

Letting in the Future

Housing Manifesto 2006



Letting in the Future: The BPF's Housing Manifesto

The private rented sector in the UK could have an extremely bright future, significantly increasing the housing stock and making many more homes available for those who are unable to buy their own. But this will only happen if the Government removes the barriers that currently make this Cinderella of the housing market less attractive to commercial companies.

This manifesto sets out what the British Property Federation believes the Government should do to improve letting opportunities in the future.

Executive Summary

- Government policy changes have made the private rented sector less attractive to commercial property investors.
- The commercial property sector could give much-needed impetus to the provision of the hundreds of thousands of new homes needed in Britain.
- The private rented sector could meet the needs of those parts of the housing market – particularly affordable and key worker housing – that are not favoured by traditional house builders.
- Increased interest in the property sector from institutional and private investors means there is no shortage of available funding.
- The Government needs to remove the barriers to the growth of commercial investment in the private rented sector.
- These include:
 - changes to stamp duty and VAT;
 - expanding the REIT regime to include AIM and unlisted companies;
 - the targeting of regulations on the sections of the sector that need to be regulated, instead of on all the sector;
 - continued promotion of self-regulation and the consumer-focused approach promoted by the Law Commission. Time must be found for its Bill;
 - a standardised approach to regulation, with clearer rules on subsidiarity between central and local government, and more co-ordination between local authorities themselves;
 - the Government to guarantee unpaid rent, where housing benefit tenants are paid directly.
- With 'social' housing provision falling well short of affordable housing need, the sector could also make a significant contribution to affordable housing provision, with appropriate policies, specifically:

- greater flexibility in the interpretation of what is affordable housing by local authorities;
- a presumption in PPS3 against affordable housing being in perpetuity;
- the introduction of an intermediate rented tenure, linked to tax concessions (similar to section 42 concessions in the USA), or rental guarantees;
- open procurement rules on the management of s106 provided housing.
- to establish a task force to investigate private sector-led development of existing large scale social housing sites.

- The BPF calls on Government to make the changes that will encourage the growth of Britain's private rented sector, for the benefit of home-seekers, pension funds and other investors, and the economy as a whole.

What we can do

A progressive society should be trying to meet peoples' housing needs and aspirations. No child, nor adult, nor family in 21st Century Britain should be in a housing situation that adversely affects their health or happiness.

In practice, that means providing sufficient housing of a specification that people want to buy or rent; having a private rented sector that is flexible, and whose landlords provide a service that is on a par with the best in other service industries; and, having a sufficient safety-net of quality accommodation for those unable to buy or rent at market levels, provided in a way that is cost-effective to the taxpayer.

A good house is 'more than bricks and mortar'. It is a home within a community. It is an important determinant of life chances. It is also an asset that attracts pension funds and other investors. As such, it is of interest to members of the British Property Federation, who develop, invest in, and manage housing.

This manifesto sets out what BPF members can contribute to help achieve the nation's housing objectives, specifically:

- i. to deliver a quality private rented sector (PRS);
- ii. to help address housing shortages, through a source of investment and development that is outside the usual sources of lending and house building.

A quality private rented sector

The UK's private rented sector (PRS) serves a variety of peoples' housing needs and aspirations:

- households unable to access social housing, and who may not be in a position to buy;
- students away from home for the first time;
- people on the move because of their job;
- migrants to this country;
- those who have divorced or separated;
- the elderly, perhaps on regulated tenancies;
- and younger workers who through choice prefer to rent rather than buy.

Investors in the sector are almost as diverse as its occupiers and will have different needs themselves, seeking some mixture of income and capital gain in the short, medium or long-term. However, investment in the PRS must compete with other asset classes, such as shares, bonds and commercial property.

In considering the sector, policy makers need to think about both occupiers' and investors' needs and what kind of PRS society and Government want. We believe the country needs a PRS that is well-managed, promotes long-term investment, provides a quality product and is flexible enough to continue to cater for a variety of occupiers' needs. To satisfy all these objectives the PRS must also generate sufficient returns to make it an attractive and viable investment.

The benefits of institutional investment

The BPF believes the sector benefits from its mix of small and large landlords. In recent years, however, institutional and corporate landlords' share of the private rented sector has declined. In 1994 the make up of landlords was fairly evenly split between companies/organisations (50%), and individuals/couples (47%). By 2001 nearly two-thirds (65%) of landlords were individuals/couples. Part of this is explained by the growth in buy-to-let, but it also reflects other policy changes which have made the sector relatively disadvantageous to large corporate and institutional landlords.

