuring a fair housing market for all*, 2 September 2008

— The regulatory burden on housebuilders combined with the credit crunch is threatening to depress land values to a level at which landowners will not sell.
— The provision of affordable housing is a key element of this. We propose that there is a cap on the level of affordable housing funded by developers through Section 106 Agreements to address this.
— It takes a very long time to bring forward land for housing. It is therefore important that targets in Regional Spatial Strategies are not reduced as the land will be needed.
— Private housebuilders are key agents in the delivery of the additional houses needed. They will need a favourable set of circumstances to deliver. At present the circumstances are particularly unfavourable.
— Government has a key role in freeing up the mortgage market and providing more public money for affordable housing.

1. Introduction

1.1 The Committee has asked for evidence on three questions. In this submission we address the first of these:

— Achievement of the Government's housebuilding targets for both market and for social housing.

1.2 Our expertise is as planning consultants. Barton Willmore is the largest independent planning and design practice with nine offices across the UK. Many of our leading clients are housebuilders and we have an established track record in providing evidence for and appearing at Examinations in Public into Regional Spatial Strategies.

2. How Many Houses are Needed in England?

2.1 The Government's key policy goal is to ensure that everyone has the opportunity of living in a decent home, which they can afford, in a community where they want to live (PPS3 paragraph 9). This must be the starting point.

2.2 The question then is how we establish how many houses are required to achieve this goal. The only objective method is based on demographic projections and, as the Housing Green Paper makes clear, this is the basis for the Government's target of achieving a build rate of 240,000 homes a year by 2016 and to have built a total of 2 million new homes by 2016. A further ambition is that three million new homes should be built by 2020.

2.3 There is also evidence coming out of more recent projections and work being carried out by the Government's advisory body on affordability, the National Housing and Planning Advisory Unit (NHPAU), that suggests that building rates should increase still further to around 270,000 houses a year. We attach a copy of Table 12 of the NHPAU publication "Meeting the Housing Requirements of an Aspiring and Growing Nation" (June 2008) (Appendix A).[92] This shows the implications of a housing supply range designed not only to meet housing needs but to address affordability by increasing supply. The key outputs from their recommended supply range for England for the period 2008 to 2026 are:

	Bottom	*Top*
Average annual net additions to housing stock	231,500	276,900
Minimum delivery point by 2016	240,100	297,700
Total net additions by 2016	1,996,900	2,285,200
Total net additions by 2020	2,957,000	3,475,900

2.6 It can be seen that the bottom of the range figures coincide almost exactly with the Government's targets. The upper end of the range addresses the issues of backlog in demand and allowing for growth in second homes and vacancies (NHPAU, June 2008 paragraph 113).

2.7 This in our view represents a good indication of the measure of need for new housebuilding in this country.

2.8 To put the target of 240,000 or 270,000 dwellings a year in perspective, an average of 148,085 houses has been built every year for the last ten years (CLG Live Tables On Housebuilding, Table 209, attached) at Appendix B. According to information we have compiled Regional Spatial Strategies are beginning to address the issue of the step change required to meet the need for housebuilding. Current RSSs including the Plan for London plan for around 213,000 houses, still short of that required but moving in the right direction. Appendix C.

2.9 If the national target is to be met, attention needs to be given to both the demand for new homes and the supply of new homes. Our observation about the "Billion pound package of housing" described in the CLG statement is that it seems to address only the demand side of the equation. We develop this point below.

[92] Appendices not printed.

3. Effect of the Credit Crunch

3.1 So before the Credit Crunch we were as a nation were building far too few houses but were beginning to move in the right direction to achieve what is required. The Credit Crunch has set this process back considerably. There are predictions that less than 100,000 houses may be built this year and that a low level of completions will continue at least into next year. This is taken by some as an indication that the Government's targets will not be met and that the drop in house prices will correct issues of affordability without increasing the building rate dramatically.

3.2 This is to ignore the fundamentals of demographic change and the long term trend towards greater prosperity. A further publication by NHPAU, "*Affordability Still Matters*" (July 2008) shows that any drop in house prices will have disappeared in the next 10 years if there is no increase in housebuilding (Figure 6 and paragraph 1.22) Appendix D. Others say that prices will be back at their 2007–08 levels in five years (Centre for Economics and Business Research, Press Release, 27 October 2008) Appendix E. While that is good news for those in negative equity it is not helping those who have yet to get a foot on the housing ladder.

3.3 The message has to be that every effort must be made to get house building up to the levels the evidence shows are required. This is a formidable challenge and in our view there are two key problems that have to be addressed:

1. the availability for members of the public of sufficient finance to purchase housing; and
2. the availability of sufficient land with planning permission for housing.

4. Mortgage Availability

4.1 We are not financial experts but we can say that houses will not be built if they cannot be sold. A step change in house building needs to be accompanied by a step change in both mortgage provision and a step change in finance for affordable housing. Whilst the Government's efforts to recapitalise the banks should be effective in securing greater availability of funding it will take market confidence to recover and for sufficient people to save the necessary deposits in order to take up the available finance. With regard to affordable housing finance, that is within the Government's control, subject to overall spending targets and limits.

5. The Supply of Available Land

5.1 It is self evident that developers will only bring forward their land and sell houses where they secure a profit from doing so (ie income exceeds costs). The planning system dictates to a large extent the cost of land and the overall cost of development. With reduced house prices, the expected income obviously falls. If the costs associated with the planning system remain the same, it becomes increasingly unviable to develop sites. The government should renew, in the short term how the "cost of planning permission" can be reduced. This should include limiting Section 106 costs and reducing the administrative requirements associated with preparing an application. This would also help expedite major investment projects.

6. Affordable Housing

6.1 This is probably the right point to comment on social housing provision. Regional Spatial Strategies are identifying requirements for affordable housing. The RSS for the South West, with which the writer is most familiar, is seeking that 35% of new housebuilding should be affordable housing and this is not untypical.

6.2 The main ways of achieving affordable housing are from housebuilders through Section 106 Agreements and direct funding from Government of Registered Social Landlords. The levels of affordable housing being sought from housebuilders is getting to the point where they cannot afford anymore. The Government is seeking ever higher standards in housebuilding such as Lifetime Homes and progress towards higher levels of the Code for Sustainable Homes. The effect of the Community Infrastructure Levy is not known. This is coming at precisely the time that land values are falling and it is becoming very difficult to match the price that a housebuilder can afford to pay with the price at which a landowner is prepared to sell.

6.3 The recent report by the Office of Fair Trading "*Homebuilding in the UK*", published in September 2008, commented at paragraph 4.31 (Appendix F)

> "Nevertheless it is clear that land values are sufficiently sensitive to the costs of regulation that it is entirely conceivable that, if not managed carefully, the regulatory burden on the homebuilding industry could depress land values to a level where landowners will not sell land for residential development".

6.4 Affordable housing, along with progress towards higher levels of the Code for Sustainable Homes, is the key issue that needs to be addressed to stop this happening. Our view is that there are a number of initiatives that need to be considered.

1. A cap is placed on the percentage of affordable housing required from housing developments funded from Section 106 contributions. This percentage should be well below 35%. At the present time levels of perhaps 20% should be considered.
2. A corresponding increase in Government funding for affordable housing will be required.
3. A recognition that higher levels of housebuilding will both improve affordability and deliver higher levels of affordable housing even at lower percentages.

7. Supply of Land for Housing

7.1 Supply of land with planning permission for housing is the other key issue we have referred to.

7.2 The OFT Report examined the time taken to bring land forward for development (see paragraphs 5.58–5.66) (Appendix G). This indicated that around two years was quite a normal period between first pre-application meeting through the grant of planning permission to a start to construction. This takes no account of the possible need to promote the site through the local development framework in order to secure an allocation first.

7.3 We have considerable experience as a practice of promoting very large urban extensions (of several thousand homes each) and we are also involved in several eco-towns. Schemes of this scale will play a key role in delivering the houses required. They require very significant lead times, typically of five to 10 years. We append an extract from the web-site of the Wichelstowe development of about 4,000 houses on the southern edge of Swindon (Appendix H). It is not one which we have been involved with directly but it happens to have a chronology for the promotion of the development on the web-site which illustrates the issue. This shows a period of 15 years from first proposals for the site to first completions.

7.4 What this shows is first, because it takes so long to bring these large sites forward it is essential that long term plans ie Regional Spatial Strategies and Local Development Frameworks continue to make sufficient land available to meet identified needs. This means no reduction in Government targets on which the RSSs and in turn the LDFs are based. This land will be needed.

7.5 Second, the system for bringing forward this land needs to be speeded up considerably.

8. Conclusion

8.1 In conclusion, we see a need to maintain pressure for a step change in housebuilding. Just because people cannot buy houses at present does not mean that the need has disappeared. There should therefore be no reduction in housebuilding targets and they may even need to be increased.

8.2 Private housebuilders are key agents in the delivery of these houses but they will need to be given a favourable set of circumstances to deliver. At present the circumstances are particularly unfavourable for reasons which we have outlined.

8.3 Government has a key role in ensuring that the right financial conditions are in place to allow this to happen. There are two particular issues which we have identified as requiring attention.

1. Freeing up the mortgage market.
2. More public money for affordable housing.

Memorandum by the Building Societies Association (CRED 57)

Executive Summary

— The Government should seek to allow the housebuilding targets set out in the Barker Review to be realised.

— Encouraging lots of small scale development may be more productive than large scale developments.

— Shared ownership schemes designed to help aspirant first time buyers remain complex for both building societies and borrowers, deterring both from participating in the schemes.

— Adoption of standard section 106 agreements by local authorities and developers would facilitate greater building society involvement in affordable housing schemes.

— Homeowners who have difficulties repaying their mortgage need to be encouraged to contact their lender as soon as possible.

The Building Societies Association

1. The Building Societies Association (BSA) welcomes the opportunity to contribute to the Committee's inquiry.

2. The BSA represents all 59 building societies in the United Kingdom. Building societies have total assets of over £360 billion and, together with their subsidiaries, hold residential mortgages of £250 billion, more than 20% of the total outstanding in the UK. Societies hold about £235 billion of retail deposits, accounting for more than 20% of all such deposits in the UK. Building societies also account for about 37% of all cash ISA balances. Building societies employ over 51,500 full and part-time staff and operate through more than 2,000 branches.

Housebuilding Targets

3. The Government is proposing that 75,000 more homes will be built in areas of "high demand from Northumberland to Cornwall" while a further 20 new growth points have also been identified.

4. We welcome recognition from the Government of the need to build more houses. We agree with the findings of the Barker Review that the major contributor to the very high levels of house price inflation that have characterised the economy until recently has been the imbalance between supply and demand for housing, with the increase in the housing stock not keeping up with the demand for housing. As such, it is no surprise that house price inflation has been so high.

5. But despite the fall in house prices that is currently taking place, we believe that the underlying supply and demand imbalance remains (and, in view of the low levels of building currently taking place, could be worsening). As such, once buyers start to return to the market prices are likely to start rising again, albeit at slower rates than before.

6. Even in the unlikely event of this not happening, as a consequence of how high property prices have become, despite these recent price falls, property will remain unaffordable for many.

7. As such, it is vital that the Government continues to facilitate the building of property where there is need and a demand for that property. We believe that the new building levels identified in the Barker Review should be viewed as a minimum, and that new build properties should be of a design and type that will meet local demands.

8. We note that many of the Government's planned new developments have attracted considerable local opposition. We do not pretend that these are easy decisions to make but, if we are serious about addressing affordability issues then development will have to be allowed to take place in such areas.

9. To ensure that such development takes place with minimal environmental impact and with the support of local people, it should be done on a small scale. Some of the large developments that have taken place in rural areas in the past have alienated local communities simply because of their size—a two property development is going to attract a lot more support than a 200 property development in a small village.

10. It is also important to note that opposition to further development is often not as a consequence of the new development itself but because of the impact of the people who will live in the new properties on local services and infrastructure. As such, any increases in development should be accompanied by a proportionate increase in the provision of local services.

Help for Prospective Homeowners

11. We note that the Government is proposing a scheme that would allow eligible households earning less than £60,000 to rent a home at 80% of the market rent for two to three years and then be able to buy a part share in the property.

12. Potential first time buyers often view the problem of saving for a deposit as being one of the major barriers to getting on the housing ladder. As a consequence of prices being so high, aspirant buyers can often be faced with having to save £20,000–£30,000 just for a deposit. And with these high property prices leading to high rents, the prospect of saving for a deposit that is often larger than an average annual salary can prove daunting for a potential buyer.

13. So giving potential buyers the opportunity to pay a reduced rent for a period to save up for a deposit may help.

14. However, in practice, we doubt that the scheme will have the impact that the Government hopes. Take up of the established shared ownership schemes has been low, amongst both lenders and borrowers. This is due to a number of factors, but not least the complexity of the schemes (don't forget that they are targeted at people who usually have very little understanding of how both the housing and mortgage markets work) which serves to prevent many potential applicants from going ahead with their plans.

15. The already complex system is further confused by the role of Homebuy Agents, who represent a further level of administrative burden and possible confusion for participants, especially as many of the friends and family members advising first time buyers will not be familiar with the role of Homebuy Agents.

16. Although the proposed scheme will be welcomed by aspirant first time buyers, for it to be successful, the scheme will have to be as simple as possible, from both a borrowers and lender's perspective. This will be especially critical as the introduction of the rental period would suggest the possibility that this new scheme could be even more complex than the existing schemes.

17. From a lender's perspective, there are two main issues that have made them reluctant to enter the low cost homeownership market, both via the Government schemes and through ones they have sought to develop unilaterally. Resolution of these issues would represent a major boost to building society participation in affordable homeownership schemes.

18. Firstly, they report that many housing association and local authority staff involved in low cost housing initiatives are not conversant with lender practices and processes, and how the mortgage application process works. This leads to unnecessary delays and difficulties, increasing costs for building societies and frustration to prospective buyers.

19. They also report that the use of widely differing section 106 (section 106) agreements also causes problems. While we recognise the benefits that section 106 requirements can bring, different local authorities and housing associations have different agreements. As such, societies have to devote considerable resource to investigating the implications for them of each one, which increases the cost and which can further dissuade societies from participating in the schemes.

