Mr Steve Speak
Leeds City Council
Planning Department
The Leonardo Buildings
Rossington Street
Leeds
LS2 8HD

20 July 2010

Dear Mr Speak

NEW HOUSING IN LEEDS

The Home Builders Federation (HBF) has read the report of the Director of City Development that will be considered by the Council at tomorrow's Executive Board meeting. We would like to submit for the Board's consideration a counter-position that not only reflects the industry's perspective on how to address the city's housing needs but also better reflects what we believe is the new Coalition Government's approach to house building.

The HBF is the voice of the home building industry in England and Wales. Our members are responsible for building around 80% of all the new homes built each year. We represent member interests on a national and regional level to create the best possible climate in which they can deliver the homes the country needs.

Purpose of the Committee Report

The paper, and the City Council's approach to housing to date, is biased in favour of the interests of those who already own homes, at the expense of non-home owners and of the wider Leeds economy. The purpose and content of the Board report as currently drafted is to seek to establish a new interim housing target in order to prevent the release of the phase 2 and phase 3 green field sites rather than addressing the needs of the citizens of Leeds.

Impact of the Secretary of State's revocation of Regional Strategies and a new approach to supporting economic growth

1. The report is insufficiently balanced in its reporting of the approach of the new Coalition Government to the question of future house building in the

Home Builders Federation
1st Floor, Byron House, 7-9 St James's Street, London, SW1A 1DW
T: 0207 960 1600 F: 0207 960 1601 E: info@hbf.co.uk   www.hbf.co.uk

UK. While the Government has made clear its intention to abolish top down target setting and compulsion from the centre and to give communities more powers it has also given a clear commitment to housing and economic growth (see the Parliamentary Statement: *Revoking Regional Strategies*). The Government has also made clear on numerous occasions that it intends to build more homes than the previous Government and to increase levels of owner occupation.

2. The approach of the new Government is to reduce the over-reliance on public sector spending which has become so much a feature of economic life over the last two decades. Instead it recognises the need to re-invigorate the market to allow it to replace this over-dependence. This will entail creating the right conditions for private sector investment, including reducing unnecessary bureaucracy and regulatory burden in order to allow the market to flourish. A necessary adjunct to economic growth will be the need to make sure that the publics' aspirations and need for housing is addressed.

3. It is quite clear that in revoking the Regional Strategies and handing power to local authorities the Government is not necessarily making a case for reducing the number of homes to be built, but for local authorities to consider what is needed in terms of employment and housing development to support the growth of their area (or not as the case may be). We understand that Leeds is committed to growing its local economy, as the report to the Committee indicates. Consequently it must by necessity consider planning for a level of housing which is commensurate with its ambitions and by making sure the right number and type of homes in suitable locations are provided.

Economic benefits

4. Supporting the right level of housebuilding, of the right type and in suitable locations will bring several economic dividends.

5. Firstly, and most obviously, it supports direct and indirect jobs in the construction and manufacturing sectors – areas of employment that are of particular importance to Leeds's economy. According to Professor Michael Ball, in his 2005 study *The Labour Needs of Extra Housing Output* (HBF and ConstructionSkills, March 2005) home building makes a significant contribution to employment; in 2005 it employed 335,000 people directly with every new home providing 1.5 jobs directly, plus up to four times that many people in the supply chain. It provides benefits for the lower skilled and young workers who have relatively few alternative opportunities – issues that must be of central concern for Leeds City Council. Failure to deliver the right level of housing will jeopardise the employment prospects of a large number of young people for whom jobs in construction provide an important introduction to employment.

6. The failure to build a sufficient supply of the right type of homes in the right places, especially the failure to provide for low cost market housing in the mix (as required by PPS3) as a result of excessive policy demands, *will*

maintain high house prices. This will result in higher levels of household debt in relation to income, especially for younger households. This is financially burdensome and increases their vulnerability to default in the event of unemployment. The consequences of this can add additional strain to local public finances and services.

7. Higher house prices will mean that more household income is tied-up unproductively servicing mortgage debt that would otherwise, beneficially, be in circulation in the local economy. Higher household debt also discourages risk-taking and a more entrepreneurial culture if people are anxious that they may never get back on the housing ladder if they lose their home owing to job-loss or business failure.

8. Housing undersupply will also have adverse labour market consequences for Leeds. Households find it very difficult to move from low to high priced areas, so that labour mobility is impeded and unemployment differences tend to be perpetuated. In addition, employers have to pay more to attract employees to Leeds, and this will have implications for the competitiveness of businesses in the City. This has consequences for the cost of the delivery of public services too who find it difficult to attract employees in low to medium income occupations in high priced areas, as do lower-pay private sector businesses. People will also have to travel further to reach their place of work with the attendant environmental consequences.