We think this is regrettable, because a thriving corporate and institutional investment sector could help support many of the Government's housing policy objectives, specifically:

- delivering a high quality PRS;
- contributing to housing supply;
- meeting intermediate market needs;
- driving innovation in the sector.

Barriers to institutional growth

Various adverse tax treatments impact disproportionately on larger landlords, putting them at a disadvantage relative to other forms of investment and other investors in the PRS.

The large PRS investor who trades portfolios of property suffers stamp duty on the aggregate value of their transaction, rather than a charge related to the housing unit value. This means that in nearly every transaction the large investor will be paying the highest rate of stamp duty, 4%, compared to the unit-by-unit buyer who is either exempt or incurs a far lower rate of tax. Large investors in the PRS tend to invest in property on average rents, which are easier to let and should incur lower duty. It is also far better from a service and management efficiency perspective to have blocks of units. The perverse impact of this tax situation is that it encourages large investors to trade in individual units.

The BPF recommends the stamp duty rule should be amended to, at worst, a charge based on the average unit value of the transaction. This should be easier to calculate than a unit-by unit basis, where individual values may not have been agreed.

In an ideal world, stamp duty on large investment transactions would be waived altogether, providing a strong fiscal incentive for investors to choose residential over commercial property. This could be worth around 1% per cent per annum in performance over the investment time-horizon of the investor – a significant margin in a low-return world. Current spending limitations, however, may constrain this.

We recommend that Government considers exempting stamp duty on blocks bought for the specific purpose of letting out on intermediate rents.

The residential property investor is at a comparative disadvantage to the commercial property investor as VAT is not recoverable on refurbishment costs; causing a drag on returns. The small investor is often able to mitigate this through self-management.

We recommend the Government should reduce the rate of VAT on residential refurbishment costs.

The Government is in the process of introducing Real Estate Investment Trusts (REITs), which will be excellent in ensuring that indirect investors in property gain much the same tax status as direct investors. Already several commercial property companies have declared their intention to become REITs when the legislation takes effect in January 2007.

However, there are few residential property companies with a listing on the full London Stock Exchange. The costs, both to apply and maintain listed status, make it prohibitive to property portfolios much below £500m in value and there are very few investment portfolios of residential property of that size in the UK. It has been mooted that a couple of consortia of Housing Associations are considering establishing REITs using their market-rented stock, but that apart, it is difficult to see where growth in residential REITs would come from. The primary problem is the current requirement for a REIT to have a full listing, which we believe will stifle the growth of a thriving residential REIT sector.

We recommend that as a priority the Government should consider introducing unlisted or at the very least AIM-listed REITs.

The private rented sector is one of the most regulated business sectors in the UK. In part, this reflects well-meaning efforts to address the unacceptable activities of a minority of landlords. If regulation achieved that objective decent landlords would accept it. However, too often misconceived policy and lack of enforcement has meant that regulation in the PRS has caught the 'innocent' majority, whilst the 'guilty' minority have simply continued to perpetrate the practices that regulation was meant to solve.

There is a feeling amongst the landlord community that regulation of the sector has reached the stage of being counterproductive, because without sufficiently targeted and enforced regulation, the gap in cost competitiveness between the compliant and non-compliant is simply widened.

For larger landlords there are several particular frustrations:

- i. There are market mechanisms that help regulate the behaviour of larger landlords. The likelihood of adverse publicity and impact on reputation is a significant threat that impacts on larger landlords' behaviour.
- ii. Much housing regulation is enforced through local authorities. They are given significant discretion and scope in their enforcement. For example, on the licensing of houses in multiple occupation, everything from fees to amenity standards and the forms that landlords need to fill in is left to the

discretion of the local authority. For a large landlord operating perhaps in 100 local authority areas, this is a huge and administratively burdensome challenge.

- iii. Larger investors are trying to offer investment products which compete with other assets, primarily commercial property. As a sector, commercial property faces far less regulatory costs than residential property. To compete, larger investors in residential property must generate greater income.

We agree that tenants need protecting from the unscrupulous but, despite several Housing Acts the unscrupulous continue to thrive. There must be better ways of protecting tenants than the plethora of Acts of Parliament, secondary legislation, codes of practice and other measures currently imposed on the sector.

