

“Planning and Affordable Housing for Build to Rent” - Response of Gateshead Council to Government Consultation

Policy Context

1. The Government has issued a consultation document to seek views on planning and affordable housing policies intended to speed up the development of large-scale, purpose-built, privately rented housing – an emerging housing sector known as ‘Build to Rent’. The consultation is linked to, and running in parallel with, consultation on the Housing White Paper.

Background

2. Recent years have seen the emergence of a new sector in the housing market, namely large-scale developments purpose-built for private rent – often referred to as ‘Build to Rent’. In part this reflects underlying demographic and economic conditions of increased demand for rented housing, and the availability of institutional capital for investment in residential property.
3. The Government sets out how it welcomes Build to Rent as “a desirable and enduring feature of the housing market”, and this is reflected in the new Housing White Paper. Government wishes to understand the barriers to investment, and how they may be mitigated.
4. The focus of the Government’s interest is on the acquisition of land, the predictability and speed of the planning system, including negotiations of planning obligations relating to affordable homes. The Consultation Paper puts forward measures intended to support Build to Rent through the planning system and make the benefits of Build to Rent more widespread. These include the availability of longer tenancies (to those tenants who want one).
5. The Government is also specifically considering provision of “Affordable Private Rent” homes, which they see as suited to Build to Rent schemes. This provision is being seen as an alternative to existing forms of affordable housing development. The Consultation Paper suggests that a big advantage of Affordable Private Rent would be that, by combining all of the market and discounted units into a single development under common control, without the separate involvement of a social landlord, efficiencies can be realised in the design, density, construction and management of schemes.
6. The existing definition of affordable housing in the National Planning Policy Framework implicitly allows Affordable Private Rent (also known as discounted market rent), to count as intermediate housing where the following conditions apply:
 - The housing is provided to eligible households whose needs are not met by the market.

- Eligibility is determined with regard to local incomes and local house prices.
 - The homes should include provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision.
 - The housing is provided at a cost above social rent but below market levels.
7. Nevertheless, to make this explicit, the Government is proposing, through the Housing White Paper, the following definition:
“Affordable private rent housing is housing that is made available for rent at a level which is at least 20 per cent below local market rent. Eligibility is determined with regard to local incomes and local house prices. Provision should be made to ensure that affordable private rent housing remains available for rent at a discount for future eligible households, or for alternative affordable housing provision to be made if the discount is withdrawn. Affordable private rented housing is particularly suited to the provision of affordable housing as part of Build to Rent Schemes”
8. The Consultation paper advises that PWC, a consultancy firm, has predicted that 25% of households nationally, will be living in the private rented sector by 2025, up from 19% in 2014-15.
9. By comparison, the private rented sector in Gateshead grew by 70% between 2001 and 2011 (then, a much higher rate of increase than the national level). As a proportion of the total housing stock of the Borough, this resulted in a growth of 5.8% in that period (from 7.6% to 13.4 %). Principle causes:

- increase in buy to let as investment;
- inability to access suitable social housing
- and the dramatic fall in first time buyers, due to affordability (rising prices; unemployment; squeezed incomes), has created an increase in young households in the PR sector.

Between 2011 and 2016, the PRS has continued to increase, but at a slower rate; at April 2016, the PRS accounted for nearly 16% of Gateshead’s total housing stock (approximately 14,600 properties); this remains below the national average (19%).

Implications

10. The Council’s intention, through its housing growth strategy, is to diversify the housing market in Gateshead, the widening of the build to rent market would support this objective; the current build to rent market in Gateshead has tended to be focused on higher density flatted accommodation around the Quays area of the Borough. How a widened build to rent market will fit or compete with market sale, market rent, and traditional affordable housing development by registered providers, would need to be followed.
11. In terms of “Affordable” build to rent, the Government’s intention, as set out in the Housing White Paper is to make it easier for Build to Rent developers to offer affordable private rental homes instead of other types of affordable housing. The proposals that are consulted on in the White Paper could have implications for

the next stage of the Gateshead Local Plan, in particular the method used for calculating the objectively assessed housing need for Gateshead. It will also be important to understand how such development would fit with our current Local Plan requirements for 60% of new housing across the plan area to be suitable for and attractive to families (3-4 bedrooms), and to increase the choice of suitable accommodation for our growing older population.

12. The “affordable” build to rent market is untested in Gateshead, and it will be necessary to monitor how it would perform in terms of quality, space, and design standards. Much will also depend on how the Government incentivises the market, and whether it imposes requirements and delivery targets on local authorities, that could impact on our ability to apply local planning policies covering space standards, design and accessibility.

Gateshead response

13. There are 26 questions in the Consultation Paper. Gateshead’s response to the consultation is set out in the attached annex.