20. This is all the more unfortunate as the Housing Corporation has developed standard section 106 agreements and clauses that meet lenders requirements, and we believe that local authorities would have much greater success with affordable housing projects if they utilised those standard agreements.

Help for Existing Homeowners

21. The number of homes being repossessed has gradually been increasing over the last 12 months. And while forecasts for the numbers of property repossessions suggest that the number of repossessions will rise, we expect them to remain well below the levels experienced during the last housing market slowdown.

22. This is a combination of building societies ensuring that they only lend to people who can afford the mortgage in the first place, and the systems that they have developed for helping people who encounter problems paying their mortgage and ensuring that they can stay in their homes.

23. Societies have found that the key to ensuring that a homeowner can stay in their property when they have repayment difficulties is that the borrower contacts them as soon as possible to arrange alternative repayment plans. This may include a rescheduling of the mortgage, a repayment holiday or help dealing with other debts.

24. However, if the borrower doesn't seek help with the mortgage repayments as soon as possible, then problems soon start to escalate, and the borrower can find themselves in a rapidly deteriorating situation that can then be difficult to get out of.

25. So it is critically important that mortgage borrowers who are facing difficulties contact their lender as soon as possible. And any help that Government can give, through local authorities or through other agencies, to encourage borrowers with problems to contact their lenders at an early stage is to be welcomed.

26. Likewise, the changes to the Income Support for Mortgage Interest (ISMI) system will in turn help homeowners by allowing them to claim the benefit sooner and to claim for larger amounts. This will in turn make it easier for societies to help homeowners in difficulty.

27. We view the proposals to allow local authorities the opportunity to help homeowners with mortgage problems with interest. Clearly any scheme that would avoid repossession is to be welcomed. However, as noted above, the key to allowing someone the opportunity to stay in their home is that the borrower contacts the lender as soon as they identify potential problems. If they do this, then a solution to the problem can usually be found.

28. We are concerned that the establishment of a well publicised local authority safety net could discourage borrowers contacting their lender at the earliest opportunity to seek to sort out a solution to their problems, and that this could, in practice, make it very difficult for the problems to be resolved because they had left seeking help too late.

29. It is the borrowers who do not do this who find themselves with problems. Not contacting the lender early enough sees them running up so much debt by the time that they seek to resolve their problem that it can be difficult for a solution to be found that meets the needs of both the borrower and the lender.

November 2008

Memorandum by the London Assembly Planning and Housing Committee (CRED 59)

1. Summary

1.1 This memorandum confines itself to the first of the CLG Committee's terms of reference—"achievement of the Government's house building targets, both for market and for social housing".

1.2 This response, from the London Assembly's Planning and Housing Committee, is based on a series of meetings held since September with a variety of experts, in preparation for consideration of the draft Mayor's housing strategy.[93]

1.3 Principally, these discussions have centred on whether the Mayor's target of achieving 50,000 new affordable homes in 2008–11 is achievable given the scale of the credit crunch and what the priorities should be for the tenure of new homes.

1.4 Experts told the Committee that house building faces a multiple recession which could combine the worst elements of previous recessions. It could encompass the suddenness of the 1974 crash with the structural malaise that prolonged the 1980s recession. Uniquely, there are both supply and demand side factors affecting the future delivery of housing.

1.5 Evidence to the Assembly Committee to date points to the fact that achieving the Mayor's target of 50,000 new affordable homes in London over the next three years will be very difficult, unless new solutions are found to ease the financial blocks faced by all players in the development business.

2. Impact of the Credit Crunch on Mortgage Lending

2.1 The credit crunch means that banks are no longer able to readily borrow from one another, and so increase fees and rates on their mortgages and impose tighter restrictions on those who apply for them.

2.2 Nationally, mortgage lending in August 2008 was over 98% lower than a year earlier.[94] Recent interest rates do not seem to be feeding through to borrowers—82% of lenders have not passed on the full 1% cut from the last three base rate cuts. "There is a strong indication that the majority of these have no intention of cutting their standard variable rates and an even stronger possibility that lenders have reached a plateau and are simply unable to cut rates further".[95]

2.3 Mortgage companies are ending 125% and 100% mortgages and increasingly wanting up to 25% deposits. This particularly affects the ability of first time buyers in London where affordability of housing is most acute.

2.4 On average, first-time buyers in London have to put up a 13% deposit, according to the Council of Mortgage Lenders. With a typical entry-level property in London costing around £250,000, this would mean having to find £32,500—in addition to stamp duty, legal fees and removal costs.

3. Impact of the Credit Crunch on House Building

3.1 With fewer first time buyers coming onto the market and new buyers wary of committing in a falling market, house prices are likely to continue their downward trend.

3.2 As house prices fall the incentives to build new housing reduces. At the same time house builders themselves are finding access to loans more difficult. Their ability to raise capital has been further affected by their inability to raise funds through the stock market—the value of shares in some of the country's largest house builders and property companies have fallen by over 80% in the last year.

3.3 House building in London is slowing (see table below). In the first half of 2008 the number of homes started was down 4.3% on the same period in 2007 while the number completed fell by almost 16%. The private sector is hardest hit—showing falls in starts by 19% and 27% in completions.

3.4 Figures for the third quarter of 2008 will be published in November, but are expected to show further falls.

[93] The Greater London Authority Act 2007 gave the Mayor of London significant new housing powers. He now has responsibility for producing a statutory London Housing Strategy and a strategic housing investment plan. http://www.london.gov.uk/mayor/housing/achievements.jsp
[94] Bank of England http://www.bankofengland.co.uk/statistics/li/2008/Aug/tablec.xls
[95] http://www.moneyfactsgroup.co.uk/press/pressreleases/displaypressrelease.asp?id = 630

HOUSE BUILDING IN LONDON—STARTS AND COMPLETIONS

	Started			*Completed*		
	Private Enterprise	*Registered Social Landlords*	*All Homes*	*Private Enterprise*	*Registered Social Landlords*	*All Homes*
2006						
Q1	4,680	1,770	6,480	3,360	1,560	4,910
Q2	3,380	1,290	4,680	4,490	1,140	5,630
Q3	2,580	1,420	4,000	3,480	1,930	5,420
Q4	4,070	1,940	6,000	2,630	2,480	5,110
Year total	14,710	6,420	21,160	13,960	7,110	21,070
2007						
Q1	4,600	1,630	6,230	3,830	2,780	6,610
Q2	3,990	600	4,620	3,260	1,110	4,410
Q3	2,480	540	3,020	4,050	1,930	5,980
Q4	4,250	940	5,190	3,370	2,120	5,490
Year total	15,320	3,710	19,060	3,370	2,120	22,490
2008						
Q1	2,630	1,590	4,220	2,280	2,590	4,870
Q2	4,310	1,850	6,160	2,870	1,520	4,400
Change 2007–08	−1,650	1,210	−470	−1,940	220	−1,750
Change 2007–08	−19.2%	54.3%	−4.3%	−27.4%	5.7%	−15.9%

Source: Department for Communities and Local Government
http://www.communities.gov.uk/documents/housing/xls/141200.xls

4. Loss of Affordable Homes Provided by Section 106

4.1 A large amount of affordable housing is reliant on market housing through section 106 agreements. In 2005–06, 53% of all new affordable homes in the capital were provided through section 106 agreements.[96]

4.2 The Committee was told that perhaps 50% to 75% of the expected section 106 financed homes will not now be delivered due to the slowdown in the private market sector.[97]

5. Impact on Housing Associations

5.1 In the last recession housing associations were able to help stabilise the market by buying up unsold market housing. This time this is unlikely to happen because:

— There is less available family sized housing—and housing associations are not willing to buy stock that is unsuitable for their future housing needs. Much of the unsold stock is one and two bedroom flats and tends not to have adequate space standards and so can only be used for intermediate housing.

— The financial model that most associations now operate under means they have less funding than in the past.

5.2 In the last 10 years Housing Associations have adopted a mixed tenure model that relies on sales, cross subsidy from intermediate units and significant section 106 contributions. Revenues from all of these sources have now fallen dramatically.

5.3 At present, housing associations get roughly 50% grant for their social rented housing (as opposed to 80% in the last housing market recession) and 25% for their intermediate programmes (as opposed to 50%), the rest is borrowed on the market—albeit at a lower rate than for the private sector.[98]

5.4 So, in the last recession, as well as receiving higher grant levels, housing associations were not reliant on income from direct sales of units they also built. Cross subsidy is no longer an option as the provision of more affordable homes is less viable economically.

[96] National Housing Federation, Home Truths: London, 2007.
[97] London Assembly Planning and Housing Committee, informal meeting 3 September 2008.
[98] London Assembly Planning and Housing Committee, informal meeting 3 September 2008.

6. Implications for the Provision of Affordable Housing in London

6.1 The cornerstone for the achievement of the Mayor's 50,000 objective is agreeing with each individual borough an affordable housing target.

6.2 The affordable housing investment targets to be agreed with boroughs are not the same as the long term planning targets that are set out in the London Plan. The two major differences between this 50,000 target and the London plan delivery target are:

- The housing target is a gross figure—ie it does not subtract loss of affordable homes through demolition.
- The housing target is not just new build homes but also includes acquisitions of second hand homes, such as through Open Market HomeBuy.

6.3 But steeply declining house building rates and the recent tightening of credit and stricter conditions for accessing mortgages in a climate of falling house prices, raise a number of questions about the extent to which the target of adding 50,000 homes to the affordable housing stock in London has become more or less achievable.

6.4 The Homes and Communities Agency thought that the 50,000 target is "challenging" at best.[99] Many feared the worst:

- *At the moment it is clearly not achievable* (London Councils).
- *It is technically deliverable, but realistically it is challenging to the point that it is not really going to be possible. It is unlikely that the 50,000 target will be achieved* (Southern Housing Group).
- It is unlikely that the 50,000 target will be achieved (Co-operative Development Society).

6.5 At a time when access to finance is tight and costs need to be cut to make housing viable, there will be a temptation to reduce standards—either space standards or energy efficiency and water conservation standards in an attempt to maintain the production of housing units.

6.6 The Homes and Community Agency believes cutting costs by reducing quality is a false economy because the schemes that are likely to remain popular and keep their value are the ones that are best designed. "Whatever else we do in reviewing our priorities and the extent to which we can deliver them in any given scheme, we should not be moving away from design quality and commitment to sustainability".

6.7 Most experts told us that cutting back on quality and efficiency standards is an example of bad short-term thinking. This is surely the right approach and all homes built with public subsidy should reflect the highest possible standards—be they design, room size, play/recreation space, energy efficiency or water conservation.

7. Potential Solutions for Maximising Affordable Housing Output

7.1 The Assembly's Planning and Housing Committee will be submitting comments to the Mayor on his draft housing strategy in January 2009. The Committee is determined to make a contribution towards delivering the Mayor's target even in these difficult times as there is a need for affordable homes in London and that demand will increase, not lessen.

7.2 In the year of the credit crunch few financial "orthodoxies" have survived unscathed. The key question is financial, and all manner of innovative solutions are going to be required if the Mayor's housing target is going to be met.

7.3 To date the Assembly is considering a number of issues that may help in delivery, among these are:

- Homes and Communities Agency grant rates need to be significantly increased in the short term and that applies to both new schemes in the new financial climate as well as, potentially, those that have already got approval but find themselves now financially unviable.
- The public sector must take a longer term view on the real value of its land holdings and not always strive to seek the best price for its land in order to secure capital receipts. More innovative approaches to using its land holdings are required. It is not just to relieve the huge upfront costs that developers face but also to re-establish the idea that the role of the local authority in owning land is to exercise its powers to promote the long term wellbeing of its community.
- There are new opportunities for partnership working that could see the public sector take equity stakes in affordable housing and the encouragement of pension funds to invest in the long term future of a new intermediate rented housing sector in London.

[99] Transcript of the London Assembly Planning and Housing Committee meeting 13 October 2008, attached as an appendix to this memorandum.

7.4 The Mayor's policy is to negotiate affordable housing targets with the boroughs through a collaborative process in order to deliver his 50,000 affordable homes target. This approach should extend to engaging the boroughs, as well as other key stakeholders, in developing new solutions and not just setting targets.

November 2008

Memorandum by the Department for Communities and Local Government, the Homes and Communities Agency and Tenant Services Authority (CRED 60)

Executive Summary

1. This memorandum provides the Department for Communities and Local Government's response to the Communities and Local Government Committee's inquiry on "housing and the credit crunch". It also incorporates evidence from the two new shadow organisations—the Homes and Communities Agency (HCA) and the Tenant Services Authority (TSA)—who both come into effect on 1 December 2008. More detail on the roles of the HCA and TSA is set out at Annexes A and B.

2. The memorandum sets out the impact of the current global economic situation on the housing market, and the Government response, including the work of the HCA and TSA. The evidence specifically covers the three issues identified by the Committee: the impact on Government housing supply targets; the financial viability and ongoing business of housing associations; and measures to help existing and prospective homeowners.

The Current Economic Situation and Impact on the Housing Market

3. The Government is proud of its record on ensuring that everyone has access to a decent, affordable home that meets their needs. Housing supply has increased substantially over the last few years to its highest level since the 1980s, helping to meet growing demand and affordability. 110,000 households have benefited from our shared ownership and shared equity programmes, enabling them to get a first foot on the property ladder. A million more households own their own home than in 1997. Social tenants too have seen real improvements in the quality of their homes, and this has been alongside concerted action to cut the number of rough-sleepers and end the long-term use of bed and breakfast accommodation for families with children.

4. Following a sustained period of growth and house price rises, the housing market is experiencing significant challenges as a result of turbulence in the global financial markets. The collapse in securitisation since August 2007 following revelations of the scale of losses in the US sub-prime market has led to significant, and possibly unprecedented, credit rationing by financial institutions. The issuing of Residential Mortgage backed securities (which by 2006 provided approximately two-thirds of net new lending) has almost disappeared.