We believe that the Law Commission's work on Renting Homes, recently published as a draft bill, is a step in the right direction. It seeks to simplify the law and put it on a consumer footing. It would make it obligatory to have a written agreement that covered the key elements of a tenancy: its scope, length, check in and check out procedures and other core terms, such as possession. It proposes fewer and simpler tenancy types, and a fundamental change in the legal nature of the interest created by the tenancy. The obligation to have a written agreement would ensure that tenants were protected by consumer law.

Turning tenants into customers, and simplifying the contracts between landlords and tenants, will ease some of the pressures arising from ignorance and naivety on the part of both parties, and provide less scope for disputes.

We recommend that Government should adopt the Law Commission's work, make it a priority, and seek to incorporate its implementation in the next Queen's Speech.

In the longer term we would like to see the sector in a position to self-regulate. There has been some excellent work done in recent years to raise the profile, membership and standards of landlord associations.

We recommend Government should continue to support the development of landlord associations in the UK.

Accreditation is another way in which standards have been driven up in recent years. Under the auspices of the Accreditation Network UK (ANUK), best practice is being shared and efforts co-ordinated. Accreditation is working extremely well in some localities, but the network is still patchy and requires the continued support of all parties to raise

its national profile. Of recent interest has been the development of Codes of Practice by ANUK for the providers of large student accommodation units. These help simplify private providers' compliance with, and in the case of educational establishments exempt them from, the HMO licensing requirements of the Housing Act 2004. This example provides a good model for the future when seeking to regulate, because landlords and tenants (in this case student representatives) have been left very much to draft their own rules.

One deficiency with current accreditation schemes is their failure to appeal to larger landlords. This creates the same disincentives as local enforcement, in that a large landlord may be dealing with several tens and in some cases in excess of 100 local authorities, if it wants to be accredited in each. Knowing the subtleties of several schemes and keeping in contact with them would be a huge administrative task for larger landlords.

We recommend that a national accreditation scheme is developed for larger landlords. This would need to have its own in-built policing mechanisms, perhaps some kind of ombudsman.

Security of tenure

The Housing Act 1988 has had a radical impact on the PRS over the last 20 years. No longer constrained by rent control and security of tenure legislation, the sector has halted the decline that it suffered during most of the 20th Century and has begun to grow again.

Landlords now tend to opt for the default assured shorthold tenancy (AST), which lasts a minimum period of six months. It is important to all investors that they are able to deal with problem tenants as quickly as possible and a AST provides such comfort. As important, particularly for small landlords, where their property might be their only and major investment, they will want a reasonable level of liquidity, so should they decide to switch investments or sell for personal reasons, they will be able to do so.

It is worth reiterating that residential property must compete with other investment assets and anything that restricts investors' abilities to trade their assets will increase their risks and the returns they seek.

The BPF believes that assured shorthold tenancies have been instrumental in attracting investment back into the sector and any moves to strengthen security of tenure could have the opposite affect. That said, greater security of tenure is being achieved in some circumstances, for example local authority private leasing schemes are negotiating

longer leases, typically three or five years in length. This is attractive to some landlords, who appreciate that such agreements help to minimise the risk of voids.

However, liquidity is not the principal reason that many professional landlords insist on a six-month AST. Professional landlords who invest for the long-term have no desire to evict people. The last thing they want are expensive void periods. Indeed, such landlords would be much more willing to look at longer tenancies if the problem of eviction was resolved.

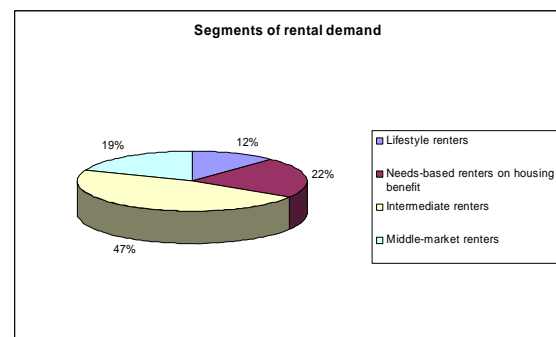
Many landlords find that evicting tenants for anti-social behaviour or non-payment of rent through the courts is desperately slow and costly, and the courts often fail to enforce eviction notices on tenants. Because of the obvious problems of homelessness that eviction causes the process is long, bureaucratic, technical and often poorly enforced. For landlords who want to remove a badly behaved tenant, it is easier to use the AST arrangements for an eviction notice at the end of a six month tenancy than it is to pursue the legal remedy to which they should be entitled. It is therefore easy to see why ASTs have become the norm and an essential part of the market.

