

National Assembly for Wales

Communities, Equality and Local Government Committee

CELG(4) HB 14

Inquiry into barriers to home building in Wales

Response from : Coastal Housing Group

I am writing on behalf of the development department of Coastal Housing Group, a registered social landlord (RSL), in response to your letter dated 13th June 2013.

We have developed the following in consultation with our own staff and external partners.

Together, we would like to offer our thoughts on the questions you raise.

1. *Are development costs impeding and constraining the delivery of new homes in Wales?*

- 1.1. There is absolutely no doubt that the increased development costs are placing a significant burden upon the viability of projects and thus are constraining the delivery of new homes in Wales.
- 1.2. Although land prices in large parts of Wales are lower than in other parts of the UK, materials and labour costs are the same. Indeed, many of the consultants for a project may be sourced from outside Wales, and so builders in Wales operate on broadly the same market for expertise as their contemporaries elsewhere.
- 1.3. The house building industry in Wales has been under significant strain for the past 4-5 years and we aware that individual builders, together with the Home Builders Federation, have been lobbying Local Authorities and the Welsh Assembly Ministers to appreciate the severe issues that we are currently dealing with in order to survive and maintain a viable house building industry in Wales.
- 1.4. Once buildings are completed, from our point of view as a registered social landlord (RSL) they will be leased at social rent levels in most cases; obviously substantially below market rent. Higher building costs for us mean that certain potential schemes may be rendered unviable by the reduced income generated by the completed product.
- 1.5. Additionally, even open-market rents and sales values are depressed in Wales compared to other parts of the UK. This means that the standard costs paid to contractors across the UK are harder to recoup from sales or rental revenues.
- 1.6. Development costs can be divided into Direct Costs and Indirect Costs.
- 1.7. Direct Costs are those costs which are brought about by Government intervention and changes to Building Regulations and the costs of raw materials.
- 1.8. Taking the base building cost to be the 2006 Building Regulations (i.e. pre-recession) then the actual costs of development have risen as a result of the Code for Sustainable Homes Level 3 plus 1 credit under Ene 1 – Dwelling Emission Rate, equaling an additional cost of £3,000-£4,000 per unit (average dwelling size of circa 100m²).

- 1.9. Further changes to the Building Regulations and increasing the minimum level to Code 4, plus the introduction of fire sprinklers into new residential dwellings is causing uncertainty within the industry and thus impeding the delivery of new homes.
- 1.10. The most obvious examples of indirect costs imposed are increasingly burdensome Section 106 Planning Obligations, being sought by each Unitary Planning Authority.
- 1.11. Financial contributions are being sought for a growing list including; affordable housing, education, transportation, community facilities, libraries, public open space/play areas, together with huge sums for commuted maintenance payments.
- 1.12. The typical average contribution being sought is between £7,000 and £10,000 per dwelling on the majority of schemes.
- 1.13. It is conceded that the construction of school sports facilities, environmental protection requirements and community benefit provisions are doubtless useful tools for local governments who are also experiencing constraints upon their budgets.
- 1.14. Volume developers and house builders are required to subsidise the provision of between 20-40% of dwellings as affordable homes due to the lack of any social housing grant being made available via the RSLs. Whereas pre 2008 the RSLs were able to bring grant subsidy into the schemes and generate a positive value for the affordable dwellings, nowadays the affordable dwellings generate a substantial negative value and therefore, the 'gap funding' has to be found from within the scheme. This is very often the straw that breaks the back of the scheme's financial viability.
- 1.15. Fewer homes being built also means fewer units for the RSLs via s106 agreements.
- 1.16. Due to the declining number of construction projects being commenced, a startling skills shortage has developed in Wales. Although we are trying to increase their numbers through social benefit clauses in all of our contracts, if demand should pick up then the skilled tradespeople with the proper experience are not in the supply chain.
- 1.17. The term 'sustainable development' often gets interpreted overly strictly by some Planning Authorities and in many instances there appears to be an imbalance between the weight apportioned to the environmental issues and the social/economic benefits generated by the proposed scheme.
- 1.18. This imbalance in favour of the environmental issues causes major delays and can often lead to tens of thousands of pounds being spent on ecological and environmental reports just to prove that the development does not have a material impact. However we are not required to submit reports of equal weight to demonstrate the social and economic benefits of the scheme and it appears that there is a presumption against development rather than going back to the first principles of the Town & County Planning Act 1947 where there was a presumption in favour of development.
- 1.19. The additional burden of planning obligations, together with the Code for Sustainable Homes and changes to the Building Regulations have now added circa £10-£12,000 to the average cost of building a new home in Wales.
- 1.20. This, coupled with the average price of a new home falling by circa 25% over the same period i.e. (2008-2012) has caused many new housing projects to stall or become unviable.