5. Perhaps more importantly, there has also been a loss of confidence, both within the financial sector and among consumers. Housing transactions have fallen from 1.7 million in the year to September 2007, to 1.1 million in the year to September 2008 (according to data from HM Revenue and Customs); the number of first-time buyers has fallen from 380,600 in the year to September 2007, to 235,800 in the year to September 2008 (according to the Council for Mortgage Lenders); and house prices have fallen as a result—by 13.7% in the twelve months from October 2007 according to the Halifax based on mortgage approvals (although by only 5.1% in the twelve months from September 2007 according to CLG's land register based on completed sales).

6. With fewer first-time buyers entering the market, a reduction in the availability of buy-to-let mortgages and fewer transactions, there has been a rapid and severe impact for housebuilders. New starts in the second quarter of 2008 are 19% down on the previous year, and completions are 13% down (data for the third quarter will be available on 20 November and we would be happy to provide this to the Committee separately). At least 6,000 jobs have been lost in the housebuilding industry and there is likely to be a rise in the number of unsold units.

7. The current credit and economic conditions are creating difficulties for existing homeowners through increased costs of borrowing and the tightening of lending criteria, which have only recently been offset by a significant fall in interest rates. In addition, the impacts on the economy in general, employment rates, and in particular the rise in repossessions, are also having an impact.

8. Data from the Council for Mortgage Lenders (CML) shows that 18,900 properties were taken into repossession in the first half of 2008 and that 45,000 homes are estimated to be repossessed by the end of the year. It should be noted, however, that the number of repossessions between January and June equates to only 0.16% of all mortgages, less than half the rate seen in the early 1990s. Only 4% of those registered homeless so far in 2008 are as a result of mortgage arrears compared with 10% in the early 1990s.

9. The Government is committed to robust and decisive action to respond to these economic challenges. In doing so, our objectives are:

— *Financial stability*—to support a healthy, stable lending system and mortgage market.

— *Economic*—to support jobs in the construction and other sectors, preserving confidence in the housing market, and delivering long-term growth.

— *Social*—mitigating the short to medium-term impacts of a downturn on households and individuals, such as through repossessions on vulnerable families, and ensuring that everyone has access to decent housing.

— *Fiscal*—minimising costs to the state (such as through expensive temporary accommodation), securing value for money for taxpayers, ensuring that the private sector plays as full a role as possible, and supporting the Government's overall objectives.

10. Throughout this challenging period, our response has sought to pursue and balance these objectives.

The Government's Priorities in Responding to the Current Challenges

11. The speed of change in the global credit, and consequently housing, markets since August 2007 has been rapid and unprecedented. In response, the Government has consistently sought to respond proportionately and in a timely fashion. In terms of the wider global credit markets and financial system, the Government has acted decisively and ahead of many other countries to set out a substantial package designed to support the UK banking system and to improve the availability of credit for mortgage lending. As part of the 13 October announcement, the banks using the recapitalisation scheme have made an explicit commitment, as part of their agreement with Government, to maintain over the next three years the availability and active marketing of competitively priced lending to homeowners at 2007 levels. Early indications are of rising interbank lending, combined with the recent lowering of interest rates, but we wait to see if this is confirmed by the Bank of England interbank lending figures released at the end of November.

12. In pursuit of CLG's housing objectives, we have sought to:

— support individuals at short-term risk of repossession, with a particular focus on preventing homelessness amongst vulnerable households;

— promote confidence in the housing market by preventing avoidable repossessions which can cause unnecessary public concern;

— promote construction activity over the medium-term to support the delivery of affordable and private sector housing, and ensure that the housing delivery system continues to be viable in the new credit environment; and

— consider how best to ensure that we have a responsive housing market capable of meeting our long-term needs and housing objectives.

13. We have announced three major packages designed to respond to the current conditions in the housing market.

14. On 9 May 2008, the Chancellor of the Exchequer Alistair Darling and the then Housing Minister, Caroline Flint, announced a £10 million package to expand access to free legal representation for households at risk of repossession; strengthen the capacity and expertise of the National Housing Advice Service to provide independent expert debt advice; and provide more specialist training for Citizen Advice Bureau staff and local authorities to help families get their finances back on track.

15. On 16 July 2008, CLG set out a series of further measures and reforms to alleviate the challenges in the housing market, including a pilot new "Rent to HomeBuy" scheme targeted at first-time buyers; new public private partnerships and proposals for growth points to increase the supply of affordable homes; allocation of £510 million funding to reward councils who are planning and identifying land for future development; and new consumer information for families at risk of repossession.

16. On 2 September 2008, CLG announced a number of further measures as part of a series of Government actions to increase confidence and help ensure stability and fairness in the housing market:

— A £300 million new shared equity scheme "HomeBuy Direct" to support up to 10,000 first-time buyers to get onto the property ladder.

— A £200 million mortgage rescue scheme to support up to 6,000 of the most vulnerable homeowners facing repossession to be able to remain in their home.

— £400 million of funding being brought forward in order to deliver up to 5,500 new social homes over the next eighteen months on top of current assumptions.

— £100 million of targeted support (from the Department of Work and Pensions) through the Support for Mortgage Interest (SMI) scheme for homeowners with mortgages who lose their jobs.

— Work with the Regional Development Agencies (RDAs) and HCA to support the most critical regeneration schemes under threat in the current market conditions and with the greatest potential to transform their communities.

17. The package of measures was supported by an HM Treasury announcement on the same day that there would be a one-year stamp duty holiday on all purchases of residential property worth not more than £175,000. The relief will apply to purchases made on or after 3 September 2008 and before 3 September 2009. The holiday is designed to demonstrate the Government's support for homebuyers at a time of difficult conditions and means that around half of all residential purchases, including many by first-time buyers, will be exempt from stamp duty.

18. Although we have made good progress over the last ten weeks, it is largely too early to tell whether the series of Government announcements over the summer and early autumn has yet had an impact. In particular, the CLG objectives are unlikely to be achieved within such a short period of time. For example, we are on track to make the first homes available to purchasers through our new "HomeBuy Direct" early in 2009 and have made significant progress on the new mortgage rescue scheme, talking to over 300 local authorities, in order to be up and running as planned very early in the New Year.

19. The memorandum now discusses the three issues identified by the Committee in more detail.

Achievement of Housing Supply Targets

20. The 2007 Housing Green Paper "*Homes for the Future: More Affordable, More Sustainable*" set out ambitious new housing supply targets in order to reverse decades of undersupply and problems of affordability, particularly for those seeking to buy their first home. The Green Paper raised housing supply targets to 240,000 additional homes a year by 2016, with at least 70,000 more affordable homes a year by 2011, of which 45,000 would be new social homes.

21. The 240,000 new homes a year by 2016 target was developed from 2004-based household projections (derived from ONS population data) which anticipated that households would grow by 223,000 households a year to 2026, plus the need to address decades of undersupply. Similarly, the target for new social homes was based on newly arising housing need and a backlog of demand.

22. Although the housing market is facing a major short to medium-term challenge as a result of reduced credit and a loss of confidence, it is important to recognise that this does not negate the long-term supply and affordability challenges. The number of households continues to grow, people are living longer, lifestyles are changing and there is a legacy of undersupply (although the confirmed net housing supply of 199,200 in 2006–07 shows that good progress was being made before the current economic situation took effect).

23. Modelling from the National Housing and Planning Advice Unit (NHPAU) still indicates that affordability could decline further over the next 10 years—even with higher borrowing, lower real income growth and a short-term downward house price adjustment. The Government therefore remains committed to the 240,000 target in order to increase housing supply and respond to long-term demand.

24. We recognise that meeting our housing supply targets will be very challenging in the current market conditions, and therefore that meeting our long-term cumulative targets of two million homes by 2016 and three million by 2020 will be extremely challenging. It remains, however, too early to predict outputs in 2016 and 2020 with any certainty.

25. In addition, the current economic situation is also posing significant difficulties for those in the housebuilding sector. Overall construction accounts for about 6% of the UK's GDP and employs about 1.3 million people (within that housing accounts for about 17% of construction output or about 170,000 jobs). We need to work with the sector to support output and employment in a manner that creates property for which there is immediate and sustainable demand. In the present climate this is essentially for social and private rented housing.

26. In this context, it is therefore right that the Government has focused on maximising the overall level of housing supply in the short to medium-term. We have done this by:

- introducing a new shared equity scheme HomeBuy Direct to support first-time buyers into affordable homeownership and provide a targeted boost to the housing market (more detail on the scheme is set out in paragraph 49);
- bringing forward £400 million from our 2010–11 affordable housing budget to be spent on new social housing over the next 18 months to deliver 5,500 new social homes; and
- bringing unsold units into the affordable housing sector by allocating £200 million from the Housing Corporation's Affordable Housing Programme for the purchase of homes from private sector house builders. The Corporation has so far allocated £90 million to provide 2,600 homes.

27. Over the longer term we are pursuing a strategy focused on meeting the long-term housing needs of the country by preparing for the upturn in the market. Without this, we could see a sharp spike in prices, worsening affordability, frustrating aspirations and potentially adding to instability. Key to our strategy will be easing the development process and preparing land for development; supporting development activity where possible; continuing government-funded support for housing supply initiatives; and supporting the delivery of housing supply targets through local and regional plans.

28. The Government's concern is that as housebuilders retrench and focus on generating cash, the long-term strategic planning activity we need to support an upturn may be delayed. We are therefore keen to ensure that the Government plays as major role as possible in getting land through the planning system.

29. In support of this objective we are:

- supporting and incentivising local authorities to speed up delivery of housing and other planning outcomes through the £510 million Housing and Planning Delivery Grant (HPDG). The first tranche of funding will be allocated in November;
- supporting development on surplus public sector land through the establishment of local housing companies and accelerating the rate at which land is being brought to the market, or at least prepared for disposal on the open market. In July, four local authorities announced their firm intention to establish the first local housing companies. These have the potential to deliver round 10,000 homes, with starts on site expected in 2009. The HCA will work with a further 28 authorities which have expressed an interest, and will continue to develop and adapt the model to maximise its flexibility to respond to current market conditions. Government departments have been asked to set out their surplus public sector land contributions by the autumn of 2008; and
- working with English Partnerships (and the HCA from December) to introduce new approaches for land disposals, such as reducing the costs to private sector developers of doing business with the public sector in return for long-term commitments to deliver; and joint ventures with developers to improve cash flow in return for commitments to progress development, and with unsold homes converted to new affordable housing.

30. The establishment of the HCA is core to being able to respond to the current market conditions effectively. In particular, the benefits of creating the HCA come primarily from its ability to get more out of the combined three-year investment programme of approximately £17.3 billion than is currently possible through their individual management. These benefits will take the form of more housing and regeneration outputs for a given investment, and investments that better fit the needs of local places and their communities.

31. Since the beginning of 2008, the HCA Set Up team has been working with the transferring organisations and CLG to implement a number of such initiatives that are aimed at sustaining the supply of new homes in the context of the downturn in the housing market. The priorities are to:

- have a very close understanding of what is happening on the ground now and what is likely to happen in the near future. This allows the HCA to be proactive rather than simply reacting to events;
- adopt a pro-active, flexible and creative approach to ensure that as much activity as possible can continue. This ensures that the programme maintains delivery and that vital skills and jobs are not lost in the sector; and
- develop new approaches to broaden the base of providers and access new sources of finance in order to preparing for the upturn.

32. The HCA has a range of tools and mechanisms at its disposal and it will look to use these in conjunction to best meet the needs of different places, for example, through combined land and funding support and more flexible and innovative use of existing programmes.

The Importance of our Long-Term Supply Strategy

33. At the same time, we need to continue our work to support the delivery of the 240,000 additional homes per year target in the medium-term. Key elements of this continuing work are:

- funding for growth areas and growth points to support the delivery of new homes where they are needed. The Growth Fund announced in December 2007, provides £732 million to support the delivery of infrastructure in the three newer Growth Areas and first round of growth points for 2008–09 to 2010–11. Areas selected for the second round of New Growth Points were announced in July with plans to deliver up to 75,000 additional homes with £100 million to support infrastructure development;
- the eco-towns programme which will deliver exemplar green developments of 5,000 to 20,000 homes. On 4 November, Margaret Beckett launched the second stage consultation on the potential locations and standards for eco-towns;
- funding for the housing market renewal programme to support the revitalisation of housing markets in 12 areas in the North of England and the West Midlands. A further £1 billion of funding was announced in February 2008 to supplement the £1.2 billion provided since 2003. Housing Market Renewal Partnerships continue to monitor changes in local housing markets and, in the current climate, are refocusing efforts as appropriate, in some cases away from plans for new build towards more refurbishment, and land and property acquisition;

— a region-by-region approach to the early review of Regional Spatial Strategies (RSSs), especially in areas of high demand. We are on track to ensuring regional strategies are in place that provide for 240,000 homes per year from 2016; and

— securing a collective focus on local priorities and delivery through Local Area Agreements (LAAs). The first round of new LAAs was signed off in June 2008 and will last until 2011. Housing supply targets were agreed in over two-thirds of places (104 of 150 LAAs), as were affordable housing targets (102)—both were among the top five most popular targets nationally— reflecting the high local priority attached to strong housing markets, the delivery of affordable housing, and meeting the needs of individuals and communities.

Financial Viability and Ongoing Business of Housing Associations

34. Social rented housing is vitally important at this time—not only because of urgent unmet need, but also because of the contribution to the economy made by Government-supported construction. The current market conditions are impacting on social housing providers in a number of ways. A reduction in developer contributions (section 106 planning gain) and proceeds from low cost home ownership sales (including "staircasing" from existing shared ownership owners) is impacting on housing providers' ability to deliver new affordable homes as well as to cross-subsidise the funding of social rents. In addition, housing associations are also experiencing less favourable access to lending, both for themselves and first-time buyers, with significantly higher margins.

35. The Government has responded to this challenging situation for housing associations by:

— *applying short term flexibility for housing associations to meet efficiency targets*

We have agreed with the Housing Corporation that they will apply limited flexibility to the efficiency targets that they are working within in order to achieve continued delivery of new housing schemes. Scheme bidding will continue to be undertaken within a competitive framework and we expect that this will continue to be a strong driver of value for money, with those bids which meet the Housing Corporation's assessment criteria and offer the best value for money being prioritised for funding;

— *allowing the Housing Corporation to raise grant levels to housing associations*

Previously grant funding from the Housing Corporation to Registered Social Landlords (RSLs) was paid 50% at the start of new affordable housing schemes and 50% on completion. We have increased the proportion of grant paid at the start on site to 60%. This will support the cash-flow of RSLs as well as encouraging them to undertake as much development activity as possible to support the construction sector;

— *allowing the Housing Corporation to change the grant-bidding process for housing associations*

Previously RSLs would bid for grant for new affordable housing scheme through a quarterly bidding round. We have amended this process so that the Housing Corporation can support new schemes as soon as they come forward. Again, this will support the cash-flow of RSLs and support new development.

