

Developing the intermediate market in London

One thing is certain given these uncharted economic times – taking action in the intermediate housing market is imperative, says Marc Vlessing.



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In this challenging economic climate, the need for new thinking to help prospective first time buyers (FTB's) get onto the housing ladder is ever more important – they after all hold the key to restoring confidence in an ailing market.

Despite falling house prices, 40 per cent of young economic households in London aged between 20 - 39 remain caught between the social and private markets as they are salaried out of social housing and priced out of even the cheapest end of the open market.

It is, therefore, more imperative than ever for the Government to focus on effective ways to help this group of people. The newly estab-

lished Homes and Communities Agency (HCA) has already identified this so-called intermediate market as an important priority, but to ensure it develops effectively a number of key areas require urgent attention, vision and innovation.

As a private property developer with direct experience of trying to get intermediate housing out of the ground, I strongly believe that what's needed is a broad range of solutions that will add real growth to intermediate provision; this is not about Government pushing a few big measures, but much more about it promoting a wide range of smaller ones. I am also of the view that there are a few financial interven-

tions worth considering to help underpin a housing market that might otherwise go into tailspin.

Land Release

In the first instance public sector land release is key. In view of current uncertainties and the lack of visibility on where land prices might be in the coming two years, consideration should be given to making portfolios of small sites available in London where developers would agree a profit share on future revenues, rather than trying to lock-in a land value upfront. By tying a deal into revenues, it is obviously possible to get round the question of how far the market may yet fall, and bodies such as English Partnerships and local authorities could be compensated for this through a higher than average profit share at the back-end. Over the next couple of years, it is unlikely that there will be a macro economic environment in which the regeneration of large sites becomes financially viable again. Therefore, encouraging development on small infill sites, of which a city such as London has an abundance, must become a clear policy priority.

To help speed up the process of local authorities releasing their own sites, Government should also consider providing sticks and not just carrots to assist in getting public land deals flowing more readily. One idea to aid in this process is the creation of a registry of public land that has been identified by either public or private sector developers as having developable potential. Once registered, the public land owner would be obliged to respond to the interest of the developer within a set timeframe (e.g. less than 6 months following identification) at the end of which the carrots and sticks

would kick in. Moreover, to avoid a Council or public landowner always opting for the highest price in selling off land, public land that is brought to market should be advertised on the basis of a set designation of what the mix should be.

The HCA could have an important role to play in oiling the wheels of public sector land release; Councils clearly have a difficult balance to strike between maximising the value of their land holdings to pay for decent homes programmes, for instance, or by contrast encouraging ways of stabilising the housing market and developing fresh supplies of affordable stock. A conceivable approach might be for the HCA to stand between the developer and the local authority to ensure that land is released more speedily and that receipts to the Council are underwritten, up to a certain level, by the HCA.

Market Failure

Pocket delivers intermediate housing solutions on small sites on which the average developer would aim to deliver private housing only. We have built out our first three developments so far across London and the reality is that under ordinary market conditions, the private sector should be capable of addressing the needs of singles and couples in intermediate housing need through grant-free solutions such as ours. Government should, therefore, focus the bulk of its scarce public resources on families in intermediate housing need, where the scale of market failure requires direct public finance intervention through, for instance, shared equity funding. What's needed at present, therefore, is a clearer understanding in Government circles about where there is genuine market failure, and hence the need for public interven-



Pocket one-bed room flat, Camden

tion, and where the private sector merely needs the policy (for which read in the main: planning) wheels to be oiled in order to achieve progress. Under the planning policy heading, ideas that need to be looked at would include: the planning system prioritising interme-

mediate housing on sites which are not particularly well suited for family accommodation; more flexibility concerning the creation or maintenance of questionable employment spaces in areas which are much better suited to residential use and finally planners being given firm

guidance on how to prioritise intermediate housing over social housing – more about this later on.

But back to money. FTB's who are able to raise a mortgage in today's market – and they are becoming rarer by the day - have three concerns: that the market will



A Pocket project in Camden

fall further; that they will lose their deposit if they are repossessed or forced to sell for whatever reason and that mortgages at loan-to-values of 85 per cent upwards have punitive interest rates which they can not afford.

To help FTB's address the current financial paralysis, industry leaders in the housing arena need to seriously look at new concepts to ease the current deadlock. My own idea is that of a Deposit Guarantee Insurance Fund (DGIF). How DGIF would work in practice, is that people in the intermediate market (i.e. FTB's suitably defined) could acquire a Government-backed guarantee through the HCA, which covers the value of their deposit. The rationale behind DGIF is that it is the deposit which prospective buyers have to put up which is their key risk if things go wrong. Often it is the fear of this loss which forms the main barrier to FTB's acquiring today.

