

Written evidence submitted by Pocket Living (LRB71)

Executive Summary

- 1.1 The Levelling up and Regeneration Bill offers the Government a seminal moment that could revolutionise homeownership for a generation and signify the turning point for the SME housebuilding sector.
- 1.2 Despite successive attempts, little progress has been made to halt the slide in both homeownership and SME housing delivery.
- 1.3 While the Bill provides a variety of suitable provisions to help the Government deliver on its levelling up ambitions, as currently drafted, it fails to provide deliverable solutions which could increase homeownership.
- 1.4 From Pocket Living's experience of delivering over 1,000 homes in London, it is clear there are two key opportunities for the Bill to put affordable housing delivery and SME prosperity at the heart of the Government's wider ambition for economic growth. Pocket's recommendations include:
 - 1) **A blanket exemption for all types of affordable housing, including Discount Market Sale, from the newly proposed Infrastructure Levy.**
 - 2) **A new 'small sites planning framework',** which could achieve up to 30,000 new affordable homes per year and turbocharge proportionate building on small sites.

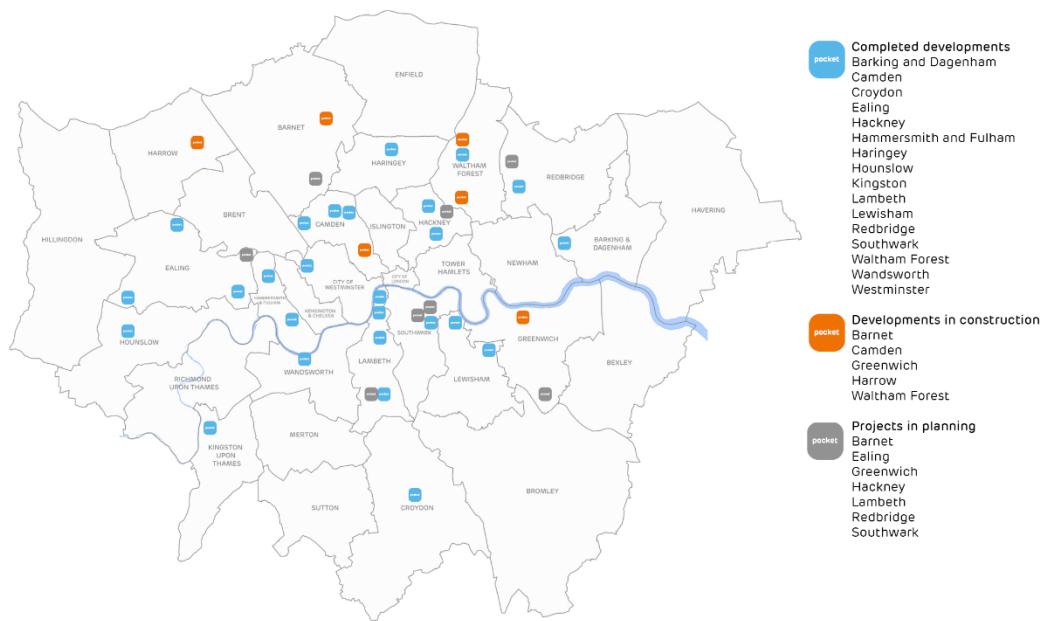
Pocket Living

- 2.1 Pocket Living ('Pocket') is an innovative award-winning SME developer established in 2005 to deliver grant-free discounted affordable homes (DMS) for eligible first-time buyers: the only private developer in the UK delivering such a model.
- 2.2 Pocket has a long track record of providing high-quality, sustainable, and affordable homes for young people who would otherwise be locked out of home ownership. 40% of our homeowners are key workers. This success has helped strengthen local communities; providing homes so that local people can afford to live and buy in their local areas.
- 2.3 The discounted homes meet the statutory definition of affordable housing, as set out in Annex 2 of the National Planning Policy Framework (NPPF). Planning agreements ensure that Pocket affordable homes are provided at a minimum 20% discount to open market values and are reserved for eligible purchasers who live or work locally and do not yet own their own home.
- 2.4 The importance of what Pocket does is recognised in partnerships with Homes England and the Greater London Authority. It is also recognised in national policy which now:

- i) provides strong support for affordable home ownership products including First Homes and Discounted Market Sale (requiring a proportion in all schemes);
- ii) requires Local Authorities to plan for the needs of households who wish to buy but can't afford to (an estimated 87% of all private renters).