- 1.21. In such circumstances, the financial institutions are unwilling to provide the capital to enable projects to get off the ground due to the high level of risk associated with the project and the low level of financial returns forecasted.
- 1.22. Meeting Code requirements also means that developers may include technologies such as biomass heating systems which are not required by the end user. This pushes up the build cost for no real gain. A biomass boiler will cost £30k-40k for a larger scheme but may be installed purely to meet code requirements and never commissioned.
- 1.23. The costs and delays associated with a Planning Application are also a material concern within the industry. A typical Planning Application together with supporting reports and planning documents will cost circa £100,000 for a medium sized project of 50 dwellings.
- 1.24. The time taken to process such an application through to the final determination is between 9-12 months, during which time the applicant is likely to be requested to submit further reports and amended plans in order to deal with the consultee responses received by the Planning Authority.
- 1.25. The Lifetime Homes requirement also pushed up the costs for RSLs, again increasing costs and cutting into tight margins. For example, houses will have upgraded joists to accommodate hoist systems, even though the vast majority of homes will never have such a system installed.

2. *Our specific concerns as a contracting constructor in Wales*

- 2.1. The housing industry in Wales has not received any financial support such as First Buy which has been very successful in England and has enabled the house building industry to show signs of recovery and re-introduce the first time buyers into the market.
- 2.2. The concern of the industry in Wales is the Welsh Government's pursuit of a green agenda ahead of the UK's development-led agenda which has been to the detriment of housing supply in Wales.
- 2.3. Very probably from April next year the Domestic Fire Safety (Wales) Measure 2011 will come into force. As a social landlord working to extremely tight margins this is a major concern to us.
- 2.4. It is estimated that the fitting of a fire sprinkler system will cost £4,000 per unit, before the annual maintenance costs for the life of the unit are considered.
- 2.5. Taking into account the additional costs mentioned in 1.19 above mean that the costs of building a home in Wales are potentially £16,000 higher than in England.
- 2.6. Additionally, for the cost which would almost certainly reduce the numbers of new homes built it is questionable how many lives would be saved. A working smoke alarm system would have already alerted occupants to the fire long before the temperature in the dwelling was high enough to activate the sprinklers.
- 2.7. Nearly 80% of deaths from fire between 2002 and 2012 occurred in properties without hard-wired smoke alarms. We believe that in fact it is older properties with fewer fire retardant measures and which lack smoke alarms that need to be targeted, not new-build properties which meet current standards.
- 2.8. Sprinkler systems also impose a maintenance burden on private home owners. If the systems are not properly maintained, they will be as good as useless and hence the already marginal number of lives they could save will be further depleted.

- 2.9. We have become aware that certain of the volume house builders are considering withdrawing from Wales should this measure be implemented. This would again reduce the numbers of houses being built, affecting the supply and making it impossible for planners to meet their LDP targets.
- 2.10. As a social landlord, the reduction in social housing grant is a major concern. It has already been reduced by 25% per year for the last two years and is projected to continue to fall.
- 2.11. Coastal Housing Group used to receive more grant for a single scheme than is now available for the whole of Swansea for the current financial year. Obviously this is greatly reducing our capacity to build new homes which in turn hinders the Welsh Government in meeting its housing targets, currently 7,500 over this term.
- 2.12. To counter this, the Group has had to seek new ways to add to its stock in order to continue growing the business, including drastically changing the traditional model of a housing association. Commercial premises are now integral to the viability of many developments, which poses its own challenges in a straitened economic climate where many retailers are reluctant to open new stores.

3. *'Quick wins' that can be implemented by the Welsh Government to assist the construction industry*