Corporate Funding Markets

36. The housing association sector is dependent on a small group of banks and building societies that are willing to consider providing new funding. There has been an upward pressure on loan margins and a substantial shift from margins of around 30 basis points (bps) available up until the early part of 2008, to headline margins in the 125–200 bps range, with arrangement fees and commitment fees around 75bps. There has been at least one example of a margin of 300bps being offered to an association. Loan terms have also tightened including use of a more conservative basis of valuation, higher financial covenant levels being required and the repricing of existing loan facilities.

37. Associations have raised a relatively small proportion of their funding through the capital markets but with availability in the banking market constrained, this may change. Affinity Sutton (a large general needs association based in London and the South East) issued a bond in September which raised £250 million with an all in price of just under 6%. Circle Anglia (again a large London based general needs association) issued a bond in early November raising £275 million at a price of c7%. Other associations are also known to be considering a bond issue in coming months. It appears there is investor appetite for housing association paper but as in other corporate sectors, the strength of the corporate credit is all important and pricing would currently be c7%.

38. Associations with variable rate debt will be affected by high LIBOR rates as this is the traditional reference rate used when variable rate facilities are drawn or rolled-over. The spread between the Bank of

England base rate and three month LIBOR, the common reference rate used, is currently 131bps (12 November) and it had increased following the reduction in base rate to 3% on the 6 November. In normal market conditions the spread is around 10bps. Therefore reductions in base rate will not necessarily be fully reflected in reduced interest costs on associations' variable rate debt. Of total drawn loan facilities (£30.9bn at 31 March 2007) about 50% are on a variable rate. Some associations do hedge a proportion of their exposure to interest rate risk and long term fixed rates (25 years) are currently 4.30%.

Information from Housing Associations Business Plans

39. The most comprehensive set of information about the impact of the current climate comes from the business plans received from all associations with more than 1,000 units (which accounts for over 95% of the sector by units, turnover, debt etc). These were received in June 2008 and showed the sector's plans at the start of the 2008–09 financial year. The position at this point can be summarised as follows:

— The 2008 dataset has begun to show the effects of changes in the economic climate. Development assumptions have been reduced and costs are rising. Lower forecast grant rates and reducing sales are pushing up debt. It appears, for those associations still planning significant development, they are exposed to a greater level of risk.

— Traditional associations are forecasting lower operating margins through rising costs. In turn this affects their ability to meet interest costs from operating surpluses without some degree of reliance on sales income, from low cost home ownership and, for some, open market sales. This is adversely affecting interest cover (the ratio of surpluses to interest costs) and increasing debt. Pressure on interest cover levels is particularly relevant in London, where most associations have some degree of sales dependency and a minority of London associations do not forecast positive interest cover including sales proceeds.

— Stock transfer associations show a wide distribution of performance, with the older transfers often showing better performance than many traditional associations. Right To Buy (RTB) sales appear to be slowing considerably, while transfer associations are increasingly moving into shared ownership, exposing them to some degree of market risk.

40. Since then the external economic environment has deteriorated with further falls in house prices, lack of availability of residential mortgages and continued turmoil in global financial markets. The scale and impact of the changes has meant that a significant number of housing association boards have adopted a more cautious approach and have begun to remodel their businesses to reflect this, including:

— reviewing all uncommitted development and in particular scaling back on shared ownership assumptions;

— reviewing their operating cost base;

— looking at sales dependence and how the exposure can be mitigated;

— ensuring treasury management strategies are appropriate for the current situation; and

— talking to key stakeholders including funders and regulators.

41. Whilst the sector currently has substantial undrawn committed loan facilities, it is evident that the availability of credit is likely to be constrained for some time and it may be difficult to achieve the levels of anticipated asset sales in the current environment. In addition, there is an inescapable geographic dimension to the risks facing the sector with London based associations (largely because of their significant shared ownership activity) being more exposed than those elsewhere.

42. It is too early to be certain of the impact of these changes. However, RSLs have a strong record of delivery and the sector has been adapting its business model to the changing economic environment. CLG and the Housing Corporation (the current regulator) are actively monitoring the situation through a combination of liaison at a sector level with relevant stakeholders as well as with individual associations. This will continue under the TSA and includes:

— regular liaison with the Council of Mortgage Lenders and individual banks and building societies on availability of credit;

— a quarterly market survey of developing associations;

— the annual round of Business Plan receipts and review;

— review of annual accounts information;

— ongoing engagement at a field level with individual associations; and

— for associations particularly at risk, weekly and monthly cashflow reporting.

Measures to Help Existing and Prospective Homeowners

Existing Homeowners

43. Although the numbers of homeowners facing repossession are relatively small, the Government recognises that for those affected, this is a very difficult time and can have serious consequences on well-being, particularly for vulnerable households.

44. To date our response has rightly focused upon prevention of actual homelessness amongst vulnerable households and those who lose their employment. We have also strengthened debt advice and legal support for all households.

45. We have:

- announced a £200 million mortgage rescue scheme to allow eligible homeowners to be supported in maintaining their home through shared equity (for those who need some help in paying their mortgage), or Government Mortgage to Rent (to help the most vulnerable on low incomes with little chance of sustaining a mortgage). The scheme will help up to 6,000 of the most vulnerable households facing repossession over the next two years. We are working urgently with our delivery partners to ensure that the scheme is operational as early as possible. The HCA will work with local authorities to identify and assess applicants, with funding flowing through the Housing Corporation's existing Investment Partners;
- improved benefit support to homeowners who lose their jobs through reforms to the Income Support for Mortgage Interest (ISMI) system. As a temporary measure, from April 2009 the waiting period will be cut from 39 to 13 weeks for all new working age claims. In addition, as a temporary measure, also from April 2009, the capital limit on loans upon which ISMI is based will be increased from £100,000 to £175,000 for new working age claims;
- expanded debt advice by strengthening the capacity and expertise of the National Housing Advice Service, and providing more specialist training for Citizen Advice Bureau staff and local authorities; and
- funded a further 74 court desks so that just under 90% of county courts in England now have access to free legal advice and representation. Such advice means that, in 85% of cases where people attend court, immediate repossession is avoided to allow other options to be explored.

46. While a number of the new measures are available to all homeowners, for example, the ISMI scheme and court desks, others are more targeted on vulnerable households, such as the mortgage rescue scheme. Given the growth in concern over the impact of the current economic conditions on homeowners, we are continuing to review what other action may be appropriate.

Prospective Homeowners

47. The Government is committed to supporting sustainable home ownership, as we believe that it delivers considerable benefits to both the individual and to society. That is why our low cost home ownership schemes are designed to assist those who would not otherwise be able to purchase a suitable property on the open market.

48. However, first-time buyers are one of the groups that have been hit hardest by the credit crunch. A combination of the higher cost of borrowing and bigger deposit requirements has made it harder for first time buyers to get onto the housing ladder. According to figures released by the Council of Mortgage Lenders, the number of first time buyers in June was 46% lower than a year earlier.

49. We have responded to these challenges by providing more help to first time buyers who are struggling to get onto the housing ladder. We have announced:

- a new £300 million shared equity scheme called HomeBuy Direct that will make more affordable homes available to up to 10,000 first time buyers who are currently priced out of the market, and will also help to maintain the capacity of the house building industry to respond with increased housing supply when market conditions improve. The equity loans provided to first time buyers through the scheme will be co-funded by government and by the participating house builders. The competition to select suitable schemes and properties closed on 7 November with a high level of interest. We expect that the first HomeBuy Direct homes will be available to purchasers early in 2009. As with our other HomeBuy schemes, the application process for HomeBuy Direct involves a rigorous financial affordability check and advice designed to determine whether applicants are able to afford and sustain home ownership in the long-term;
- a new pilot scheme (Rent to HomeBuy) to support first time buyers into affordable home ownership by renting first and buying later. At the end of September, £6 million had been allocated to rent to Rent to Homebuy schemes; and
- a £100 million expansion of the Open Market HomeBuy scheme in 2008-09. This scheme is now available on both new build homes and second hand homes. Approximately 75% of this additional £100 million has been allocated so far.

50. These measures are in addition to the Chancellor's announcement on stamp duty land tax (referred to in paragraph 17).

51. Demand for shared equity products remains strong and we are working with lenders to encourage the continued availability of mortgages for shared ownership products. Our new HomeBuy Direct product offers greater protection for first time buyers against negative equity since, if the value of the property goes down, Government and the developer will only share the sale proceeds that are left over once the mortgage has been repaid. This also provides greater security to lenders.

Conclusions

52. The pace and scale of change in the global credit and housing markets since revelations of losses in the US sub-prime market is unprecedented. The Government has responded quickly to the changing situation. It has introduced a number of co-ordinated actions to help the wholesale credit market function smoothly again and to cushion the impact on, and provide support for, borrowers who may be facing difficulty. These measures have been broadly welcomed across all sectors.

53. On housing, we have acted rapidly and decisively to bring forward over £1 billion of our budget for immediate use, supporting those facing repossession and valuable construction jobs. We continue to actively monitor the situation and focus on what more can be done to address the challenges going forward.

54. We do this whilst remaining committed to addressing the long-terms problems of affordability and inadequate housing supply. Our goal remains not only to deliver better outcomes now, but also ensuring an industry and housing market that is capable of supporting our future needs.

Annex A

DELIVERY—THE ROLE OF THE HOMES AND COMMUNITIES AGENCY

Introduction

1. The Homes and Communities Agency (HCA) is the new, national agency leading the delivery of homes and regeneration in England. It will by CLG's main delivery agency for housing and regeneration and will be responsible for delivering a number of the initiatives which have been outlined above as well as working with CLG and other partners to develop further proposals. The HCA is a new organisation but it inherits the responsibilities and resources of English Partnerships, the investment functions of the Housing Corporation, and a number of delivery activities from Communities and Local Government (CLG). The HCA will also take on management of the Academy for Sustainable Communities.

2. The new agency presents a unique opportunity to achieve a step-change in the delivery of homes and regeneration in England. It is:

- A national organisation, accountable to Government and with a strong regional presence, which is focussed on the ambitions of local communities.
- Oriented towards the market—working with and through partners from the private and third sectors—in order to deliver for communities.
- A skilled organisation with access to significant resources and a range of tools.

3. To deliver for people and places the HCA will engage in a range of activities:

- investing resources made available by Government;
- levering additional resources from the private and public sectors.
- providing (and remediating where necessary) land for development, including through surplus public sector land;
- supporting delivery of infrastructure;
- enabling partners to lead delivery by developing skills and capacity and providing expertise and advice; and
- innovating with new activities to achieve HCA's and partners' objectives.

4. Effective delivery means working with partners drawn from a variety of sectors: community and voluntary organisations; RSLs; developers and finance providers; and Government at the local, regional and national levels. In particular HCA wants to offer its local partners something previously unavailable: a Single Conversation about their range of ambitions for an area, across housing and renewal taking into account issues of growth, affordability and sustainable development.

Vision and Objectives

5. HCA's vision is to:

- To create opportunities for people and places:
  - For People, a home they can afford and a place they want to live in.
  - For Places, fulfilling local needs, aspirations and ambitions.

6. This vision is supported by four strategic objectives which reflect CLG's policy objectives and priorities and are aligned to the Government's high level priority outcomes articulated by the framework of PSA targets:

- *Growth*—to contribute to the delivery of housing growth to meet the needs of an ageing and growing population, and increasing number of households and to address existing shortfalls in accommodation;
- *Affordable housing*—to secure the delivery of new affordable housing (for social rent and as affordable home ownership) and to ensure that existing social rented stock is made decent;
- *Renewal*—to support and accelerate the regeneration of under-performing areas and the renewal of deteriorating estates; and
- *Sustainability*—to maintain and extend high standards of design in buildings, public spaces and places and to embed sustainability—economic, social and environmental—across the HCA's programme and the broader housebuilding and development industries, leaving a legacy of skills and capacity.

7. Many of HCA's interventions will be across all these objectives, reflecting the complex needs of places which often incorporate both growth and renewal.

Single Conversation

8. The single conversation will be the HCA's most important business process which will in effect be the way in which it agrees and secures delivery at the local level, in pursuit, where relevant, of national ambitions and targets. It is a dynamic process which will cover the totality of housing, regeneration and renewal issues relevant to the place to develop a shared vision based on local ambition and HCA expectations, achieved through negotiation.

9. The single conversation will draw on the priorities for a local area set out in its Sustainable Communities Plan, LAA and Local Development Framework and supporting documents (Strategic Housing Needs Assessment, Strategic Land Assessment, housing trajectories and infrastructure plans to support the Core Strategy, etc). Broadly speaking, over time, a single conversation would be expected to cover the following issues:

- *Strategy:* Coming to a shared position on an area's ambitions and objectives for housing growth and renewal, and ensuring that these were consistent with and contributed to objectives set out in the regional strategy, and the HCA's national targets and outcomes.
- *Capacity:* Discussing with local authorities their ability (and the ability of their partners) to manage and oversee large programmes of investment. This might result in agreement for the HCA to provide project delivery capacity in the short term and support to develop the longer-term capacity of the local authorities. It might also go into more detail about the precise level of support that local authorities needed on particular programmes or projects.
- *Investment:* Based on the agreed objectives for an area, coming to agreement about the broad level of investment (as set out in regional investment plans) that the HCA would provide for that area, where it would be targeted, and agreement on the outcomes expected from that investment. Also discussing what the LA will bring (assets, Community Infrastructure levy, etc) and how other public funding could be used alongside HCA investment to provide improved outcomes (eg local funding such as Working Neighbourhoods Fund, RDA investment or funding from other national agencies such as the Highways Agency).
- *Delivery:* Agreeing the precise nature of the strategic projects and programmes that HCA investment will support, how they will be delivered (that is, which combination of the HCA's investment tools should be used), which other partners need to be involved (particularly from the private sector), and the nature of HCA involvement (eg direct project management or more light-touch programme monitoring).

