

HOME TRUTHS

12 STEPS TO
SOLVING LONDON'S
HOUSING CRISIS

London First

Contents

FOREWORD

EXECUTIVE SUMMARY AND RECOMMENDATIONS

THE SCALE OF THE CHALLENGE

OUR APPROACH

- 1 IMPROVING HOUSING DELIVERY THROUGH TARGETS, INCENTIVES AND PLANNING REFORMS**
- 2 GETTING LAND IN LONDON INTO DEVELOPMENT**
- 3 INCREASING DENSITY AND BUILDING NEW SUBURBS**
- 4 NEW WAYS TO BUILD MORE HOMES**

HOME TRUTHS

12 STEPS TO SOLVING LONDON'S HOUSING CRISIS

March 2014

London First

FOREWORD

London is an internationally competitive and successful city but it is in the depths of a housing crisis. Demand for housing is exceeding supply and has been doing so for a long time. Anticipated population growth, which will add the equivalent of a city at least the size of Birmingham to the capital's headcount over the next decade, will exacerbate this further.

In stark numbers, London's population has grown by approximately a million people over the last 10 years, but we have built only 202,400 new homes over the same period. The capital's population is forecast to increase by a further million people by 2021 yet the latest house building figures show that only 18,380 new homes were built in 2012/13. This situation is unsustainable.

The principles of supply and demand bring a further challenge: rapid house price inflation. On the demand side, as prices continue to soar, increasing numbers of Londoners are struggling to find a suitable and affordable place to live. On the supply side, London is already behind in terms of house building. If this trend continues or is exacerbated it will serve only to weaken London's competitiveness. For business to continue to flourish in London we must build more homes and at more affordable prices to support a growing population and workforce.

Towards the end of 2013, London First brought together a group of its members, under my Chairmanship, from across the housing supply chain to look at why London was building too few homes and ways that this could be rectified. This report is the end product of the group's hard work and I would like to thank all its members for their insightful contributions.

The report's recommendations are designed to address the problem head on. These are not simple issues and we do not claim to have all the answers to solve London's housing problems. But we do believe that in some areas, radical change is needed: marginal change will not deliver the step change in house building that London needs.

Many of the factors restraining private residential development can be addressed only through political actions – in the boroughs, at City Hall and in Westminster. If we are to provide a million more Londoners with homes this decade, and the next, we must create a climate that is conducive to encouraging more investment in housing development and which encourages a greater range of housing developers and providers into the market. This requires bold action now and, crucially, political will.

Roger Bright

Chairman, London First Housing Task Force
London First Board Member

EXECUTIVE SUMMARY AND RECOMMENDATIONS

London is in the midst of a housing crisis. Demand is growing and far outstrips supply – a trend that is set to endure and worsen as the population grows close to an anticipated 10 million people by 2030. This is hampering the capital's economic and physical growth and will continue to do so unless there is a significant step-change in the level of house building.

This report is the work of a group of London First members from across the housing supply chain, brought together to identify the reasons why London is building too few homes and produce solutions to resolve this issue.

The aim of our recommendations is to create the conditions to support more house building by making London an easy place to invest in, thereby attracting a greater range of housing developers into the market place. The challenges, and our responses to them, are as follows:

CHALLENGE 1

IMPROVING HOUSING DELIVERY THROUGH TARGETS, INCENTIVES AND PLANNING REFORMS

A new way to get more sites through the planning system must be introduced. The following changes should be made.

RECOMMENDATION 1

- The Mayor should set boroughs hard house building targets and take over the determination of housing applications where boroughs fail to meet these targets.

RECOMMENDATION 2

- The boroughs should be given a new, long-term, predictable and real financial incentive that will enable them to benefit directly from the construction of new homes and will motivate them to support new house building.