2.5 Since 2008, over 1,000 Pocket homes have been delivered across London (65% of Boroughs) and a further 1,500 are in planning or construction. The well-designed and affordable homes are in high demand, with a waiting list of over 19,000 Londoners who have expressed an interest in buying a Pocket home in the next 12 months.

2.6 Pocket living homes accommodate for middle-income earners with salaries often less than c.£40k, these homes price in the younger generation with the average Pocket buyer aged just 32.



Pocket Living developments across London

The opportunity within the Levelling Up and Regeneration Bill

3.1 Pocket's 17 years of experience delivering affordable housing on highly constrained small sites across London has meant we are in a unique position to share our insights into the key areas that have historically restricted the industry. Put simply, too few affordable homes are being delivered, leaving more people, particularly young people and key workers, frozen out of home ownership.

3.2 While the Levelling Up and Regeneration Bill recognises this need, it falls short of maximising all the workable opportunities to this problem. Drawing on this industry experience, the following sections will seek to provide recommendations, which we believe could unlock the delivery of tens of thousands of affordable homes for the next generation of homeowners.

Opportunity 1 - Infrastructure Levy exemption for all types of affordable housing, including DMS

- 4.1 As currently drafted, the Bill contains no automatic exemption from the infrastructure levy for affordable housing, including DMS, leaving those who wish to provide affordable housing and perhaps more affordable housing than what is required by planning policy in a prohibitive position Why is this important
- 4.2 Access to housing remains a key aspiration for many young people. Recent research highlighted that 7 in 10 pledge they will vote for an electoral candidate who promotes the delivery of more homes¹.
- 4.3 As made clear by the Government's flagship policy 'First Homes', DMS products provide an effective solution to helping young people onto the housing ladder, but who are also not eligible for other forms of social housing.
- 4.4 In recent research it was found that DMS homes could price in first-time buyers in 1/3 of local authorities in England where homeownership is currently unattainable. ²,
- 4.5 Under the current Community Infrastructure Levy Regulations 2010, affordable housing is meant to be exempt from Community Infrastructure Levy payments. However, despite meeting the established definition of affordable housing set out in Annex 2 of the NPPF, DMS products are not exempt from the levy.
- 4.6 As a result, it is left to the discretion of Local Authorities as to whether discretionary CIL relief will be granted. In turn, this greatly restricts the ability of affordable homeownership providers to deliver affordable homes for young people in Boroughs where a more restrictive approach is taken.
- 4.7 As the only affordable housing model not currently exempt from the existing Community Infrastructure Levy, Pocket has a personal experience of the effect a lack of Levy exemption can have on affordable housing delivery. These include:
- 4.8 **Open market developers have the upper hand.** Under the current environment, DMS providers are at a disadvantage. For example, a scheme that provides 100% DMS homes, has a higher CIL contribution than a private developer offering a split of private and other affordable models. In this case, private developers benefit not only from this favourable CIL position but also from higher sales values, meaning affordable housing providers are less likely to be competitive when bidding for land.