- 3.1. There are certain parts of the development process which could be eased in order to aid the construction of more units more quickly.
- 3.2. The majority of Planning Applications are delayed due to the time taken for the statutory consultees to respond to the Planning Authority and in most cases the LPA will receive a 'holding objection' from Welsh Water in respect of sewerage capacity and a request from Welsh Water for the applicant to undertake a hydrological drainage modeling assessment of the local drainage network.
- 3.3. Additionally, in the early stages of development, s104 of the Water Companies Act 1991 sets out the required steps to reach an agreement with the local water supplier in order to secure a water supply and sewerage services to the site.
- 3.4. Although a not-for-profit organisation, Welsh Water is a monopoly which exercises the authority of a pseudo organ of state. It can be a major blocker to development by drawing out the agreement process and insisting on onerous conditions to its supplying of its services. Reaching agreements and producing the reports above is also time consuming and expensive.
- 3.5. Welsh Government needs to take this in hand and introduce a more stringent oversight of the s104 process which would bias the bargaining position in favour of the developer of a scheme which Welsh Government felt was of value.
- 3.6. In accordance with s278 of the Highways Act 1980, developers must also reach an agreement with the local highways authority to alter a road for a development.
- 3.7. The local authority with responsibility for such a highway can act as a major blocker in a similar fashion to Welsh Water. Agreement can be a slow and expensive process and local authorities will insist upon using their own contractors. In many cases, the preferred contractor of the local authority will be slower and more expensive than one available to the developer, adding costs to the overall scheme and affecting its viability.

- 3.8. Within the Planning Authorities themselves we have to deal with various battles between departments such as Urban Design & Highways and there is no clear direction as to the hierarchy of design that would be deemed acceptable by all parties.
- 3.9. There needs to be a clear message fed down from the Welsh Government to the Unitary Planning Authorities together with the statutory consultees i.e. National Resources Wales etc., that the planning system needs to be more flexible and that there must be a willingness to take decisions promptly on a balanced judgment, rather than seeking supplemental reports to justify a potential concern.
- 3.10. Numerous bodies who hold considerable land banks are currently rationalising their portfolios in order to generate income, such as the NHS, the Police and the Church.
- 3.11. Perhaps if a disposal of land came with the caveat that it had to be developed within a tight timeframe, this would favour RSLs who could develop and implement a project quickly, as opposed to the land being banked by a volume developer. Although social landlords are benefitting from s106 agreements, the actual numbers of units acquired are low.
- 3.12. The conversion of space above retail premises is currently limited to one unit before planning permission is required, however there are many vacant floors above city centre units that could be converted into much-needed residential accommodation.
- 3.13. We would urge that the planning system be altered to ease this conversion of unused space above retail premises, as has been in England. This would assist in town centre regeneration as it would introduce more residents into Welsh town centres who would patronise businesses and create more vibrant urban spaces, even outside of normal trading hours.
- 3.14. Furthermore, former vacant commercial spaces in outlying suburbs could be allowed a change of use back into residential accommodation in order to eliminate the visual detraction of a vacant shop front on the street scene and provide another new home.
- 3.15. The Welsh Government needs to relax their green agenda and allow the house building industry to recover back to normal trading conditions before introducing any further regulation changes and increased build costs (i.e. sprinklers). It is not a given that developers freed from the constraints of code requirements would produce unsustainable accommodation. They still have their reputations and the demands set by the market to respond to.
- 3.16. The arrangements for meeting code requirements could be made more flexible. At present, the requirements are not matched up to the end user. For example, bike racks are essential at developments for older persons. They will be at best underutilised and add to the build cost.
- 3.17. Natural England (NE) are responding to the Government's focus on growth and are working on a major change programme to assist with the planning process. They also recognise from their customers' feedback that they need to be more focussed on customer service. Perhaps Natural Resources Wales could be persuaded to follow.
- 3.18. Processes leading up to the beginning of construction need to be quickened. Perhaps better dialogue between the local authority, the developer, structural engineers and architects at the planning and design stage would minimise afterthoughts and alterations needing to be allowed for late in the construction phase.
- 3.19. Statutory Consultees should have to respond within the statutory time periods for planning applications – failure to respond within the statutory period would be deemed as “a non objection” and the Planning Authority could determine the application accordingly.

- 3.20. The Welsh Government need to implement the Home-Buy Cymru Scheme (or similar) without delay in order to bring back first time buyers to the housing market.
- 3.21. Finally, Welsh Government and Welsh local authorities hold a great deal of land. We would suggest that some of this land could be released for specific purposes, such as the construction of new social rented accommodation.
- 3.22. Grants of land, even brown field and former industrial sites, to RSLs would significantly reduce development costs and facilitate the construction of more units. The Welsh Government would benefit from this as such a move would be of great assistance in meeting its housing targets and alleviating poverty and homelessness in Wales.
- 3.23. Local Planning Authorities must be informed that they need to take a far more pragmatic approach to the affordable housing requirements via Section 106 and not frustrate and delay planning applications due to onerous requests for high levels of affordable housing. This would increase the supply of private homes by relieving some of the pressure on developers.

We thank you for reading our submission and hope that you will consider its content favourably. We look forward to reading the resulting report.

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