9. We also refer to the recent Centre for Cities report *Arrested Development: are we building houses in the right places?* Higher house prices will not only increase the drain on public finances as the state takes emergency measures to help with hardship, but it holds back the economic growth of areas popular with the public where employers wish to invest (the author cites Solihull and Trafford as examples: places attractive to people and investors, but where supply is restricted in favour of inner-city regeneration policies in the cities of Birmingham and Manchester). These lessons apply equally to Leeds and to those areas that are popular with households and where demand is high but targets are low.

10. According to research commissioned by the UK Contractors Group (*Construction in the UK Economy*, October 2009) nationally, housebuilding used to contribute in the order of 3-4% to GDP. This has now slipped to 1.5% owing to the impact of the recession and planning and regulatory barriers to delivery. The housebuilding industry therefore has the potential to make a considerable contribution to addressing the national deficit, in addition to providing the houses that are needed by the City.

    The table below provides an indication of the value of house building to the Leeds City economy.

Build rate per annum	Direct Jobs	Indirect Jobs	Construction spend	Wider Economic Spend
1,000	1,500	4,500	£90m	£270m
2,000	3,000	9,000	£180m	£540
3,000	4,500	13,500	£270m	£810
4,000	6,000	18,000	£360m	£1,080

The rate of current starts is reported by the Council to be 1,000 per annum in Leeds. With a pro-active approach to house building, thousands of construction and manufacturing sector jobs could be created and £Ms invested in the local economy.

11. Private house building also contributes to community infrastructure and affordable housing. The most recent analysis for by Cambridge University for the CLG (*The Incidence, Value and Delivery of Planning Obligations in England, 2007-08*, CLG, March 2010) shows that the total sum raised from S106 agreements has risen from £2bn in 2003-4, to £4bn in 2005-6 and £5bn in 2007-8. Half of the money in each of these years went towards affordable housing.

12. Construction activity generally (not solely house building) is one of the best ways of stimulating economic activity – not just in the construction sector, but across the economy as a whole, including the troubled manufacturing sectors. It also has one of the lowest levels of imports, so the stimulus spending remains within the national economy.

13. The City will benefit from business tax revenue derived from companies and businesses associated with house building and the benefits of a stronger local economy. The national exchequer will also benefit from the additional council tax revenue gained from each new home built.

14. In view of the Government's intention to top-slice local authority budgets we would strongly urge the Council to abandon its plans to reduce its housing target and work with developers to build more homes in locations of market demand. At a meeting last night with the HBF and representatives of the development industry, Grant Shapps, Secretary of State for Housing, stressed the downside of local authorities not developing – the "reverse carrot" of less revenue support grant from Government and the prospect of having to raise council tax. While it is the Government's intention to remove the cap on council tax rises this will be balanced by the introduction of the requirement for a local vote on any increase of 5% or more (as set out in the Green Paper).

15. This will mean that local authorities should be seeking to boost housing delivery in the short term to take advantage of the council tax incentive scheme. It is the intention of Government to pay the council tax incentive *on completion* of each home from April 2011 onwards. Because the incentive will only be paid on completion, if Leeds City wishes to be first in the queue to benefit from this incentive (given that it will be in competition

with every other local authority in England to secure a share of this grant) then it must grant permissions now to ensure that completions come forward from April onwards. Not only will this require reviewing unnecessary and onerous regulatory and policy obstacles to delivery, but it will also require of shift in emphasis in the City's planning policies so that sites in locations of strong market demand are brought forward, rather than focusing solely on regeneration sites that are currently unviable and have little prospect of coming forward.

16. Shifting emphasis away from regeneration initiatives to supporting house building in areas of market demand in Leeds has a number of benefits as described in the Centre for Cities report *Private Sector Cities: a new geography of opportunity*. Highly skilled workers will tend to be more mobile and prepared to undertake longer commutes between home and work. They will also tend to change their job more frequently. So the Urban Renaissance nirvana of having people live near to their place of work was always something of a pipe-dream, and rarely practised by its advocates. Regeneration will best be achieved by encouraging a thriving local economy and housing market. Restricting supply to low value areas will do little to encourage households to move to them – they will go elsewhere, to other Districts. If the City wishes to retain and continue to attract its high value-adding workforce, it must respond to market signals about where such people want to live. This will mean building more family homes in areas of high demand, letting these people decide for themselves what they think is in their best interests.