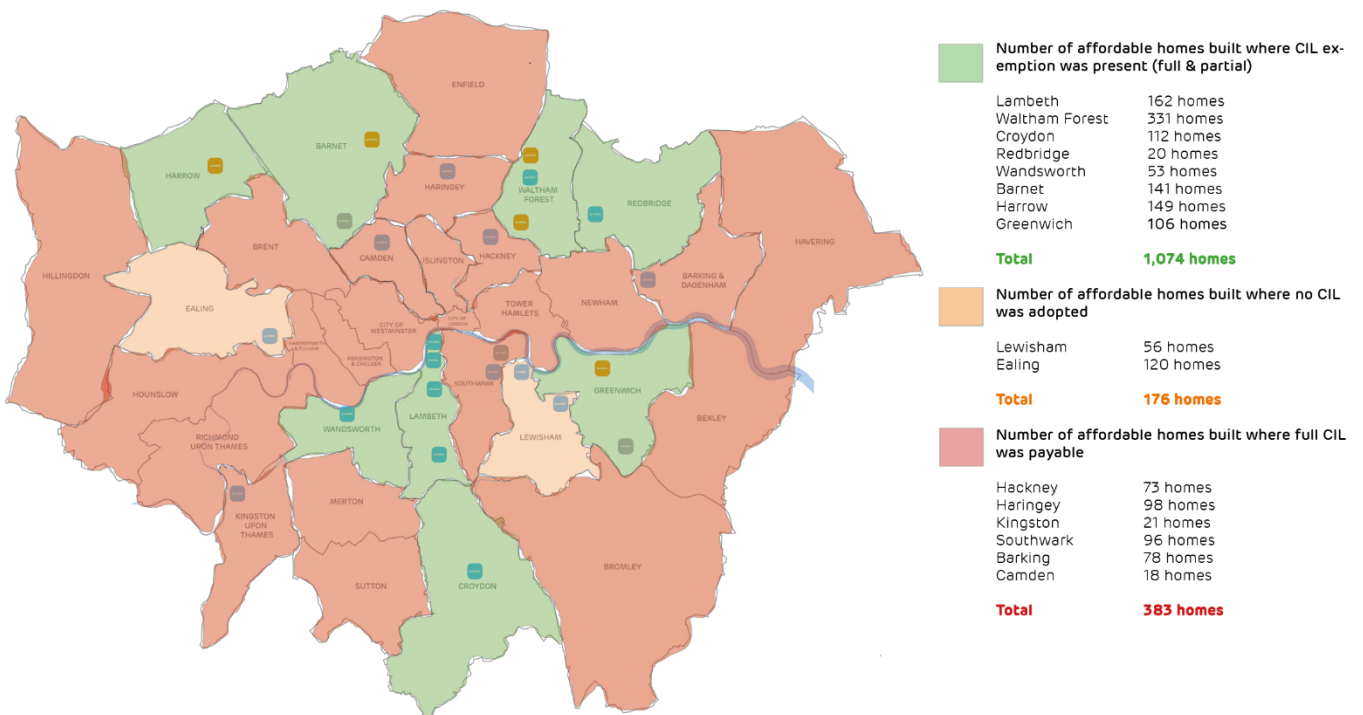
¹ Pocket Living (2022) Cost of Living Research

² Pocket Living (2021) A new Small Sites Planning Policy: unlocking 30,000 affordable homes a year

4.9 **Creates uncertainty and the delays risk derailing projects.** Where a discretionary approach is taken, negotiations with Councils can last up to a year, and will have a dampening effect on the viability of the development.

4.10 **Viability concerns equal fewer affordable homes.** From Pocket’s experience of delivering DMS homes in London, the ability to maximise the number of affordable homes on site can sometimes be determined by the CIL requirements. The inevitable pressure this puts on viability can sometimes lead to the developer including private homes at the expense of affordable homes in order to ensure the scheme remains viable.

4.11 **First-time buyers lose out.** Since 2016, of the 27 Pocket schemes either delivered, in planning or in construction (see table below) almost 70% are associated with boroughs where CIL was either partially or fully exempt, or where no CIL policy was in place. This represents almost 80% of all the affordable homes delivered or to be delivered. First-time buyers in boroughs where no CIL policy relief is in place are therefore substantially less likely to benefit from the delivery of discount market for sale homes in their borough.



How differing CIL policies affect the delivery of affordable homes in London

4.12 The evidence suggests that without Levy exemption, affordable housing providers would be at a clear disadvantage and fundamentally restricted in their ability to deliver non grant funded schemes.

4.13 Considering the added difficulties faced by DMS providers due to a lack of exemption, it is little surprise that Pocket is the only private developer of this type of housing in the country. The experiences of Pocket in this environment should therefore be used as a clear case study moving forward.

Solution - Affordable housing exemption from the Infrastructure Levy

4.14 To ensure the delivery of more affordable homes across the country, the Government should issue a clear exemption from the Infrastructure Levy for all types of affordable housing, including DMS.

4.15 The Government can go one step further on this issue, by introducing a single, standard definition for affordable housing, which encompasses all types and tenures. This would also serve to avoid future recurrences of providers being affected by this, and ensure greater consistency for providers when working with Local Authorities.

4.16 The following amendment to the Levelling Up and Regeneration Bill is therefore recommended:

Infrastructure Levy amendment:

Sch11, page 285, line 35 at the end insert:

“(9) IL regulations must provide for exemption from liability to pay IL in respect of affordable housing as defined in Annex 2 of the NPPF”

Opportunity 2 - A new ‘small sites planning framework’

4.1 The Bill grossly underestimates the potential of small sites in both unlocking the delivery of affordable housing and providing a lifeline to SME developers.