More people are using the PRS because they are ineligible for social housing or unable to buy their own home.

Figure 1 illustrates that nearly half (47 per cent) of people renting fall between affordable home ownership and state-supported renting, what is often termed the intermediate market.

Groups such as key workers, for example, or young families with children, would probably welcome a slightly greater security of tenure; and professional landlords would have no problem in guaranteeing longer lengths of secured tenure for such groups.

Figure 1 – Source Hometrack



We recommend Government should stimulate debate on some kind of intermediate tenancy, which provides a slightly longer period of security of tenure of say between three and five years. We believe this might appeal to

landlords in the social rented and private rented sectors. To promote take up, incentives such as tax concessions or rental guarantees could be provided, as is the case with private sector leasing schemes.

A better PRS – other reforms

Our experience is that the PRS is very much treated as a 'Cinderella' activity by local authorities, because of the resource it commands and its perceived contribution to the strategic housing objectives of the local authority.

However, local authorities have a key influence on the PRS through their enforcement of regulations and more generally as providers of information and advice to landlords and tenants.

The way in which legislation is implemented by local authorities and national Government is often wasteful and confusing, because there is no clear policy in central Government on which tier of Government should do what. Take, for example, the recent implementation of the Housing Act 2004. Instead of one standard national application form, each local authority was left to design its own. The better ones worked in partnership at regional or sub-regional level to avoid such duplication, but most local authority officers across the country produced their own variant of the same form. The same is true of much of the rest of the design of licensing and stationery involved. The amount of fees to be paid is another area where there has been significant variation from nothing to pay in Norwich to £1,100 for the basic fee in Wandsworth. Local authorities are also allowed to depart from national minimum standards in drawing up amenity standards, adding further complexity for what is little gain.

There are good reasons, which we support, for giving local authorities significantly greater autonomy on local issues, where their strategic direction and leadership can add value, such as on economic development or planning policy.

However, in other instances local government is essentially the local delivery agents of national policies and services. In such instances, customers (landlords in this case) should receive a better service and taxpayers should not be paying for such waste.

A further and similar example is the payment of housing benefit, where what should be a consistent national service across the country, is delivered extremely inconsistently, at least in part because of local authorities' different policies, practices and equipment.

Consistency can be achieved through central Government direction, but also by better co-ordination of local authorities themselves. The introduction of the Improvement and Development Agency (I&DEA) and the bringing of housing services within the remit of the Local Authority Coordinators of Regulatory Services (LACORS) are helpful steps in the right direction. But until local authorities at the highest levels grasp that not everything they do has to be designed locally, service delivery and cost effectiveness will continue to suffer.

We recommend that the Lyons Review of Local Government should set out clear rules on subsidiarity and make recommendations to ensure co-operation between local authorities at a national level, so that Government services are delivered consistently, and for example for HMO licensing to the same standards.

We also recommend that the Government should use the powers given to it in the Housing Act 2004 to cap licensing fees.

There is wide divergence in the performance of local authorities' delivery of housing benefit. The latest quarterly performance figures demonstrate that the best performing authority in 2005/2006 took 10 days on average to process a housing benefit claim, whilst the worst authority took 97 days on average. Geography cannot explain the differences in performance as there are authorities neighbouring each other whose performance varies significantly.

Currently, the delivery of housing benefit entails a two-part process. The rent is assessed by the Rent Service whilst the claimant's housing benefit application is processed by the local authority. To speed up the first part of this process, the Government has been testing a new housing benefit system, called the Local Housing Allowance (LHA). It has been under trial in what are called 'pathfinder' areas.

Two key facets of LHA are being piloted in the pathfinders. The first is a simplified method for rent assessment, which rather than having rent assessed for a particular property, seeks to generalise a rent, based on an area assessment and the rooms that should be required by the claimant. Clearly, such a system should speed up process of rent assessment and therefore housing benefit delivery, which early results show is happening. However, such innovation is only able to achieve so much, as the second part of delivery - claim handling by local authorities - is left relatively untouched by the reforms. If the variations in payment times and service are to be reduced, then the variable performance by local authorities needs to be tackled.