Implications of Recommended Option

14. Resources:

- a) **Financial Implications** – The Strategic Director, Corporate Resources confirms that there are no specific financial implications arising from this consultation.
 - b) **Human Resources Implications** – No human resources implications.
 - c) **Property Implications** – No property implications.
15. **Risk Management Implication** – No risks associated with the consultation.
 16. **Equality and Diversity Implications** – No equality and diversity implications
 17. **Crime and Disorder Implications** – No crime implications.
 18. **Health Implications** – No health implications.
 19. **Sustainability Implications** – No sustainability implications directly arise from this report
 20. **Human Rights Implications** - No human rights implications.
 21. **Area and Ward Implications** – The detail of this consultation links to specific proposals in the Housing White Paper to change the National Planning Policy Framework so authorities know they should plan proactively for Build to Rent,

where there is a need, and to make it easier for Build to Rent developers to offer affordable private rental homes instead of other types of affordable housing. The proposals that are consulted on in the White Paper could have implications for the next stage of the Gateshead Local Plan, in particular the method used for calculating the objectively assessed housing need for Gateshead.

Annex

Gateshead Council response to:

Planning and Affordable Housing for Build to Rent DGLC consultation 7th Feb 2017

Q1-Q4 (contact details)

Q 5: Do you consider there are market and regulatory failures impeding the rapid development of the Build to Rent market that merit national policy intervention? Please add comments.

- Yes
- No
- Don't know

The key issue in Gateshead is development viability, due to high development costs and lower development values, rather than regulation.

We need to be careful of misreading due diligence in applying proper control, and regulation to protect tenants and sustainability of development, as failures; for example, there have been sound grounds for introducing Selective Landlord Licensing, and we are still seeing high demand for services to enforce the Housing Health and Safety Rating System in respect of the private rented sector.

Gateshead is intending to introduce the Nationally Described Space Standards through its local plan documentation, removing Build to Rent development from this would be inappropriate. The imposition of policies designed to overcome issues in areas of very high demand would not support market sustainability in areas such as Gateshead.

Given that registered social housing providers are still delivering in an uncertain market and funding landscape, and are looking to diversify their businesses into market rent, it will be important that a level playing field is maintained (particular over space standards), otherwise competition will just narrow the market and stifle delivery.

Q 6: Do you agree with the proposal to refer explicitly to Build to Rent in the National Planning Policy Framework?

- Yes
- No
- Don't know

Gateshead already has robust housing policies that address locally assessed housing need and encourage development across all tenures. The Council is, in parallel, committed to supporting a diverse housing market through proactive engagement with developers and investors.

In considering any policy definition, covering "Affordable Build To Rent" the issues of perpetuity, or recycling of discount, as well as eligibility, will be key.

Q 7: Do you think that Government should set a policy expectation on Affordable Private Rent in the National Planning Policy Framework, or not? (Please state your reasons).

- Yes
- No
- Don't know

This should be a matter for the Local Planning Authority, based on an assessment of local need. Imposed targets will inevitably lead to unintended consequences, and local need may not be met.

It is not clear whether the Government's intention is to prioritise Affordable Build to Rent only within Build to Rent schemes. This again should be a matter for local policy.

Q 8: Will a policy expectation in the National Planning Policy Framework send a sufficiently strong signal to support Affordable Private Rent as the main vehicle for affordable housing in Build to Rent? (Please state your reasons)

- Yes
- No
- Don't know

The issues must include viability and local need, not just about providing confidence to the market.

Q 9: Do you consider that Affordable Private Rent could play a useful role in the delivery of affordable housing in the area(s) where you live or operate?

- Yes
- No
- Don't know

Delivery must be based on local need and market conditions. It is uncertain whether, in Gateshead, the affordable private rental market would deliver the homes needed that are suitable for families and older people.

Q 10: Do you consider that the efficiencies arising through on-site provision of Affordable Private Rent can materially improve the viability of Build to Rent, compared to other affordable housing tenures?

- Yes
- No
- Don't know

Q 11: Do you consider that there could be unintended consequences of Affordable Private Rent if it is accepted as a form of affordable housing?

- Yes
- No
- Don't know

Yes, if targets imposed are not based upon local need. It may well impact on the delivery of Private Registered Providers' development programmes, and compete unfairly; ultimately narrowing the housing market.

Q 12: If your answer to Q11 is yes, would these consequences be mitigated by limiting Affordable Private Rent only to Build to Rent schemes?

- Yes
- No
- Don't know

See answers to Q9 and Q12

Q 13: Do you think it is reasonable for Planning Authorities to specify minimum tenancy lengths in Build to Rent schemes? Please add your reasons, and give examples of such agreements where appropriate.

- Yes
- No
- Don't know

A key issue would be how this would impact on development viability, particularly in weaker housing market areas.

Q 14: Do you agree that Build to Rent tenancies should be for at least three years (with a one month break option for the tenant after the first six months), for all customers in the development who want one?

- Yes
- No
- Don't know

It would be essential that there is good, plain English, advice available to tenants on the tenancy options and conditions, to ensure the tenants make well informed decisions. This could adversely affect demand, should a customer wish to test the water on a development first and not wish to commit to 3 years tenancy.

Q 15: Does the definition of Build to Rent set out on page 20 capture all of the appropriate elements? (If not, please state why, and what criteria should apply).