Establishing the current level of need for market and affordable housing

17. The report advocates a new twenty year housing target of 2,260 homes per year as opposed to the target agreed on by the RSS of 4,740 net additions per year.

18. The report justifies this reduction on the basis of the revised population projections. The NHPAU's last set of advice to ministers on housing ranges in July 2009 before it was abolished is based upon the 2006 household projections and the latest population projections. The advice takes into account the impact of the recession and assumes a lower level of migration for the period to 2014. It also accounts for how the recession is expected to impact on earnings growth and how this will tend to reduce the demand for owner occupation. The cumulative impact was to 'dampen' its projections. Despite this, its revised minimum and maximum housing ranges for Yorkshire and Humberside still exceed the previous set of advice to ministers of June 2008.

NHPAU Annual average housing supply ranges

	June 2008 advice	*July 2009 advice*
Minimum	23,800	26,400
Maximum	26,400	29,400

19. Other recent forecasts suggest a range of need for newly forming households in Leeds of between 4,500 to 6,000 per year. The most recent forecast appears in the LCR Ekosgen report where the scenario for low economic growth suggests an annual requirement of 5,317 homes.

20. How far the recession and Government policy will in fact impact upon levels of international migration is debateable. One might argue that because the performance of the UK economy is still relatively strong compared to other parts of the world, and because the UK still offers an attractive way of life for many people (as a tolerant democracy) levels of migration may continue unless the Government does decide to close the UK borders. Even so, last year's population projections were clear that natural population growth among the nation's indigenous population would account for more than two thirds of the projected population increase between now and 2031.

National population projections

21. The population growth forecasts referenced in paragraph 3.7 of the Executive Board paper indicate that population growth is currently only 75% of the ONS forecast growth estimate. However, the paragraph does not state that the annual actual forecast growth for Leeds is 11,000 people per year (1.4% growth per year). At 75% this suggests an annual growth of nearer 8,250 people. Assuming there are two people per household as the report does in paragraph 3.7 then this suggests that some 4,125 households will be formed in Leeds in 2009.

22. Assuming this lower growth rate is repeated over the coming years and beyond 2014, the suggested target of 2,260 homes would at best meet only half of the City's forecast need.

Affordable housing

23. Leeds has some 30,000 households on the housing waiting list and a reported need for affordable housing of some 1,889 homes per annum. Delivery rates currently stand at 400 per year, which is only 20% of the target.

24. Affordable housing is needed in all parts of the City, not just the inner regeneration areas targeted by the Council's regeneration programmes. Indeed targeting housing supply towards other suburban areas would increase the supply of affordable homes thereby helping to create mixed communities. Affordable housing could be provided and at no additional cost to the public purse if supply were to be improved in such locations.

25. Since public subsidy for the supply of affordable housing will be reduced significantly, the Government is expecting local authorities to adopt a more market-responsive stance and policies to encourage the private sector to supply social housing. It is for this reason that the Government

has included in *Open Source Planning* its intention to pay local authorities an incentive of 125% of council tax for each new affordable home built and for this to be matched again by Government – thus a 250% council tax payment will be gained by the Council for each new affordable home completed.

Long term house prices

26. The report argues that restrictions on lending will significantly restrain demand for housing. This would only be true if all other factors remain the same including the policy response of the Council to the economic downturn: i.e. that land supply continues to be constrained by the City Council; that the level and productivity of private sector activity continues at the same pace as before, and does not expand to replace the role of the public sector; and that the profitability of house building continues to be reduced by unnecessary regulatory and policy impositions. In short, the report assumes no changes are afoot other than in the lending rates of banks. The Council assumes an entirely passive role in planning for new housing delivery.

27. By contrast with the assessment provided in the report it is not the intention of the house building industry to continue to build homes and sell these at prices that households are unable to afford. If mortgage lending is to be restricted to typical loan-to-value ratios of 3.5 times a household's income, then the industry, and we hope Council also, will need to ensure that people are able to meet their housing needs within this framework set by the banks.

28. This will entail a wide-spread review of the current burden of regulation imposed on house building (something currently being addressed by Government) and it may require the release of public sector owned land to stimulate the supply of more affordable market homes as well as social housing. This would be in accordance with the Coalition's programme for government. It may also necessitate the removal of affordable housing targets in order to encourage house building to come forward in regeneration areas and to support the creation of more mixed and balanced communities. Reducing regulatory and affordable housing demands, or providing public sector land at much reduced prices to developers, and re-directing these savings toward customers in the form of lower house prices (instead of towards the local authority in the form of section 106 payments) has the potential to stabilise and reduce house prices. Such solutions are being explored in other parts of the country (Macclesfield and Birmingham City Council) in order to support economic recovery and meet the aspirations of their citizens, while reducing the demands placed on the public purse.