10. The key outcome of the single conversation will be the Local Investment Plan (LIP) or Local Investment Agreement (LIA) which will bring together land supply, housing, commercial & retail (as necessary) and infrastructure in a costed, timed plan which sets delivery responsibilities, potential funding contributions and key risks and barriers to delivery.

11. The delivery mechanisms which will support the LIA should be identified and developed around what best fits the local needs and what works locally. This will also form a key part of the single conversation when discussing investment/delivery.

Annex B

THE ROLE OF THE TENANT SERVICES AUTHORITY

Introduction

1. The Tenant Services Authority (TSA) is the new regulator charged with promoting the interests of tenants in affordable housing. The TSA will be an independent social housing regulator that is responsible for the regulation of all social housing whether it is provided by local authorities, non profit housing associations or for-profit private companies. The role of the TSA is to:

— champion what tenants, leaseholders and residents want from their housing;

— promote choice for tenants and providers of affordable accommodation; and

— challenge providers of affordable accommodation to meet or exceed the highest standard of organisation effectiveness and delivery.

2. The statutory objectives of the TSA include:

— to encourage and support a supply of well-managed social housing, of appropriate quality, sufficient to meet reasonable demands;

— to ensure that registered providers of social housing perform their functions efficiently, effectively and economically; and

— to ensure that registered providers of social housing are financially viable and properly managed.

November 2008

Supplementary memorandum by the Department for Communities and Local Government, the Homes and Communities Agency and Tenant Services Authority (CRED 60A)

1. This memorandum responds to the Committee's letter on Housing and Credit Crunch of 18 December 2008. The letter formally noted the points on which further evidence was requested at the oral evidence session on 16 December 2008. Below is the follow on information as requested.

A summary of all the different low cost housing programmes (eg HomeBuy Direct) that are available, setting out what their characteristics are. Statistics on take up would also be helpful. (Q58)[100]

2. There are three HomeBuy products based on equity sharing to offer people a choice in the type of home they can buy. See Annex A for details.

Statistics on the operation of the National Clearing House so far—how many unsold units have housing associations purchased through this scheme? What type of properties (flats, houses etc) are they? Which regions have seen the highest numbers of properties purchased in the way? To what extent do these properties meet the Code for Sustainable Homes requirements for social rented housing? (Q71)

3. As at 22 December, of the £200 million earmarked for the purchase of stock from developers, the Housing Corporation had allocated £160 million which will deliver almost 4,800 affordable homes. The table in Annex B shows the developer stock as at 22 December 2008, broken down by flats and houses (set out by local authority). A regional breakdown is also at the bottom of the table. Homes and Communities Agency (HCA) have confirmed that no local authorities (including ALMOs or SPVs) have bid to buy unsold developer stock with HCA funds.

Please can we see the modelling that has been done to show what would happen if a large Housing Association became insolvent? (Q77)

4. The regulatory approach that TSA would adopt in case of large Housing Associations (HA) becoming insolvent is set out in detail in Annex C.

Is it possible for the Committee to see the paper referred to here when it becomes available please? (Q80)

5. CLG officials are currently discussing the issue of lending to the RSL sector with Treasury and the lenders. Some of the content of these discussions will be commercially confidential; however we will be happy to share a summary of the paper with the Committee when it is completed.

[100] Et passim: question numbers relate to the uncorrected transcript for the evidence session.

Can you give us an update on the work being done to help people experiencing "income shock"? (Q83)

6. In December, as part of this wider package of real help for homeowners, the Homeowner Mortgage Support Scheme was announced which will enable ordinary hard working households that experience a redundancy or significant loss of income ("income shock") to reduce their monthly payments to a more manageable level, by deferring a proportion of the interest payments on their mortgage for up to two years.

7. The result will be more affordable monthly payments for homeowners needing a bridge through difficult times. The new scheme will help those families who are not eligible for the existing support for those on benefit, which we are separately extending next month to offer more help, more quickly.

8. This is a voluntary scheme but already the country's eight largest lenders, representing 70% of lending, have expressed interest in the scheme and have pledged to work with Government to develop it. The Government wants to see all the lenders join the scheme so that all customers have the option to stay in their home when they suffer a loss of income.

9. We are now working closely with the lenders to agree the details of how the scheme will work in practice and to put into place the necessary legislative, operational and financial frameworks necessary to get the scheme up and running as soon as possible. The Government is looking to implement the scheme in the New Year.

Can you give us an update on the work being done to close the loophole discussed here? (Q88)

10. The Justice Secretary has ordered officials to carry out an urgent review of the protections afforded by the law to homeowners in arrears on their mortgages, with particular reference to lenders' powers of sale and rights to possession. The review will assess the scale of the problem of lenders selling mortgaged properties without court orders and consider whether the law needs to be reformed. Officials will report to the Justice Secretary in mid-February 2009.

Please can you give us the numbers of RSLs who have purchased land at lower values? (Q89)

11. Government does not hold data on RSLs purchase of residential land. The best data on residential land value we have is the Valuation Office Agency (VOA) data reported in July 2008 that between January and July 2008 residential land values fell by about 15% in England and Wales. Subsequent evidence of widespread house price falls indicates that land values will have fallen further as the value of residential building land is largely derived from the values of homes. We would expect to see this reflected in the VOA data when January 2009 figures are published.[101]

12. RSLs can consider investing in purchasing land from housebuilders on a case by case basis, and they do make such purchases when the deal allows them to deliver affordable homes in the most cost effective way.

What measures are you taking to avoid the loss of skills and capacity in the construction industry?

13. A detailed response is set out in Annex D.

A summary of the various housing market announcements over the past year is at Annex E for the Committee's information.

Annex A

SUMMARY OF HOMEBUY SCHEME

The HomeBuy scheme enables social tenants, key workers and first time buyers who cannot afford to purchase without assistance, to buy a share of a home and get a first step on the housing ladder.

There are three HomeBuy products based on equity sharing to offer people a choice in the type of home they can buy:

1. *Open Market HomeBuy* enables people to buy a property on the open market with the help of an equity loan of up to 50%. Three shared equity options are available. Purchasers may buy a property of their choice selected on the open market and use one of the two equity loan products,

[101] http://www.voa.gov.uk/publications/property_market_report/pmr-Jul-08/residential.htm

announced on the 1 April 2008 (*MyChoiceHomeBuy* and *Ownhome*) or use the new *HomeBuy Direct* product, announced on 2 September 2008 to buy within specific schemes being brought forward by developers in early 2009. [The scheme is aimed at couples and those closer to being able to buy in the market].

2. *New Build HomeBuy* enables people to buy a minimum 25% share in a new build property, whilst paying rent on the unowned share. This includes the new Rent to HomeBuy which enables prospective purchasers to rent a new build property on certain sites at below market rent for a pre-specified period, with the first option to buy the property on New Build HomeBuy terms at the end of this period. [This scheme is aimed primarily at single income households and those furthest from buying in the market.].
3. *Social HomeBuy* enables tenants of participating local authorities and housing associations to buy a minimum 25% share in their current home at a discount and pay rent on the remainder.

All first time buyers with a household income of £60,000 or less per year, unable to buy a home on the open market, are eligible to apply for assistance. The scheme may also help other households, for example, following partnership breakdown. Further details are set out below.

Interested applicants for the New Build, Open Market HomeBuy, Rent to HomeBuy and HomeBuy Direct need to contact the HomeBuy Agent for the area where they live or if a Key Worker, in the area where they work.

Applicants for Open Market HomeBuy, Ownhome option, may also contact the equity loan providers directly for further information.

Tenants interested in the Social HomeBuy option are advised to contact their landlord direct.

Take–up of Homebuy Products

Between 1997–98 and 2007–8 the Government has helped 110,000 households into home ownership through shared ownership and shared equity.

Take up for the three HomeBuy products between April 2008 and November 2008, based on completions in that period, was:

- New Build HomeBuy/shared ownership—6,101.
- Open Market HomeBuy—3,398.
- Social HomeBuy (demand led)—78 (a total of 283 since April 2006).

The Government's aspiration is to help 75,000 households into home ownership through our shared ownership and shared equity schemes over the next three years, funded mainly by the Homes and Communities Agency. It remains too early given current market conditions to predict completed sales over this period with certainty.

As announced on 15 December, 130 developers have agreed to offer the new HomeBuy Direct scheme to help up to 18,000 first time buyers to purchase a home at sites across England over the next two years aided by an equity loan funded in partnership with developers.

The launch of HomeBuy Direct offers further choice to first time buyers and builds on the existing two equity loans offered under Open Market HomeBuy in partnership with registered social landlords.

HomeBuy Agents

HomeBuy Agents (HBAs) are appointed housing associations who are providing a "one-stop-shop" and point of contact for affordable housing options in a given area in England. They also handle the entire application process for the Open Market and New Build HomeBuy products.

A list of the HBAs and their contact details are available on our website.[102]

Equity Loan Providers

Equity loan providers are housing associations who are providing equity loans under the Open Market HomeBuy product from 01 April 2008.

For the Ownhome Open Market product, the provider (Places for People) can be contacted directly on 0845 607 0110.

For the MyChoiceHomeBuy Open Market Product, the provider (Chase) can be contacted through your local HomeBuy Agents.

[102] http://www.communities.gov.uk/housing/buyingselling/ownershipschemes/homebuy/contactyourlocal

DETAILS OF THE HOMEBUY SCHEME

Full details of the scheme are available from HomeBuy Agents but key aspects include:

Open Market HomeBuy

There are three Open Market HomeBuy products—MyChoiceHomeBuy, Ownhome offered by appointed equity loan providers and HomeBuy Direct in partnership with house builders.

MyChoiceHomeBuy Product

- An equity loan of between 15 to 50% of the purchase price is provided by a partnership of 8 housing associations named CHASE, each one of which is an equity loan provider.
- This product can be used in conjunction with a conventional mortgage from any participating qualified lender regulated by the Financial Services Authority.
- Purchasers may be expected to raise finance to purchase between 50 and 85% of a home on the open market.
- There will be an annual fee of 1.75% on the equity loan in year one, payable on a monthly basis. The fee will increase annually by the Retail Price Index (RPI) plus 1%.
- Purchasers are free to re-mortgage at any time but will need the equity loan provider's consent if the loan is still in place.
- Owners will need to inform the equity loan provider when they wish to sell and the provider will then arrange the valuation.

Ownhome product

- An equity loan of between 20 to 40% is provided by Places for People, a Housing Association, in partnership with Co-operative Financial Services.
- This product must be used in conjunction with a conventional mortgage from the Co-operative Bank in the first instance.
- Purchasers may be expected to raise finance to purchase between 60% and 80% of a home on the open market.
- Applicants may also apply direct to the equity loan provider. If they do so, they will be required to complete a HomeBuy application form.
- There is no interest charged on the equity loan for the first five years but there will be a charge of 1.75% from year 6 and 3.75% from year 11 onwards.
- Purchasers may re-mortgage with a lender other than the Co-operative Bank provided they comply with the terms of their initial mortgage agreement.
- Owners will need to inform the equity loan provider when they wish to sell and the provider will then arrange the valuation.

HomeBuy Direct

- An equity loan of up to 30% of the market value to buy a new build property within specific schemes brought forward by developers.
- The equity loan will be co-funded by Government and by the scheme developers on equal terms (ie 15% from the developer and 15% from Government where a 30% loan is offered).
- Purchasers will be expected to raise the remaining finance from a mortgage or savings.
- The product can be used in conjunction with a mortgage from any lender regulated by the Financial Services Authority.
- There will be no fee charged for the loan for the first five years, but a fee will be charged from year 6 onwards.

All three products

- The equity loan can be used in conjunction with any deposit the purchaser may have.
- The loan must be repaid when the property is sold but can also be paid back earlier, as and when the owner can do so. The loan can be redeemed earlier in instalments if the purchaser wishes. Purchasers will also have to share any increase in the property's value with the equity loan provider or the Government/Developer. The amount which is repaid will be based on the market value of the home at the date of repayment or sale.

- — Applicants should apply to HomeBuy Agents, who will advise if applicants are eligible and recommend an Independent Financial Advisor for advice on which product best suits their circumstances.

There is flexibility within the HomeBuy framework for providers to offer schemes that meet the needs of people with long term disabilities. This includes the option for people to purchase a suitable home on the open market, on a shared ownership basis. Interested applicants need to contact the HomeBuy Agent for the area where they live or if a Key Worker, the area where they work, for further information.

New Build HomeBuy

- — Purchasers buy a minimum initial share of 25% of a newly-built home. A housing provider holds the remainder of the equity. The provider may charge rent of up to 3.0% on their equity. A lower target average for the rent has been set at 2.75%. There is also a maximum limit on the annual increase of rent charges of Retail Price Index (RPI) plus 0.5%.
- — Purchasers may buy further shares in their home, in minimum 10% installments, when they can afford to do so—a process known as "staircasing".

Rent to HomeBuy

- — Rent to HomeBuy is a pilot scheme. The Housing Corporation is inviting bids from providers wishing to participate in the scheme during the remainder of 2008–09.
- — The scheme aims to help households who find that they are unable to buy a share of a property through the HomeBuy scheme at the present time because of current market conditions (for example because they cannot obtain an affordable mortgage without a deposit).
- — Rent to HomeBuy enables prospective purchasers to rent a new build property on certain sites at an intermediate rent (defined as 80% of market rent or less) for a pre-specified period, with the first option to buy the property on New Build HomeBuy terms at the end of (or during) this period.
- — Eligibility for the scheme is the same as for the HomeBuy scheme—that is households earning less than £60,000 who could not afford to buy a suitable property on the open market without assistance.
- — Properties will be let on Assured Shorthold Tenancies for approximately two to three years.
- — When this period ends, the tenant will undergo a further assessment by the HomeBuy Agent to determine the size of share that they are able to afford and sustain under New Build HomeBuy.
- — Tenants, who are assessed as not in position to buy at the end of the period due to a change in circumstances, will have their position reviewed by their landlord but there is not guarantee that the tenancy will be renewed.
- — The first units were available in autumn 2008.