- Yes
- No
- Don't know

The typology should not exclude bungalows; we must send signals to the market that we need to provide for our older population, and maximise the range of accommodation provided.

Affordable Private Rent – Should include perpetuity and/or discount recycling, and should still be secured through S106 Agreements.

Q 16: Do you agree that the National Planning Policy Framework should put beyond doubt that Affordable Private Rent qualifies as affordable housing in Build to Rent schemes? (If not, please state why).

- Yes
- No
- Don't know

A definition alone is not considered an issue.

Q 17: Do you agree with the proposed definition of Affordable Private Rent set out on page 21? (If not, please state why, and what criteria should apply).

- Yes
- No
- Don't know

To ensure a level playing field, and fairness to tenants, the issue of perpetuity needs to be very strongly enforced. The definition makes connection with Build to Rent Schemes, is this an unnecessary reference that could add uncertainty. If it is an appropriate solution, it should not be limited to any development scheme. Again, this should be a matter for locally determined policy. There is concern that it could result in a narrowing of

the market, if it drives out Registered Providers due to the playing field not being level, specifically in relation to design quality and space standards.

Q 18: The Government intends to set the parameters of Affordable Private Rent as:

- a minimum of 20 per cent of the homes to be discounted;
- the discount to be set at minimum of 20 per cent relative to the local market;
- an offer of longer tenancies of three years or more;
- the discount to apply indefinitely (subject to a “claw-back” arrangement if Affordable Private Rent homes are withdrawn).

Taken as a whole, are these parameters: (i) reasonable; (ii) too onerous; (iii) insufficient? Which, if any of them, would you change and why?

- Reasonable
- Too onerous
- Insufficient
- Don't know

A key issue here is monitoring, and resourcing of this by Local Authorities.

It will be important to include a local connection criteria (including those accessing demonstrable employment opportunities), to give priority to meeting the needs of local population.

Imposing national targets on provision could bring unintended consequences, particularly if developers are not prepared to enter this market.

There is significant scope for manipulation of commuted sum calculation – It would be prudent to introduce a requirement to demonstrate full/open marketing of the property, and to give consideration to what would happen if market demand does not materialise.

In low market value areas, 20% of sale value may contribute very little to enabling alternative provision.

Q 19: Should the parameters for Affordable Private Rent appear on the face of the National Planning Policy Framework or within Planning Practice Guidance?

- National Planning Policy Framework
- Guidance
- Not helpful to specify parameters
- Don't know

This will be dependent on what the Government intends to include in the parameters – see answer to Q18 above.

Q 20: The Government is minded to leave determination of eligibility and nomination criteria for Affordable Private Rent to negotiation between the developer and the local authority. Do you support this position? Will it affect take-up of the policy? Please give your reasons.

- Support position
- Do not support position
- Will affect policy take-up
- Will not affect policy take-up
- Don't know

To ensure this is manageable and fair, this must be a common process that ensures consistency. Local Authorities should be supported to determine income eligibility through evidence based policy development, not in an adhoc way.

Q 21: The Government considers there is no need for a fixed minimum covenant period, so long as appropriate claw-back arrangements are provided for. Do you agree?

- Yes
- No
- Don't know

This appears to contradict the desire to increase the tenancy period, and give security to tenants.

See also answer to Q18 i.e. There is significant scope for manipulation of commuted sum calculation – Will there be a requirement to demonstrate full/open marketing of the property, and what happened if market demand does not materialise?

In low market value areas, 20% of sale value may contribute very little to enabling alternative provision.

Q 22: Do you think Government should (a) prescribe the basis for calculating the amount of claw-back, (b) set a possible basis for calculating the amount of claw-back in guidance, or (c) leave the amount of claw-back to be agreed between the local authority and the applicant?

- (a)
- (b)
- (c)
- Don't know

Providing this allows for the factoring in of local conditions, and delivers on the intended outcome.

Q 23: Should the Government's Build to Rent and Affordable Private Rent policy be identical across the whole of England or does it need to be set differently between London and the rest of England? If it should be set differently, please use the comments box to tell us how and why the policy should vary in London from the rest of England.

- Identical across the whole of England
- Different for London
- Don't know

There needs to be an understanding of the likely market response (or lack of appetite/race to the lowest standards) in areas of weaker housing markets.

Q 24: Would it be helpful for Government to produce model clauses (which would not be mandatory) that could be used in Section 106 agreements to give effect to Affordable Private Rent?

- Yes
- No
- Don't know

Q 25: Is a transitional period of six months appropriate for the introduction of the policy? (If not, why not?)

- Yes
- No
- Don't know

It will be important to understand how this time frame fits (or not) into local authority Local Plan process/reviews.

Q 26: Does the summary Equalities Statement in Annex A represent a fair assessment of the equalities impacts of the policy proposals in this consultation? Please provide any further evidence on this issue, including how any negative impacts might be minimised and positive impacts enhanced.

- Yes, a fair assessment
- No, not a fair assessment
- Don't know