DGIF would also make it easier for FTB's to gather together a larger deposit (up to 25 per cent) with which to then tap into the more attractive mortgage rates that would become available to them – and it's worth spelling out that the mortgage industry is not pricing FTB's at punitive interest rates merely because it considers that market a bad risk in itself; it is instead responding to the capital adequacy ratios that have been imposed on the mortgage providers by banking regulation (eg Basle II) and for this to be resolved, the Treasury will have to roll up its sleeves and ask whether these levels of capital adequacy are relevant in today's housing market. For in today's market, the differential interest cost on a £200,000 home between a LTV of 75 per cent or 85 per cent is around £3,000 - £4,000 per annum and in Pocket's experience of selling into this market

segment, this sum is substantial enough to make a £200,000 unit unaffordable to the majority of FTB's.

If we take a cut-off point of £200,000 for a FTB unit, and assume an average deposit at 25 per cent, a Government-backed guarantee would secure £50k per FTB. The cost of this insurance might be a premium of up to 5 per cent on the deposit amount underwritten and would cover a maximum period of, say, 5 years. On an actuarial basis, it is highly unlikely that all takers of insurance under DGIF will want or need to draw on their policy during the 5 year term. Therefore, unless Treasury rules say otherwise – and its views on the creation of a contingent liability of this nature would obviously require further investigation – there is scope to enable a larger amount of business than the overall risk associated with the fund. Overall this will be a much cheaper way to help stabilise the market than providing direct equity support, let alone buying up the output of national house builders who have got their product mix wrong – or supporting these companies directly.

Planning Targets

Although not a popular subject, target setting remains an issue which needs further thought now that the Mayor has abolished the old London Plan's affordable housing threshold, which was the only meaningful tool available – however imperfect – through which developers and planners could negotiate housing mixes. As matters stand, Councils do not have a clear enough responsibility for the delivery of intermediate housing. As a result, many Local Planning Authorities (LPA's) will prioritise social rented accommodation over the provision of intermediate, even where the play-off

between the two on small sites might yield a negligible amount of social rented accommodation.

Government and the GLA should, therefore, consider setting guidance levels for the provision of intermediate housing at local authority level. In London, guidance at 80 intermediate dwellings p.a. per 100,000 of population should be considered. At this level, London would need to deliver some 6400 intermediate units – or 194 per borough – annually. On the basis of a 60/40 social/intermediate split and a 50/50 split between private and affordable, this target translates into 32,000 new housing starts per annum for London overall.

Taken at the national level, a target of 80 intermediate dwellings p.a. per 100,000 of population translates into 240,000 annual housing starts (or 2.88 million by 2020 which is not too far off the Prime Minister's pledge of 3 million by 2020).

Joined Up Action

Intermediate housing fundamentally lacks an economic and social policy context in this country, let alone a planning policy framework – it's almost as if 60 years of housing think has prioritised social housing and private housing to such an extent, that nobody has the energy left to try and come to terms with the bit in the middle which today actually faces the greatest need for attention and action. Maybe a specialist forum under the auspices of a body such as the HCA might be an effective way of relevant policy areas being highlighted to develop intermediate housing; it could also usefully act as an advisory body. What is certain is that industry and policy makers alike need to prioritise the intermediate housing debate and give it focus, rather than allow disparate calls for action dissipate

what enthusiasm there is left out there to bring about the reform that is so badly needed.

Let's be clear, intermediate housing matters on social grounds because without a more predictable delivery of this kind of housing, the nation becomes one in which only the haves and the have-nots get a chance of a decent roof over their head. But it also matters because it is this very wedge of housing that holds the balance between prices rising too quickly or falling too rapidly – if we are to move away from the boom and bust nature of UK housing Plc, we will have to come to terms with the need for a very significant increase in intermediate housing provision. So planners should start to work out how they can help bring this about, despite national guidance to deliver more intermediate housing still being in its infancy today. They need to do so because it is a safe bet that the politicians will be putting more effort into this segment of the housing market as the children of the baby boomers leave university and find that getting a home they can afford to buy or rent is simply not within reach.

One thing is certain given these uncharted economic times – taking action in the intermediate housing market is imperative. Doing nothing is not an option. In as little as six months the housing market may well have shifted into a gear from which resuscitation and stabilisation becomes even harder to imagine. Letting the market decide in these exceptional circumstances would be the wrong choice – after all, nobody should want the bounce back which may well occur if supply and demand is not brought into better equilibrium this time round.