Social HomeBuy

- — This scheme provides new opportunities for tenants who do not have the Right to Buy or Right to Acquire, and those who do, but cannot afford outright purchase under the statutory schemes, to buy a share in their rented home, at a discount.
- — Tenants of participating landlords may purchase a minimum initial share of 25% of a home. The remainder of the equity is retained by their landlord with rent charged at maximum of 3% with a lower target of 2.75%. There is also a maximum limit on the annual increase of rent charges of RPI plus 0.5%.
- — Buyers receive a discount on the initial share purchased. This is equivalent to the Right to Acquire discount (generally between £9,000 and £16,000—depending upon the local authority area in which the property is located), pro-rata to the share purchased. Eg If your home is valued at £200,000 and you live in a local authority area where the maximum Right to Acquire discount is £16,000 and you buy 50%, you will pay £92,000 (ie £100,000 less the discount of £8,000).
- — Purchasers are entitled to a further discount on any additional shares they buy, pro-rota to the share purchased. Eg From the above example, if you subsequently buy a further 25% share (taking your total share to 75%), you will receive a further £4,000 discount (25% of £16,000).
- — Participation in the scheme is voluntary for landlords but the Government is encouraging all landlords to offer it.
- — Receipts generated by Social HomeBuy sales will generally be used to provide more social lettings. A small proportion may be spent on other housing related projects.
- — Tenants may buy 100% equity in their home at discount if they can afford to do so.
- — Your landlord will carry out a financial assessment to help decide what share you can afford to buy and sustain, taking into account the available discount.

— Some, but not all, properties which do not qualify for the Right to Buy/Right to Acquire schemes may be offered for sale under Social HomeBuy. There are some exemptions, including properties in designated rural areas and groups of properties for people with long term disabilities or special needs, which are exempt from the Right to Acquire scheme and which landlords will not be able to sell under Social HomeBuy.

Annex B

TABLE SHOWING THE PURCHASE OF DEVELOPER STOCK INCLUDING THE NATIONAL CLEARING HOUSE

		Rent			*LCHO*		
Region	*Local Authority*	*Total Grant*	*No of Flats*	*No of Houses*	*Total Grant*	*No of Flats*	*No of Houses*
E	Bedford	£0	0	0	£125,000	5	0
E	Braintree	£865,000	25	3	£0	0	0
E	Breckland	£2,762,203	12	30	£0	1	5
E	Broadland	£316,500	0	6	£116,500	0	4
E	Chelmsford	£0	0	0	£0	9	0
E	Colchester	£748,000	0	10	£104,993	16	0
E	East Cambridgeshire	£180,000	3	5	£0	1	3
E	Epping Forest	£0	0	0	£87,500	5	0
E	Fenland	£279,000	0	7	£0	0	2
E	Forest Heath	£600,000	12	29	£40,000	0	14
E	Huntingdon	£36,000	0	2	£0	0	0
E	Kings Lynn and West Norfolk	£195,000	0	4	£0	0	0
E	Luton	£0	0	0	£225,000	0	9
E	Maldon	£294,000	3	3	£143,500	3	6
E	Mid Bedfordshire	£610,000	0	17	£530,400	13	17
E	North Norfolk	£0	0	0	£76,000	0	5
E	Norwich	£908,769	0	14	£0	0	2
E	South Cambridgeshire	£0	0	0	£0	0	9
E	South Norfolk	£2,012,420	12	46	£311,316	0	22
E	Southend-on-Sea	£344,000	8	0	£308,000	14	0
E	Tendring	£75,000	3	0	£0	0	0
E	Thurrock	£175,000	7	0	£0	0	0
E	Uttlesford	£525,000	9	6	£0	0	0
E	Waveney	£0	0	0	£126,000	0	7
EM	Ashfield	£1,065,000	12	54	£0	7	9
EM	Blaby	£259,000	3	3	£84,000	3	1
EM	Bolsover	£885,000	6	14	£44,000	0	2
EM	Broxtowe	£264,000	8	0	£0	0	0
EM	Charnwood	£1,175,000	10	10	£0	0	0
EM	Corby	£0	7	5	£670,000	2	33
EM	Daventry	£1,044,000	0	12	£0	0	0
EM	Derby	£0	6	9	£0	6	0
EM	East Lindsey	£984,000	0	18	£282,000	3	8
EM	Erewash	£1,997,880	47	4	£0	0	0
EM	Gedling	£845,000	0	13	£0	0	0
EM	Harborough	£294,000	6	0	£0	0	0
EM	High Peak	£480,295	0	12	£0	0	0
EM	Hinckley and Bosworth	£0	10	5	£0	0	1
EM	Kettering	£2,037,500	1	24	£0	0	0
EM	Leicester	£1,168,175	8	18	£116,000	33	20
EM	Mansfield	£96,250	0	2	£0	0	0
EM	Melton	£259,000	0	4	£0	0	2
EM	Newark	£808,000	12	8	£0	0	0
EM	North Kesteven	£387,000	0	11	£80,000	0	8
EM	North West Leicestershire	£602,000	2	12	£0	0	0
EM	Northampton	£1,158,386	31	0	£0	0	0
EM	South Derbyshire	£657,000	8	10	£0	0	0
EM	South Kesteven	£2,638,905	30	19	£258,320	8	5
EM	South Northamptonshire	£329,000	0	7	£0	0	0
EM	West Lindsey	£238,000	15	2	£0	0	9
EM	Bassetlaw	£160,000	8	0	£0	0	0
L	Barking and Dagenham	£0	0	0	£455,000	35	0
L	Basildon	£697,000	0	17	£0	0	0
L	Bexley	£689,465	9	1	£0	0	0
L	Brent	£9,653,125	47	31	£0	0	0
L	Croydon	£1,961,675	10	5	£0	0	0
L	Islington	£0	4	3	£0	0	0
L	Lewisham	£0	0	3	£0	0	0
L	Merton	£0	0	0	£816,000	16	0
L	Southwark	£500,000	4	0	£0	0	0
L	Waltham Forest	£319,750	186	97	£0	0	0
L	Wandsworth	£440,000	6	1	£0	0	0
NE	Derwentside	£675,000	0	12	£0	0	0
NE	Durham	£220,000	0	4	£0	0	0
NE	Gateshead	£0	0	0	£208,000	2	6
NE	Hartlepool	£0	0	0	£503,000	15	6

Region	Local Authority	Rent Total Grant	No of Flats	No of Houses	LCHO Total Grant	No of Flats	No of Houses
NE	Middlesbrough	£30,000	3	0	£0	0	0
NE	North Tyneside	£717,600	0	13	£0	0	0
NE	South Tyneside	£260,000	0	5	£0	0	0
NE	Stockton-on-Tees	£1,009,500	3	16	£0	0	0
NW	Allerdale	£0	0	3	£0	0	0
NW	Bolton	£69,000	0	7	£0	0	0
NW	Burnley	£0	0	10	£0	0	0
NW	Carlisle	£770,000	0	22	£0	0	0
NW	Chester	£0	24	0	£1,232,000	10	46
NW	Chorley	£0	0	0	£0	0	16
NW	Copeland	£0	0	1	£0	0	0
NW	Crewe and Nantwich	£1,478,000	37	0	£0	0	0
NW	Halton	£700,000	0	14	£120,000	0	5
NW	Hyndburn	£0	0	5	£0	0	0
NW	Lancaster	£108,000	9	7	£0	0	0
NW	Liverpool	£1,790,500	0	29	£180,000	0	6
NW	Macclesfield	£877,500	27	0	£0	0	0
NW	Oldham	£0	0	10	£0	0	3
NW	Rochdale	£290,000	0	5	£0	0	0
NW	Rossendale	£374,000	0	6	£0	0	0
NW	South Ribble	£905,000	0	19	£0	0	0
NW	Tameside	£1,188,600	12	9	£0	0	0
NW	Warrington	£1,212,000	24	0	£0	0	0
NW	Wigan	£1,379,006	12	16	£67,500	0	3
NW	Wirral	£280,000	8	0	£0	0	0
SE	Ashford	£927,000	6	12	£0	0	0
SE	Aylesbury Vale	£4,370,000	39	33	£0	0	0
SE	Basingstoke and Deane	£615,000	0	7	£0	0	0
SE	Bournemouth	£2,168,000	36	0	£0	0	0
SE	Canterbury	£0	0	0	£200,000	8	0
SE	Dartford	£0	0	0	£0	4	7
SE	Eastleigh	£540,000	0	6	£0	0	0
SE	Fareham	£686,000	14	0	£90,000	5	0
SE	Guildford	£425,000	0	5	£0	0	0
SE	Havant	£216,000	0	3	£54,000	0	3
SE	Lewes	£0	0	0	£198,000	0	9
SE	Maidstone	£1,490,000	32	0	£586,000	26	13
SE	Mid Sussex	£0	0	0	£0	0	3
SE	Milton Keynes	£2,348,226	45	0	£0	17	0
SE	New Forest	£330,000	1	5	£0	0	0
SE	Portsmouth	£934,000	0	10	£0	0	0
SE	Reigate and Banstead	£180,000	3	0	£0	0	0
SE	Runnymede	£0	0	0	£700,000	22	6
SE	Rushmoor	£710,000	6	3	£0	0	0
SE	Southampton	£525,000	34	8	£80,000	8	4
SE	Tandridge	£340,000	0	4	£0	0	0
SE	The Medway Towns	£0	0	0	£255,000	0	17
SE	Vale of White Horse	£385,000	0	7	£108,000	44	5
SE	West Berkshire	£868,010	2	22	£324,875	17	0
SE	West Oxfordshire	£1,488,000	20	0	£0	0	0
SE	Windsor and Maidenhead	£0	0	10	£1,300,000	52	0
SE	Woking	£1,140,000	15	0	£0	0	0
SE	Worthing	£0	0	0	£0	9	0
SW	Bath and North East Somerset	£0	4	1	£0	0	0
SW	Bristol	£11,356,906	140	53	£428,700	4	8
SW	Caradon	£1,470,000	6	15	£168,000	8	0
SW	Carrick	£499,500	2	9	£0	0	2
SW	Christchurch	£450,000	0	6	£0	0	0
SW	East Dorset	£0	0	3	£350,000	14	0
SW	Exeter	£540,000	9	0	£0	0	0
SW	Gloucester	£761,000	9	8	£36,000	0	3
SW	Kennet	£976,500	15	5	£0	0	0
SW	Kerrier	£587,000	6	5	£100,000	0	9
SW	Mendip	£233,500	34	6	£0	2	2
SW	Mid Devon	£622,532	5	5	£0	4	6
SW	North Cornwall	£0	0	0	£0	0	4
SW	North Devon	£0	10	17	£0	0	11
SW	North Somerset	£1,842,000	41	2	£0	2	12
SW	North Wiltshire	£650,000	10	3	£0	0	0
SW	Plymouth	£2,812,000	38	10	£52,000	7	0
SW	Restormel	£348,000	9	21	£0	4	45
SW	Salisbury	£210,000	6	0	£0	0	0
SW	Sedgemoor	£129,339	18	2	£0	0	0
SW	South Gloucestershire	£884,000	25	0	£0	6	0
SW	South Hams	£0	2	0	£0	0	0
SW	South Somerset	£350,000	2	5	£0	0	0
SW	Stroud	£258,000	6	0	£0	0	0
SW	Swindon	£4,765,350	23	48	£0	0	0
SW	Taunton Deane	£200,000	5	0	£0	0	0

		Rent			LCHO		
Region	*Local Authority*	*Total Grant*	*No of Flats*	*No of Houses*	*Total Grant*	*No of Flats*	*No of Houses*
SW	Teignbridge	£666,000	15	0	£0	0	0
SW	Tewkesbury	£0	0	0	£297,500	0	10
SW	Torbay	£816,000	0	14	£0	0	0
SW	Torridge	£2,694,848	3	40	£296,000	6	6
SW	West Devon	£1,574,000	10	21	£115,000	0	5
SW	West Dorset	£95,000	0	2	£0	0	0
SW	West Somerset	£40,000	0	2	£0	0	0
SW	West Wiltshire	£0	17	36	£0	0	22
SW	Weymouth and Portland	£0	0	0	£100,000	14	0
WM	Birmingham	£5,190,254	96	10	£1,796,990	106	5
WM	Bridgnorth	£282,600	9	0	£0	0	0
WM	Bromsgrove	£1,020,000	24	0	£765,000	40	0
WM	Coventry	£539,000	11	0	£0	0	0
WM	Dudley	£1,635,000	14	24	£0	0	5
WM	Herefordshire	£0	0	0	£20,000	0	1
WM	Lichfield	£490,000	10	0	£0	0	0
WM	Malvern Hills District	£0	0	0	£225,000	25	0
WM	Newcastle under Lyme	£1,776,750	49	3	£27,000	3	12
WM	North Shropshire	£750,308	0	30	£90,000	0	6
WM	Nuneaton and Bedworth	£1,607,500	32	4	£0	0	0
WM	Sandwell	£991,000	9	11	£266,000	8	6
WM	Shrewsbury and Atcham	£450,380	28	4	£0	0	0
WM	Solihull	£0	0	0	£0	1	4
WM	South Staffordshire	£0	0	0	£170,456	43	8
WM	Stafford	£104,517	0	4	£0	0	0
WM	Staffordshire Moorland	£0	0	0	£20,000	0	1
WM	Stoke-on-Trent	£0	0	0	£60,000	0	4
WM	The Wrekin	£721,366	6	16	£110,000	0	4
WM	Walsall	£1,537,000	29	8	£0	26	0
WM	Warwick	£0	11	0	£0	29	0
WM	Wolverhampton	£1,476,000	25	5	£20,000	0	1
WM	Worcester City	£343,000	7	0	£0	0	0
WM	Wychavon	£802,500	20	16	£0	8	5
Y&H	Barnsley	£1,627,500	17	18	£0	0	0
Y&H	Bradford	£0	5	3	£0	0	0
Y&H	Calderdale	£319,501	5	8	£0	0	0
Y&H	Craven	£133,000	4	0	£0	0	0
Y&H	Harrogate	£72,500	5	0	£0	0	0
Y&H	Kirklees	£1,040,000	5	43	£0	0	4
Y&H	Leeds	£930,000	17	8	£80,000	0	4
Y&H	North Lincolnshire	£0	0	8	£0	0	0
Y&H	Richmondshire	£180,000	0	3	£0	0	0
Y&H	Sheffield	£0	0	0	£60,000	2	0
Y&H	Wakefield	£0	0	10	£0	0	5
	Grand Total	£139,889,391	1,910	1,539	£16,859,550	781	581

	Social Rent		LCHO	
	Total Grant	*No of homes*	*Total Grant*	*No of homes*
East	£10,925,892	276	£2,194,209	172
EM	£19,832,391	506	£1,534,320	160
L	£14,261,015	424	£1,271,000	51
NE	£2,912,100	56	£711,000	29
NW	£11,421,606	316	£1,599,500	89
SE	£20,685,236	388	£3,895,875	279
SW	£35,831,475	809	£1,943,200	216
WM	£19,717,175	515	£3,570,446	351
Y&H	£4,302,501	159	£140,000	15
TOTAL	**£139,889,391**	**3,449**	**£16,859,550**	**1,362**

Annex C

TENANT SERVICES AUTHORITY (TSA) REGULATORY APPROACH TO INSOLVENT HOUSING ASSOCIATIONS (HA)

This note sets out the Regulatory approach that the TSA would adopt to a large HA becoming insolvent. This note is intended for guidance only and does not represent the formal policy position of the TSA. There has only been one case to date where the Regulator's statutory Moratorium powers have been triggered and in that case it resulted in the secure transfer of homes within the HA sector. It is not possible to say with absolute certainty the exact outcome if a rescue could not be agreed.