The other major element of the LHA reforms is direct payment. This has less to do with speeding up processing times, and is more about providing housing benefit tenants with greater choice over their accommodation. This is a laudable objective, but requires tenants to exercise such choice with financial responsibility. Where tenants are 'vulnerable' and unable to manage their financial affairs, or are in rent arrears, the local authority can require that their housing benefit is paid direct to their landlord.

Trying to decide who is vulnerable and who is not is often a difficult judgement. The results, however, are important, as it is the landlord who suffers where rent is not paid. We are not against the aims of direct payment, but do not believe that landlords should be shouldering the risks.

We recommend that Government should act as guarantor for payments of housing benefit that have not been passed on as rent.

The LHA will eventually be rolled out nationally as part of the Welfare Reform Bill. The Government's intentions were recently set out in a Green Paper. Whilst some fine-tuning is to be expected as part of the development of a programme, some of the proposals in the Green Paper were substantially different from the pathfinders and we fear they have not been tested.

Part of the problem may be that the pathfinders have been extremely generous, and we know, for example, that the extra benefit paid in one local authority is on average over £50 per week, and in 30 per cent of cases exceeds £100 per week. Clearly, if replicated nationally, such figures would have a significant impact on housing benefit costs, therefore savings have been sought, for example, by taking away transitional protection, basing the LHA on median rather than mean rents, and capping gains.

We recommend the changes to the LHA system should be tested under pathfinder conditions before any attempt is made to implement them more broadly.

More generally, there are other housing benefit reforms that are long overdue. The Single Room Rent provided to young people under 25 to rent shared accommodation is often set so low that it prevents young claimants from obtaining accommodation in the private rented sector. As a result, this forces many on to the streets or into informal accommodation arrangements. It drives young people who can just about afford to rent into some of the worst accommodation in the private rented sector. It can also lead to debt and eviction, as young people struggle to pay the excess between the SRR and market rents. It may force young people, who are at an age when they are not worldly wise, to share with others who will exploit

their vulnerability. It simply cannot be right that a policy forces young people, some of whom will have just left home, are vulnerable, and are struggling to put a roof over their heads to accept some of the worst standards in the private rented sector.

We recommend the Single Room Rent is scrapped.

Housing benefit, at least in theory, is set to reflect market rents. In some areas, however, the market itself will be failing and therefore rents will be below what is sustainable to keep properties well-managed and well-maintained.

We recommend there should be a national minimum housing benefit rent assessment, which takes into account the reasonable costs incurred in managing and maintaining a property.

Anti-social behaviour

Anti-social behaviour is rightly a priority for policy makers because of the abject misery it causes many people. Decent landlords have no tolerance for disruptive tenants, but equally have few credible powers to intervene.

Against this backdrop, recent debate and policy initiatives for tackling anti-social behaviour are frustrating. They seem to assume that private sector landlords have far greater powers than they actually have, particularly where the behaviour is taking place not on, but in the vicinity of their property. To compound landlords' frustration, tougher policy on anti-social behaviour and rent arrears in the social housing sector is leading to more evictions. As a result, the worst tenants with no place left to turn are ending up in the private rented sector. It seems an absurdity of policy that the social sector, with better access to the police, ASBOs, social services, etc. should be evicting such tenants into the PRS, which is less equipped to cope.

We recommend that Government, rather than imposing initiatives, should work with the sector to develop a comprehensive strategy for tackling anti-social behaviour. For a start, it should be seeking to integrate local landlord representatives more into existing structures (for example how many crime and disorder partnerships have a PRS landlord rep?).

Local authority information and advice provision is generally to a high standard. There is one issue, however, which possibly causes landlords to have more animosity towards local authorities than any other issue. Tenants whose assured shorthold tenancies are approaching expiry will sometimes

approach their local authority for advice and seek to be rehoused. Invariably the advice given is to remain in possession, even although the landlord will have served the correct notices and acted in good faith. The reason such advice is given is that the tenant must prove they were evicted to qualify for local authority assistance. Staying in occupation forces the landlord to spend the time and money pursuing the matter through the courts. We think it is wrong that local authorities should be briefing one member of the community to the disadvantage of another member of the community.

We recommend that Government should require local authorities to stop advising tenants at the end of their tenancies to remain in possession.