29. House prices can also be helped by improving the supply of land. By contrast the deliberate constraint of land supply over the last decade has helped to inflate land and house prices. This might have helped once untouchable inner-city sites to become viable for apartment

developments, but this was only under-pinned by generous (and ultimately unsustainable) levels of mortgage lending. Local authorities nationally were able to benefit from this arrangement: by increasing the amount of section 106 revenue it extracted from each development - underpinned by high house prices and guaranteed through the rationing of land. In conjunction with design rules this has prevented more market sensitive house types to come forward catering for different segments of the market and incomes and has contributed to an imbalance in new build accommodation (and a shortage of family housing) in recent years.

Voids and empty properties

30. The report is misleading at paragraphs 3.13 and 3.14. It argues that new housebuilding creates voids. The number of long term voids in Leeds District in 2004 was 12,000, in 2007 it was 8,000 and in early 2010 it was almost 10,000.

31. These long-term empty properties are mainly small poorly maintained rented units concentrated in a limited number of wards, largely related to student dominated areas, or the city centre. Long term void rates across suburban Leeds and larger outer settlements such as Rothwell and Morley stand at little over 2% - the typical percentage attributable to transactional vacancies (homes empty while waiting to be sold). Void property is not an issue for the majority of Leeds.

32. Homes that remain empty for longer periods reflect wider economic conditions. They tend to be concentrated in 'low demand areas' – a reflection of poor employment opportunities and amenities. Many voids are also hard to rent or sell units such as homes above shops. Such homes are not attractive to families who will instead be forced to migrate further afield to competing towns and cities such as Selby, Bradford and Wakefield.

Infrastructure

33. The report also suggests there is a need to reduce the housing targets because of capacity constraints and because house buildings will no longer be able to make as great a contribution to this provision as in the past. We would disagree that this should be reason to refuse housing developments. This is not only contrary to Government policy on planning obligations (developer contributions should not be relied upon to make good deficits in investment) but each site is to be considered on its own planning merits. What is more, in the case of the phase 2 and phase 3 allocated sites, any infrastructure and services upgrades that arise from the development will be funded by the development through s106 obligations and so are not paid for by rate payers.

34. Scaling-back housing targets simply to reduce pressure on infrastructure is however a peculiar stance for a Council to adopt. Paragraph 3.20 makes the mistake of assuming that falling levels of public spending

means that local councils can avoid planning for housing delivery. Instead, if they wish to grow, the Government requires councils to adopt a more growth-orientated stance in order to improve productivity and value-generating activities. This will generate the profits necessary to invest in enhancing infrastructure provision. The supply of new houses in a particular location will also increase the viability of providing local services, whether it is a new bus route or doctor's surgery.

Demand for Family Housing

35. All major house builders who are developing family housing schemes across Leeds advise that their schemes are selling well. There is a good market for housing in Leeds. Access to finance remains an underlying issue but is not a barrier to the development of more family housing. The Council's own Housing Needs Study recognises a need for additional family housing.

Undermining Regeneration

36. The recent spate of appeal decisions have all proved that the development of allocated Phase 2 and Phase 3 sites will not impact upon the Council's regeneration schemes. The allocated sites were always planned to be developed in tandem as the larger regeneration schemes at places such as Easel and Aire Valley. Regeneration and development in higher-demand areas are not mutually exclusive activities. Larger house builders do both. Indeed the revenue from less-risky green field developments helps to underpin riskier ventures. Altering the housing target will not increase the likelihood of regeneration. The Council's argument on this matter remains unproven. It may however force developers to look to other local authorities where councils are keener to do business. Investment in the local economy and supporting funding from Government will be diverted elsewhere.

Conclusion

37. The tenor of the Council report is also very much one of 'business as usual'. It would appear that the Council is unable to imagine any other way of going about securing growth for the City without high levels of public spending. Without this, the report seems unable to recommend an alternative and progressive strategy that would support the housing needs of the people of Leeds. Rather it should be considering bold measures to stimulate housing delivery to support economic expansion – measures that might include bringing forward locations of proven market demand, or reducing unnecessary policy and regulatory demands that are jeopardising the pace of necessary housing delivery.

We hope this counter-position will be reported to the Executive Board.

Yours sincerely

James Stevens
Strategic Planner for the Regions

Email: james.stevens@hbf.co.uk
Tel: 0207 960 1623