Why is this important

4.2 The demand for homes in sustainable urban areas – the sort which could be unlocked by a new policy focused on small sites – is only forecasted to grow. The population growth of London for example is expected to expand at twice the average of the UK over the next 3 years.³

³ [Trend Deck 2021: Urbanisation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/91221/Trend_Deck_2021_Urbanisation.pdf)

4.3 The need to deliver small brownfield sites in sustainable locations has never been greater. Yet despite this, the current planning system makes it exponentially more difficult to deliver these types of sites.⁴ The cost and risk of planning is disproportionately high for small sites (ibid), meaning that in relative terms, there is less commercial risk in investing in larger scale developments. As a result, the average scale of housing development with planning permission in the UK has increased in size by 17% in less than a decade.⁵

4.4 The 'one size fits all' nature of the planning system means small developers often get caught in complex negotiations and deadlocks over viability with local authorities. Changes to the NPPF have sought to overcome this, but without effect – the average determination time is now 60 weeks in London alone.⁶

4.5 Given this, it is little wonder that the number of SMEs in the housebuilding industry has collapsed: in 1988, SME housebuilders built 39% of new homes; now they build just 10%.⁷

4.6 The consequence of this is twofold:

4.7 SMEs are leaving the industry at an alarming rate. In light of a variety of barriers for SME housebuilders and contractors, insolvency rates have increased by 75% in 2022.⁸ In the year to June, 3,672 construction firms went insolvent, the highest level since the financial crisis over ten years ago.

4.8 Young people are losing out. As the proportion of homes contributed by SMEs continues to have a negative effect on the nation's overall housing supply, the opportunities for young people to get on the housing ladder are at an all-time low. **Since 2000, the number of 16-34 year olds owning or buying their own home has almost halved⁹.** The affordability of housing is at a chronic level; in 1997, an average home cost 3.5 times average earnings, and this figure almost tripled by 2021 to over 9 times earnings.¹⁰ This problem has only got worse in the face of the worst cost of living crisis in the last 40 years¹¹. According to Pocket's latest research, 71% of young people in London report being significantly less likely to afford a home due to the current cost of living crisis¹².

Solution - A new 'small sites planning framework'

⁴ Lichfields (2020), *Small sites: Unlocking housing delivery*, p6

⁵ HBF (2017) Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes ([online](#))

⁶ Ibid, p8

⁷ Savills and LDS, *A review of the availability of development sites for SME housebuilders in England and Wales* (2021): <https://ldsyoursite.com/savills-sme-housebuilders-report-demonstrates-huge-potential>

⁸ Inside Housing 2022 [Inside Housing - News - Number of house builder insolvencies up 75% this year](#)

⁹ JRF, (2022), Making a house a home: Why policy must focus on the ownership and distribution of housing, [online](#)

¹⁰ Written evidence from the Intergenerational Foundation ([UKH0022](#))

¹¹ [Consumer price inflation tables - Office for National Statistics](#)

¹² Pocket Living, Cost of living research (2022). Research of 1,016 adults aged 25-45 living across the Greater London region

4.10 The Levelling Up & Regeneration Bill should offer a more permissive approach to planning for those developing small sites which offer the majority of homes for sale at a maximum of 80% of market value. If their sites meet certain criteria, SMEs should benefit from a presumption in favour of development.

4.11 Pocket's analysis¹³ has identified only ¼ of smaller brownfield sites are coming forward. This new policy would allow SME developers, who know their local areas, to come forward and deliver up to 30,000 new homes a year on underused brownfield land, pricing in first-time buyers in 1/3 of Local Authorities where homeownership is currently out of reach.

4.12 An additional clause to the Levelling Up and Regeneration Bill is therefore recommended:

Small Sites clause:

To move the following clause

Requirements to encourage the development of small sites

(1) In respect of a development where the conditions in subsection (a) and subsection (b) are satisfied Local Authorities should support opportunities to bring forward sites and apply a presumption in favour of development where the site:

- a. is below 0.25 hectares in area, and*
- b. contains over 60% affordable housing, as defined in Annex 2 of the NPPF"*

Conclusion

5.1 The Levelling Up & Regeneration Bill offers the Government an opportunity to redefine the direction of the industry.

5.2 The failure to address the fall in both homeownership for young people and SME housing delivery has damaged the prosperity and diversity of the industry.

5.3 The Levelling Up & Regeneration Bill offers the Government a seminal moment to change this. Through the simple changes suggested, Government could unlock the delivery of tens of thousands of new affordable homes, significantly increase the number of first-time buyers, and support SME developers to thrive in a more diverse housing market.

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¹³ Pocket Living (2021) A new Small Sites Planning Policy: unlocking 30,000 affordable homes a year. Based on case study areas including Brighton, Cambridge, Exeter, Wolverhampton, Manchester