Nearly half (48%) of rented property is managed by a letting agent, and even more landlords use a letting agent to market their property. The service received is very variable - sometimes excellent, sometimes very poor. Agents who are members of a professional association (RICS/NAEA/ARLA), or who have joined the National Approved Lettings Scheme (NALS), subscribe to service standards and offer client money protection. We believe such basic standards should be universal.

We recommend that Government works with NALS and the professional associations to consider some kind of regulatory regime for the sector that builds on their existing efforts.

Landlords are also concerned about the service their tenants receive from their letting agents, and will often appoint an agent on the basis of providing a 'full service'. Some agents, however, will then charge tenants hundreds of pounds to provide basic tenancy documentation and for simple check in and check out procedures. In many cases the landlord is unaware that the tenant is being charged. The amounts being charged for such services are way in excess of the costs of the service and, bearing in mind landlords are paying for a full service, we can see no justification.

We recommend that Government tackles the issue of double-charging for services, so that it is transparent to landlords and tenants whether and what charges will be levied, perhaps making it an implied term of the agreement with landlords that a tenant will not be charged.

Addressing housing shortages

BPF members deliver significant residential development often as part of broader large-scale mixed use developments. They are not traditional house builders, but are skilled at using commercial property construction techniques and regeneration

expertise to create sustainable communities on urban brownfield land. Commercial property developers are also having to consider providing housing as part of their large scale commercial developments. This has spurred joint working with commercial developers working with investors and housing managers, including housing associations, to deliver mixed tenure and mixed use schemes.

We also represent the main institutional investors, who invest retail, life assurance and pension fund money in property. A small proportion of this investment is currently channelled into residential property to let, but with the right conditions there is a tremendous opportunity to encourage more private money into rented housing and shared equity.

Investing in housing for rent

There are several good reasons why policy makers should be keen to promote large scale developers and investors to invest in housing for rent:

- i. The Barker Review identified the country is facing an affordable housing shortage. Whilst Barker argued that increasing the supply of housing for owner-occupation would eventually make home ownership more affordable, her analysis showed that the short-term impact would be limited. Even if all 39 of her recommendations were implemented, the results would not be seen for two to three decades.

There is little incentive for traditional house builders to significantly raise output, because to flood the marketplace would be commercial suicide. Therefore, house builders strategically phase or restrict supply for sound commercial reasons. And although the Government has said that social housing, built largely by housing associations, will be a priority in the next spending review, this will be taking place at a time when public finances are expected to be under great strain. Therefore, in reality, social housing will fail to plug the gap between demand and supply.

- ii. This shortfall, together with other social and demographic trends, will create the need for more private rented accommodation. Analysis by Hometrack suggests that by 2021 there could be just over 3 million renters, compared to just under 2.4 million in 2001. That equates to around 33,000 new renter households a year between 2001 and 2021. Such figures may be conservative given the difficulty in predicting migration, which has a significant impact on the sector. At recent rates of house building, a fifth of new

housing supply would need to be privately rented to accommodate such future demand.

- iii. If supply of housing overall cannot be increased, such demand will have to be met from private house building, with investors competing with potential owner occupiers to satisfy demand, putting more pressure on house prices. If, on the other hand, such pressures stimulate and increase supply, this will not happen.
- iv. The Government is increasingly using public subsidy to support the intermediate market, mainly through products which subsidise low cost home ownership. This can be an extremely costly, particularly where any subsidy is in grant form and therefore a 'one-off' payment, which carries no obligation to repay it. BPF members, with far less support from Government, could be expanding the intermediate market, through investment in shared equity products and expansion of the intermediate market for rent.
- v. Policy emphasis is on creating mixed communities, but in practice that often means a mixture of social renting and owner occupation. Without market renting or intermediate accommodation, a swathe of the community is not being catered for and a polarised, rather than genuinely mixed community, is often the result.
- vi. There is the opportunity to raise standards through competition. The student sector exemplifies this well. Large scale privately managed student accommodation has been introduced in some places, demanding a response from other providers in the market. Large scale PRS providers offering high levels of service and intermediate renting would, we believe, have a similar effect in the general rental market.

The keys to understanding how our members could play a greater part is to appreciate that:

- Private developers and investors spending hundreds of millions of pounds are going to want to sufficiently protect their investments. They will want to appoint good property managers and to have the discretion to do so. They will want to put in place long term arrangements for managing the development as a whole.
- They will want to have the flexibility to redevelop, particularly in a mixed-use context where the commercial property may have outlived its useful life.
- Such developers will make money on income from rent rather than quickly selling the

property. As such, the sooner they can provide accommodation the better, as it will bring income on stream. Therefore, it is in their interests to meet demand as soon as possible and avoid any land-banking.