Large HAs usually have a number of business streams (both social and non-social housing activities) each of which may be attractive to a number of other HAs if they offer a strategic fit with their existing business. If a very large HA was not viable as a stand alone entity then the TSA would assess the appropriate strategic and economic solution. This would include considering whether the business as a whole could be transferred to another HA and identifying who possible recipient HAs might be ie those that have the financial and management capacity to absorb another large HA whilst maintaining their own business strength and quality of service delivery to tenants. If a whole transfer of the business was not feasible, the TSA would seek transfer partners/buyers for individual parts of the business.

For social housing tenants a transfer to another HA would ensure that they continue with a landlord registered with the TSA, rents would remain subject to the current restructuring framework and quality of service delivery would be monitored through the regulatory and inspection regime.

The TSA monitors the performance of all HAs and details of our quarterly monitoring outcomes are summarised on our website. If regulatory oversight and supervision was unable to prevent an HA defaulting on its financial obligations then the HA would be at risk of insolvency. At the point of default, before a HA formally becomes insolvent, a Moratorium will have been triggered and the TSA will then have a period of time to seek the agreement of creditors to its proposals (eg transfer to another HA, break up etc). During the Moratorium creditors are unable to commence recovery or receivership processes. There are several changes to the Moratorium under the 2008 Act which should aid the TSA in implementing its proposals:

— there is an additional step which would trigger a moratorium; this would arise where the directors of a registered provider took a decision to present a petition for winding up a registered company or an I&P Society;
— the duration of the moratorium has been extended to 28 working days (previously 28 days);
— the TSA may appoint an interim manager at any time during a moratorium and may determine the terms and conditions of such an appointment (new power);
— a small amendment has been made to the requirement to secure the approval of secured creditors to proposals made by the regulator. This was previously 100% of secured creditors but is now limited to such of the secured creditors as the TSA is able to locate after making reasonable enquiries; and
— where a manager is appointed to implement agreed proposals in respect of a registered provider that is an I&P Society that person now has an additional power to effect an amalgamation of that Society with another I&P Society.

These additional provisions will not apply until the 2008 Act is 'turned on' later this year. In the meantime the 1996 Act provisions continue to apply including the 28 day Moratorium, the requirement for the TSA to consult all secured creditors and, where practical, tenants.

In the event that the TSA was unable to secure the agreement of secured creditors to its proposals, then the insolvency process would take over and an insolvency practitioner (probably a Liquidator) would be appointed by the Insolvency Service. A secured lender(s) would enforce their security and exercise their rights to appoint a Receiver (a Receiver may be appointed to act on behalf of several lenders). Following this there are two broad routes of action that they could follow:

A. The lender(s) may manage the properties itself or appoint a manager (which could be a HA or any other body including a for profit management agent) to carry out day to day management. Existing tenancies (both assured and assured shorthold) would continue in force but the rent restructuring framework and other social housing objectives eg Decent Homes would not apply to the lender. Rents could only be increased in accordance with the terms of the tenancy agreement. It is our view that over time they would be likely to increase to housing benefit limits. The lender would also, in all likelihood, dispose of void properties in order to reduce outstanding debt. Alternatively, the lender could dispose of the property portfolio to repay outstanding debt with any excess proceeds being paid to the Liquidator.

B. The lender(s) may choose to dispose of the stock in whole or in part to an existing social landlord. They would have the opportunity prior to the sale to raise funds by selling all non housing assets on the open market and all untenanted properties on the open market (at their full for sale value).

The route taken by the lender(s) will depend on the individual circumstances and market conditions at the time.

Annex D

MEASURES TO ADDRESS SKILLS AND CAPACITY IN THE CONSTRUCTION INDUSTRY

Short term measures include:

— High profile reductions in employment within the home building sector and potential reductions in the numbers of apprentices in the sector. Future apprenticeship recruitment is already under great pressure; and
— CITB-ConstructionSkills downgraded the recruitment targets to 5000 traditional apprenticeships and 1000 programme led apprenticeships.

Medium to long term measures include:

— The challenging home building targets taken with the probable reversal of the flow of migrant labour will potentially lead to marked skill shortages in the medium to long term when market conditions change; and

— The forecast significant reduction in recruitment together with reduced training volumes is now beginning to raise strong concern among CITB Board members as when people leave during times of reduced activity they tend not to return when the market improves.

This position leads to a number of related issues that need to be tackled to meet objectives:

— maintaining employment during the downturn, which will also help retain skills in the house building sector;

— maintaining entries into the sector, in order to refresh the pool of fully qualified people ready for the recovery phase—at both craft and professional level; and

— continuing work to enhance the capability of the existing workforce, particularly to respond to the need to meet zero-carbon aspirations.

We are responding to the short-term market conditions by introducing measures to provide extra help for first time buyers, homeowners facing difficulties, and keeping housing supply, especially affordable housing supply, as high as possible. At the same time our other immediate priority is to maintain capacity while creating the right conditions for recovery and longer term growth.

The key to retaining skills in industry is to keep employment levels up, and minimise redundancies, by keeping overall building levels as high as possible and maintaining confidence.

CLG's biggest lever in this respect is to maintain investment in and delivery of its own programmes for regeneration, new social housing and decent homes. We aim to strike a balance by responding to immediate challenges while continuing to work towards our longer term goals.

Government has already taken steps this year to tackle the downturn in the housing market through measures announced last year, and through PBR in November 2008. As an example, some 21% of construction output is accounted for by housing repair and maintenance, so action to support this part of the sector is important.

CLG's Decent Homes Programme shows that renovation of existing properties provides widespread and continuing local employment and can help maintain stability in a downturn. In the PBR we have brought forward capital spend of £130 million in 2008–09 and £120 million in 2009–10 for Decent Homes. This will maintain the planned Decent Homes programme in 2008–09 and bring forward some planned improvements in 2009–10. Overall some 25,000 homes will benefit from improvements with some now able to have work completed a year earlier than planned. This could help to secure around 1,500 jobs in the construction industry.

Similarly, bringing forward £175m for major repairs to council housing will provide benefits to tenants by allowing councils to bring forward planned replacement work on council homes. In some cases this will avoid councils having to do piecemeal repairs where they can now start on major replacement programmes. This could help to secure around 1,000 jobs in the construction industry.

The delivery of new social housing is vitally important—not only to meet need, but because of the contribution made by Government-supported construction to the wider economy. But current market conditions are making it hard to maintain delivery of these new homes, due to reducing developer contributions (through Section 106s) and falling proceeds from low cost home ownership sales (including staircasing receipts from sales in previous years). The Government believes that social housing money should be spent now to meet these immediate economic and social needs, rather than waiting up to three years for new social homes to be delivered. We have therefore brought forward provision for around 2,000 new homes for social rent with a further £150 million support for social housing in 2009–10, bolstering the £400 million (for around 5,500 new homes) brought forward as part of September Housing Package.

In May this year we set up a new national clearing house where house builders can approach the Housing Corporation with robust proposals to sell their unsold stock for affordable housing. As at December, the Housing Corporation has allocated £160 million of the £200 million earmarked. This will deliver almost 4,800 affordable homes.

We are also concerned to maintain momentum across the sector, supporting social, environmental and economic objectives. But our focus goes wider than homes. The commercial, office and property sectors are crucial partners in shaping our future towns and cities.
To this end, the PBR announced bringing forward some £200 million to support regeneration programmes and growth projects which are currently facing difficulties or might otherwise not go ahead in the current market. The regional development agencies and the HCA will be looking at priorities for this over the coming weeks and month. This will underpin large numbers of jobs.

Finally, the new HCA will be combining the skills and resources of English Partnership and the Housing Corporation in order to have a "single conversation" with key partners in the delivery of our housing and wider regeneration objectives.

In addition to maintaining employment in the sector the Government is also seeking to preserve and enhance skills for construction through:

— the "apprentice matching service" in conjunction with ConstructionSkills, DIUS and the LSC, to help retain apprentices with employers or place them with new ones if redundancy is being considered. This went from concept to a live service in September;

— the establishment of a "taskforce" by DIUS to consider what can be done to increase apprenticeship numbers;

— the development of "National Skills Academies for Construction" on larger building sites to ensure appropriate training;

— the use of shared arrangements for apprenticeships by employers or local councils to help minimise the economic risk whilst maximising training opportunities; and

— making Train to Gain more flexible for Small and Medium sized businesses and targeting £350 million to help them get through the tougher economic climate by building the skills and expertise of their workers. Although not aimed specifically at the construction and housebuilding industry, the new train to gain package will help the construction industry due to the large number of small businesses in the sector.

Annex E

SUMMARY OF HOUSING MARKET ANNOUNCEMENTS

Government has already taken steps to tackle the downturn in the housing market through measures announced this year.

In May we agreed that £200 million from the Housing Corporation's budget could be used to purchase unsold stock for affordable housing, and increased bidding and funding flexibility for delivering affordable housing. It also included a £10 million package of measures, including additional advice, to support home owners who may be facing difficulties with their mortgage.

In July we announced the set up of the new national clearing house where house builders can approach the Housing Corporation direct to negotiate the purchase of their unsold stock and removing the £200 million limit on the funds made available to support the purchase of new build homes for affordable housing, new proposals for housing growth points, allocation of a £510 million funding pot (Housing and Planning Delivery Grant) to reward councils who are planning and identifying land for future development, and new consumer information for families at risk from repossession.

Our September package of measures provided more support for vulnerable householders to meet their mortgage payments and free legal advice for those at risk of repossession. New schemes to help first time buyers get their foot on the ladder, and a stamp duty holiday. And we have looked again at our investment in social housing and regeneration programmes—to support those projects which may be at risk. We have brought forward £400 million to invest in new social housing over the next two years.

The Government also announced an additional £500 billion bank rescue package in October to help restore confidence and trust in the markets. This was followed by interest rates cuts in November resulting in the gradually falling of Libor. All major lenders (except Barclays and Alliance and Leicester) have passed on the benefits of rate cut to their existing borrowers.

As part of Pre-Budget Report in November £775 million of housing and regeneration investment is being brought forward to help support the construction industry over the next two years and preserve jobs and skills in the sector for the upturn including:

— £250 million on Decent Homes programmes to fund improvements and improve energy efficiency in 25,000 council homes.

— £150 million on social rented housing to bring forward delivery of up to 2,000 social rented homes and reduce the number of households in temporary accommodation.

— £175 million for major repairs to council housing stock.

— £100 million to support key regeneration and housing infrastructure projects.

In addition Government is working with the RDAs and regional partners to consider the scope for bringing forward up to £100 million nationally to provide value for money in supporting regionally and nationally important sustainable regeneration programmes. We are also extending the Mortgage Rescue scheme to include cover for second charge lending and the Support for Mortgage Interest scheme for homeowners who lose their jobs.

On 3 December the Government announced the new Homeowner Mortgage Support Scheme to help people who suffer a temporary loss of income stay in their home. The scheme will enable households that experience a significant and temporary loss of income as a result of the economic downturn to defer a proportion of the interest payments on their mortgage for up to two years. The scheme will be rolled out in the New Year.

In addition Government has announced the following support and interventions:

— we are also extending the Mortgage Rescue scheme to include cover for second charge lending and the Support for Mortgage Interest scheme for homeowners who lose their jobs;

— we have paid the year one allocations of the Housing and Planning Delivery Grant at the beginning of November, totalling over £100 million. This grant rewards local authorities for improved delivery of housing and other planning outcomes;

— we have announced on 10 December the 163 local authorities with Growth Point or Growth Area status who will receive £605 million of Growth Funding for 2009/10 and 2010/11. The funding will allow the local authorities to provide infrastructure to deliver 1.6 million new homes by 2016; and

— we have announced on 15 December an additional £100 million for the HomeBuy Direct scheme, bringing the total investment to £400 million in order to help up to 18,000 first-time buyers. More than 130 developers have agreed to offer the HomeBuy Direct scheme.

Memorandum by the Housing Corporation (CRED 61)

1. The Housing Corporation is the Government's national affordable homes agency. Working in partnership at national, regional and local level the Housing Corporation provides funding for affordable homes and regulates nearly 2,000 housing associations in England. Since 1964 we have supported the delivery of 1.27 million affordable homes in England. This has been achieved by investing £33 billion of public money matched by over £30 billion of private investment[103] which is the largest ever public-private partnership in this country. This delivery has been achieved through growth of the housing association sector that has a present value of some £70 billion. In 2006 we introduced a mixed market of profit as well as non-profit organisations, broadening the range of social housing providers; a direction of travel consolidated by the opening up of our programme this year to local authorities and ALMOs. We have achieved consistent improvements in the value obtained from public investment whilst at the same time driving through improvements in quality and leading the way in environmental performance.

2. On 1 December the Housing Corporation will transfer its investment role to the Homes and Communities Agency and its regulatory function to the Tenant Services Authority. The Housing Corporation has been working closely with the Government to ameliorate the impact of the credit crunch and subsequent economic downturn on affordable housing by maintaining momentum in housing delivery and closely monitoring the financial health of affordable housing providers. We have also been working to support the set up of the Housing Corporation's successor bodies, ensuring that they are well placed to take further steps to manage the impact of the downturn on the market, communities and individual households.

Impact of the Credit Crunch on Affordable Housing Delivery

3. The impact of the credit crunch and economic downturn, as well as affecting the housing market as a whole, creates particular challenges for the delivery of affordable housing.

4. Falling sentiment and the limited availability of credit coupled with falls in the values of new build properties have led to reductions in the rate of house building by private developers. NHBC statistics show that there were 28,086 applications to start new homes in the UK in the three months from May to July 2008—a 47% decrease on the same period a year ago (52,907). The slow down in the rate of house building by the private sector will have an both a direct and an indirect impact on the rate of delivery of affordable homes.

5. This is because in recent years affordable housing has increasingly been delivered through section 106 agreements. In 2006–07 65% of affordable housing completions were delivered though section 106 agreements, compared to just 20% in 1999–2000. Increasing use of section 106 has increased the capture of land values and the contribution that private developers have made to affordable housing delivery. At the same time it has supported the policy objective of creating more mixed and sustainable communities by increasing the proportion of new affordable homes being delivered in mixed tenure developments. The increased interdependency between affordable housing delivery and market housing means that the reduced rate of private house building is likely to affect affordable housing output. In addition, falling land values means that there is less land value to capture through section 106.

6. The reduction in liquidity and lending activity that has arisen as a result of the credit crunch has reduced the availability and increased the cost of borrowing to support development. However, this has not had a significant impact on development activity in the short term. The majority of housing associations had two or more year's worth of borrowing facilities already in place to draw down on prior to lending conditions deteriorating. It is also important to bear in mind that as an asset class that is closely regulated and with housing benefit providing security for its revenue stream affordable housing remains an attractive investment and low risk debtor. Even in the current climate where finance is generally difficult to obtain the affordable housing sector is better placed than other sectors. One housing association has recently raised £250 million from the capital markets through a bond issue with others likely to follow in due course.

7. A further impact on housing associations development capacity arises from the effect that the downturn is having on low cost homeownership sales. Many developing housing associations business plans rely on the proceeds from sales. Since the downturn a slowdown in sales has been reported in many areas of the market, particularly for flats. Even where customer interest is very strong the issue of mortgage availability is substantially affecting sales. Many developing housing associations have responded to the

[103] Public money figure based on amount invested since 1964 up until 2007–08. Private money based on figures from the Global Accounts of housing associations 2007 which showed that debt in the sector was at £30.9 billion at the end of 2006–07.

prospect of slower sales of low cost home ownership by scaling back their development programmes. While sentiment remains weak and lending conditions tight this is likely to continue to act as a brake on development.

Responding to the Credit Crunch

8. The Housing Corporation has already implemented a number of measures to adapt its National Affordable Homes Programme (NAHP) in response to the credit crunch and to maintain momentum in delivery and support providers in this challenging operating environment.

9. We have taken steps to speed up our bidding process to provide further opportunities for developers to bring forward schemes. This process of continuous market engagement has meant that around £600 million has been allocated during 2008–09 to additional schemes.

10. Following discussions with CLG and the Home Builders Federation we have introduced arrangements to respond to the current market situation by taking stock developed for market sale into the affordable sector. The downturn in the private housing market means that there are opportunities for housing associations to increase the level of affordable housing above that which would normally be available via section 106 agreements as developers look to reduce their level of stock. We have learnt the lessons of the Housing Market Package initiative of the early 1990's and whilst these completed homes may not meet all of our current quality standards, we have set out additional criteria upon which we will consider, on a case by case basis, accepting private market sector variants which in some aspects fall below the Corporation's published minimum standards. The consideration criteria include what stage of development the scheme is at (schemes which are not scheduled for early completion will be extremely unlikely to be funded); whether the mix of homes meets regional and local housing priorities; the extent to which the opportunities represent significant value for money improvements (at least fully reflecting the quality foregone); and that the organisation responsible for the long-term ownership of the properties confirms that it has made provision to ensure that the properties will be fit for purpose for their clients groups over the longer term. These more flexible arrangements have been welcomed by housing associations and developers.

11. In support of these arrangements we have established a "national clearing house" to give early feedback to developers and organisations who come forward with significant offers of stock. This process should give us more leverage in constructing deals which both consider stock and future supply together, and take advantage of offers which operate across regions, whilst maintaining a national picture of the exposure and risk profile of RSLs involved in such programmes. The clearing house also gives us a forum to discuss offers on strategic sites and on land as well as for stock.

12. To assist development partners with the issue of sales risk on low cost homeownership properties, we have introduced a "rent to buy option" where homes can be offered on an intermediate rent basis for a period, to be followed by the offer of conversion to LCHO. This offer will provide us with an additional way of assisting people priced out of the market and finding it harder to get a mortgage, while also helping providers manage the sales risk currently associated with LCHO. We have also moved to adopt a more flexible approach—on a case by case basis—where associations wish to convert properties from LCHO to either social housing for rent or (for a defined period) to intermediate rent. This should reduce the sales risk associated with new development and help in situations where properties were in danger of remaining unoccupied for a period of time. We must however, ensure that we do not lose sight of the need for mixed income, diverse communities.

13. The staging of payments under the National Affordable Housing Programme has been made more flexible such that 60% of grant is now paid at start on site (compared to 50% previously).

Next Steps in Managing the Downturn

14. The Housing Corporation is also working to implement some of the further measures, including Homebuy Direct and the Mortgage Rescue Scheme, that were announced by the then Housing Minister on 2 September 2008.

15. £300 million is being made available across 2008–09 and 2009–10 to enable delivery of a shared equity product to be bid for by developers—Homebuy Direct. Purchasers will be eligible for an equity loan of up to 30% of the purchase price of a new build home. The equity loan will be funded equally by the Homes and Communities Agency and the developer. The first round of developer bidding for HomeBuy Direct allocations closed on 7 November 2008. The first allocations will be made in early Decemebr 2008 by the Homes and Communities Agency.

16. A second part of the package identified £205 million for a mortgage rescue scheme that we are currently working with CLG to implement. The scheme will involve lenders, local authorities, money advice agencies and RSLs working together to assist households who are at risk of repossession which could be avoided through the provision of a mortgage rescue product where they would otherwise be likely to qualify for homelessness assistance from the local authority.

17. A further measure is that £400 million will be brought forward from year 3 of the NAHP—split between £100 million in the current year and £300 million next year—primarily to support the delivery social housing for rent. We will need to use this flexibility to help us achieve 2008–09 programme targets while maintaining the competitive pressure that we need to ensure delivery in future years.

Impact of the Credit Crunch on Housing Associations' Business Plans

18. The business plans and development capacity of the affordable housing sector is dependent on borrowing from a small group of banks and building societies that are willing to consider providing new funding. Associations also raise a relatively small proportion of their funding through the capital markets but with availability in the banking market constrained, this is likely to change.

19. As well as there being a limited availability of credit, the cost of borrowing will impact on housing associations. In the current conditions, the gap between base rates and LIBOR, which more closely reflects the actual costs of debt, is wider than usual at around 1.5%. Following the most recent cut in base rates the LIBOR rate has fallen by a similar margin but the gap between the two rates has not diminished. Given the measures that the Government has taken to recapitalise major retail banks and action by the Bank of England to reduce the cost of borrowing, it is important that lenders ensure that the benefit of this action is translated into improvements in the availability of funding, both to housing associations and individual households seeking mortgage finance.

20. As well as borrowing, many housing associations business plans will be predicated on achieving a certain level of asset sales, mostly low cost homeownership sales. Associations that are not able to meet their sales targets may have to increase their debt requirements and arrange new facilities. Our evidence suggests that it is housing associations which are predominantly based in the South East, and London in particular, tending to have a greater degree of exposure to low cost homeownership sales that are most likely to face these risks.

21. Since the beginning of the downturn a significant number of associations have begun to remodel their businesses, including:

(a) reviewing all uncommitted development and in particular scaling back on shared ownership assumptions;

(b) reviewing their operating cost base;

(c) looking at sales dependence and how the exposure can be mitigated; and

(d) ensuring treasury management strategies are appropriate for the current situation.

22. The unfolding situation has been monitored by the Housing Corporation through a combination of liaison at a sector level with relevant stakeholders as well as with individual associations. This includes:

(a) regular liaison with the Council of Mortgage Lenders and individual banks and building societies;

(b) a quarterly market survey of developing associations;

(c) the annual round of Business Plan receipts and review;

(d) review of annual accounts information; and

(e) ongoing engagement at a local level with individual associations.

23. Our October quarterly market survey shows associations debt requirement over the next 12 months is £5.2 billion with £4.9 billion to be drawn from existing facilities and less than 6% (£0.3 billion) required from new loan facilities. This is predicated on achieving asset sales (mainly shared ownership but also including RTB and other sales) of £1.1 billion. If these asset sales are not achieved and the scale of new development continues as forecast, then the new debt requirement will need to rise to compensate.

Future Delivery of Affordable Housing

24. The combined effect of reduced planning gains and lower surpluses from sales provides for a very challenging context for affordable housing delivery. However, the Homes and Communities agency has new tools available to it and will be able to develop new approaches to maintain momentum going forward.

25. In spite of falls in the value of homes the affordability of market housing for sale has not improved for those who had been priced out of the market. Any affordability gains in lower house prices have been negated by stricter lending criteria requiring larger capital deposits and higher borrowing costs. Long run

projections of housing market affordability produced by the National Housing Planning Advice Unit show that affordability will continue to be an issue. The drop off in levels of house building in the short term may also contribute to there being a strong "bounce" in house prices at the point where mortgage finance becomes more readily available and sentiment returns.

26. In the meantime, the combination of an increased level of repossessions and continuing market affordability problems are likely to increase pressure on the existing supply of affordable housing, both in terms of demand from households wanting to gain access to affordable homes[104] and in terms of lower levels of relets as current tenants are either unable or unwilling to move out of their homes in the current market.[105]

27. This reinforces the extent to which, in spite of the changing economic context, we need to keep a focus on the long term challenges. We support Ministers emphasis on maintaining momentum of affordable housing delivery, whilst taking steps to ameliorate the impact of the downturn on individual households.

28. Going forward it will be important that the HCA is able to maximise the benefits of bringing the Government's housing and regeneration programmes into a single agency. In maintaining momentum in delivery of affordable housing through the downturn it is important that the HCA is able to use subsidy and its investment budgets more flexibly. For example, to buy land or subsidise land purchases for affordable housing or to use its investment budgets to take equity stakes in developments. The current downturn is likely to result in some restructuring of the house building and development industry and future delivery may depend on new forms of public-private partnerships. There may be an increase in development on sites where the land is in public ownership, owned by a not for profit developer or where the HCA has made an equity investment.

29. In their strategic housing role, local authorities will be key to managing the impact of economic downturn on local housing markets and ensuring that they are well prepared for a future upturn. This will include effective management of land assets and planning to enable continued development of new affordable homes. Working with the HCA they should be able to explore new opportunities for public sector purchase of land and different approaches to sharing risk. The HCA and local authorities will need to develop new approaches, because even when the recovery begins, the previous business models are unlikely to be able to deliver the homes we need.

30. While there is a pressing need to continue delivery of affordable housing it is essential not to lose sight of important policy objectives to promote mixed and sustainable communities. If the effect of measures to maintain social housing output is that social landlords revert to building mono-tenure estates then we risk storing up problems for the future. The experience of previous efforts to maintain supply during difficult economic conditions produced some poor quality social housing that has resulted in concentrated deprivation. We must avoid making the same mistakes.

31. This is why, as we have to change our approach to delivering affordable homes, we must not back away from wider housing policy objectives. The 2007 housing green paper set out ambitions for improving design quality and environmental sustainability. Sustainability and quality, as well as being legitimate objectives in their own right, should be also seen as means through which confidence in the market for new homes can be restored. Policy has also placed greater emphasis to support the creation of socially and economically sustainable mixed income communities. Markets where development has been delivered without regard to principles of sustainable communities, for example, some developments of small city centre flats, are particularly vulnerable in the current downturn.

32. During an economic downturn it is equally important to ensure that we are providing social and affordable housing that can support economic independence and aspirations as well as meet housing need. The importance of these issues is demonstrated by the current debate around measures that may be included in the forthcoming housing reform green paper. The need to maximise the potential benefit of affordable housing to supporting individuals' aspirations and access to the labour market is crucial. There is also an increasing recognition of the role that housing can play in supporting local areas ambitions for promoting economic development and community wellbeing.

Conclusions

33. As the Housing Corporation transfers its investment functions to the Homes and Communities Agency and its regulatory responsibilities to the Tenant Services Authority these successor bodies face a very challenging operating environment. Whilst these unprecedented economic difficulties predate the process of institutional reforms, the additional scope and resources available to the HCA and the greater regulatory powers of the TSA provide the Government with agencies that will be well placed to sustain delivery and manage the impact of the downturn. The rationale for creating the HCA and TSA is even stronger in the current economic climate.

[104] Over the last 10 years the number of households registered on local authority housing waiting lists in England has increased by 64% to over 1.6 million.

[105] Over the same period the annual number of general needs social housing lettings have fallen by 44% to 304,934.

34. While it is uncertain as to how long and deep the downturn is likely to be, we do know that it is already having a significant impact on the housing market, the house building industry, the affordable housing sector and households' ability to secure and maintain a decent home that meets their needs. However, it is essential that we do not lose sight of the need over the long term to maintain housing supply, address the affordability, quality and sustainability of our homes and support the creation of mixed income sustainable communities.

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