- The returns on residential renting must be competitive with other asset classes, particularly the returns from commercial property.

We believe the Government should promote a UK build-to-let sector. With sufficient land supply, this would add to housing supply, rather than competing with supply meant for owner-occupation. On large scale developments it would also speed up the delivery of housing as supply meant for renting would not impact on the sale value of housing for purchase, which is often carefully phased by house builders.

To promote build-to-let we recommend that the Government should:

- **Ensure that the need for private rented housing is assessed as part of local authority housing needs assessments.**
- **Make it a planning requirement that large scale developments, say of more than 200 units, must make some provision (of the order of 10%) for private rented housing. For the reasons set out, this would help speed up developments. It would also create genuinely mixed communities.**
- **Ensure that English Partnerships has a strategy for the PRS and gives it due consideration in the land it brings forward for developments.**

Intermediate housing

Research for the Barker Review by Glen Bramley showed that approximately 90,000 new households a year are in need of sub-market housing. At present, social housing provision, both through public-funded development and s106, is providing about 40,000 units. Government shared equity schemes are aspiring to deliver 35,000 homes by 2010, about an additional 9,000 units a year. Table 1 illustrates that there has been little perceivable growth in the intermediate market. Supply is therefore only accounting, and will continue to account, for about half of demand.

Table 1 - Percentage of New Build Housing that is 'Affordable' i.e. at sub market rent or for shared ownership

	97 98	98 99	99 00	00 01	01 02	02 03	03 04	04 05	05 06
NE	15	13	11	9	12	5	8	9	11
NW	16	18	13	13	13	13	8	9	6
YH	14	12	10	10	9	7	8	7	7
EM	12	11	9	10	9	7	9	9	11
WM	17	16	17	14	13	16	12	15	15
E	13	15	10	12	12	11	12	13	14
Lon	32	31	31	30	24	26	30	24	26
SE	19	19	15	15	14	16	18	18	20
SW	16	15	15	13	14	13	16	15	15
Eng	17	17	14	15	14	13	14	14	15

(Source: House of Commons Written Answer 3rd July 2006)

Given predicted levels of demand there is a strong case to argue that our members could be doing a lot to provide for the intermediate market, both renting and shared ownership. However, planning policy, and local authorities' interpretation of it, is one of the main barriers to our members' participation.

Although Planning Policy Statement (PPS)3 allows for flexibility in the provision of affordable housing, most local authorities are far more rigid in their requirements. They commonly ask for pure social housing, to be owned and managed by a registered social landlord (RSL) in perpetuity and they quite often even prescribe the RSL to be used. A few local authorities, such as Bournemouth and Portsmouth, are far more flexible. We believe they are able to negotiate far more provision as a result. For example, the more flexible local authorities will allow:

- A variety of different classes of property to qualify as affordable housing for s106 purposes (student housing, accommodation aimed at the elderly, key worker renting and shared equity).
- Developers, or private investors, to retain ownership of the property, rather than insisting that it is owned in perpetuity as social housing by an RSL. This is hugely important as any capital appreciation can be used to cross-subsidise sub-market rents and therefore achieve competitive returns.
- Greater choice over who manages the property, and not prescribe specific RSLs.

To promote a thriving intermediate market we recommend that:

- **Government develops a standardised intermediate rental product, which qualifies as part of s.106 obligations for**

affordable housing. This could offer greater security of tenure than an AST, but stop short of the secured tenancies offered on pure social housing. There would be no requirement on the property having to be managed by an RSL. Private management would be acceptable, providing landlords were signed up to an accreditation scheme whose standards could be enforced by the Housing Ombudsman Scheme.

- **To promote wider flexibility there should be a general presumption in PPS3 against affordable housing being provided in perpetuity. Local authorities would still be able to ask for s.106 obligations to be in perpetuity, but would have to ensure their rationale and arguments were defensible at planning appeal.**

It would be inappropriate to target Social Housing Grant at such a market. It rightly should be used to increase the provision of pure social housing. However, to make returns competitive, there may be scope for tax incentives.

A number of countries around the world, including Germany and the USA, have introduced fiscal incentives specifically targeted at private sector investors to attract greater residential investment in new housing for rent, largely targeted at the intermediate market. Terminology, eligibility and precise methods vary, but essentially such schemes have similar key ingredients to those contained in what is known as 'section 42' tax concessions in the USA. The essential ingredient is an exemption from, or substantial reduction in liability for, income tax on rental yields. In some cases, on capital growth, in return for investment in, provision and management of rental housing (usually for a defined market – sub-market or intermediate) for a minimum period. This period varies from eight to 20 years and can operate on a sliding scale should properties be traded within certain bands or thresholds. Such measures have been hugely successful in stimulating private sector investment in rental housing.

We recommend the Government considers similar tax incentives in the UK.

Investment in shared equity

Although we mainly represent private rented sector investors, we have no qualms with the current political debate about expanding home ownership. We believe that both need to expand, and providing home ownership is promoted responsibly. One way in which Government is currently seeking to expand home ownership is through promoting shared

equity. However, this is expensive and, as a recent ODPM Select Committee report highlighted, could drain significant funds from social housing provision. Therefore, to deliver any significant programme Government has turned to the mortgage lenders, who have announced a programme of equity loans.

To broaden capacity further, we believe there is scope for other forms of funding – perhaps pension funds or fund managers prepared to corral retail funds for investors who are wanting a diversified investment in house price performance without the gearing of a buy-to-let loan.

We recommend the Government considers other forms of funding as part of the work of its current Shared Equity Task Force.

Social housing

According to estimates, about half (47% in 2003) of new-built social housing is provided through s.106 obligations on developers, and 82% of this is without subsidy. BPF development members are therefore already making a considerable contribution to social housing provision. As a result, increasingly taking an interest in, and being impacted by, policies on social housing. In particular, over the past year we have observed the Government's attempts to widen eligibility for social housing grant to private providers, and more recently the review of the roles of the Housing Corporation and English Partnerships.

We welcome the Government's attempt to look at how delivery of regeneration and housing can be improved and agree there is a great deal of potential synergy between the Housing Corporation (HC) and English Partnerships (EP). EP's experience with private developers could be valuable in delivering affordable housing more effectively and we are broadly supportive of encouraging closer working between the two bodies, providing this does not dilute EP's important other functions, such as land remediation.

Public subsidy in the form of social housing grant needs to be reformed. It could be working much harder if the ownership and management of social housing was separated. As already eluded to, this will require greater flexibility on the part of local authorities and their policies on s.106 obligations.

There is a significant irrationality in regulating RSLs so that they meet standards, yet at the same time allowing local authorities to dictate RSL partners in s.106 negotiations.

We recommend the management of s.106 provided housing should be subject to greater competition, with more open procurement rules and management open to any bidder that can meet Housing Corporation standards.

Another irrationality in policy concerns mixed communities. Private developers are often now called to provide social housing through planning obligations in the name of creating a mixed community. This, however, does not cut the other way, where an RSL can buy a site and populate it wholly with social housing. Surely, if as we believe, mixed communities are beneficial, then the obligation to provide them should fall on all housing providers.

In the longer term, despite the laudable aim of ensuring that by 2010 every social tenant has a 'decent home', this should not detract from the fact that there are substantial quantities of existing social housing stock that look old and tired. Much of it was not built with sustainable mixed communities in mind and for some of it the only remedy will be to replan and rebuild.

Developers in the BPF's membership are not slow at spotting an opportunity, and we are sure they would be attracted to such sites. However, bringing such sites to development requires strong national and local leadership and an appreciation of what will attract and dissuade large scale developers' interests.

We recommend Government establishes a task force to investigate private sector-led development of existing large scale social housing sites.

Empty homes

The BPF supports the work of the Empty Homes Agency, local authorities and others in encouraging the re-use of long-term empty properties. These cannot provide the full solution to the country's housing shortages, but they can make a useful contribution to supply in some localities. It is worth stressing that an empty property is not just a wasted resource, but often an eyesore that blights the value of surrounding property. As investors in neighbouring property, landlords therefore have a vested interest in ensuring such property is maintained and used. Much of the current focus is on helping owners to consider their options. However, local authorities are also being given new powers to apply for Empty Dwelling Management Orders (EDMOs) as a last resort.

There is a delicate balance to be struck between the legitimate interests of the community to see such property used and the property rights of the individual to do what they please with their property. We believe that the various qualifications in the legislation provide sufficient protection for property owners and that the current balance of legislation is about right.

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