RECOMMENDATION 3

- The Mayor should reform the policies governing the provision of affordable housing by private developers to make them less complex and to deliver more homes. We suggest three changes:
 - encourage boroughs to be more flexible about allowing affordable homes to be built off-site - near to the development - when this results in more affordable homes being provided;
 - require boroughs to surrender to the GLA any developers' payments made in lieu of affordable housing provision if they remain unspent or uncommitted to affordable housing after two years - in effect, use it or lose it; and
 - move to establishing a London-wide scheme, for affordable homes built per development. This should be based on the actual numbers achieved over recent years and must take into account the other charges placed on development, such as Section 106 agreements and the Community Infrastructure Levy.

CHALLENGE 2

GETTING LAND IN LONDON INTO DEVELOPMENT

Where land is available, the private sector needs to be able to get on with development, but where planning permission is in place and, after thorough investigation, there are no good reasons why development isn't happening, action should be taken; and surplus public sector land needs to be released for development more rapidly. We therefore recommend:

RECOMMENDATION 4

- To help secure quicker delivery, planning authorities should reduce the use of pre-commencement conditions and, where conditions are necessary, enter into early discussion about them.

RECOMMENDATION 5

- The Mayor could assemble data to assess the scale and cause of unimplemented planning permissions in London, and publish a list of sites where all the permissions are in place but there are no good reasons why development isn't taking place.
- Boroughs could use their compulsory purchase powers to bring land back to the market, where:
 - a reasonable period of time from the permission being granted – say five years – has elapsed; and
 - after consultation with the landowner and/or developer, they are satisfied there are no credible plans to develop in the medium term; and
 - where it is in the public interest that it be brought forward.
- The Mayor should explore ways in which the GLA can support – whether through finance or expertise – the boroughs using these powers.

RECOMMENDATION 6

- Government should empower the Mayor to identify publicly owned sites in London that are surplus to the public sector's operational needs – a 21st century “Domesday Book” for housing delivery; and the Mayor should act as the disposing agent for these sites.

RECOMMENDATION 7

- The Mayor should immediately require boroughs to review their designation of strategic industrial land to demonstrate that the designation is realistic. If it is not, other uses should be permitted, with a presumption in favour of residential led mixed use development.

CHALLENGE 3

INCREASING DENSITY AND BUILDING NEW SUBURBS

Housing in London is less dense than in many of its peers, while the city faces resistance to development around its boundaries. One solution is to encourage and facilitate greater density of well-designed homes within London. We therefore recommend:

RECOMMENDATION 8

- The Mayor should adopt a proactive approach to designating areas for higher density development across London, through the London Plan.

RECOMMENDATION 9

- The construction of new transport infrastructure such as Crossrail and the proposed north-east to south-west London rail link, Crossrail 2, should be used as an opportunity by London government, in consultation with local communities, to build new suburbs.

RECOMMENDATION 10

- The Mayor should conduct two strategic reviews: one to analyse where new stops on existing rail and underground lines could be delivered to support new housing and a second to consider the opportunities for re-designating green belt land within London for residential development.
- To help support growth outside of London's boundary, the Mayor should work with surrounding authorities, through sharing data and evidence, with a view to seeing how they can also benefit from supporting London's growth.

CHALLENGE 4

NEW WAYS TO BUILD MORE HOMES

We need both to increase the diversity of providers and support new kinds of market tenure. We therefore recommend:

RECOMMENDATION 11

- Abolishing restrictions on the ability of local authorities to borrow against the value of their housing stock, when this would be within prudential limits. This reform would give most London boroughs, whose current debt is lower than the value of their assets, a greater ability to support housing growth.

RECOMMENDATION 12

- The Mayor should support an increase in build to let developments by ensuring that boroughs:
 - plan for the private rented sector in their local plans;
 - proactively look for build to let development opportunities in their area; and
 - recognise the distinct economic model of the build to let tenure in policies and decision-taking by, for example, supporting the use of legally binding commitments (covenants) that a new development will remain privately rented for a specified period in return for flexibility in the level of affordable housing required, subject to viability testing.

IMPLEMENTATION OF THE REPORT'S RECOMMENDATIONS

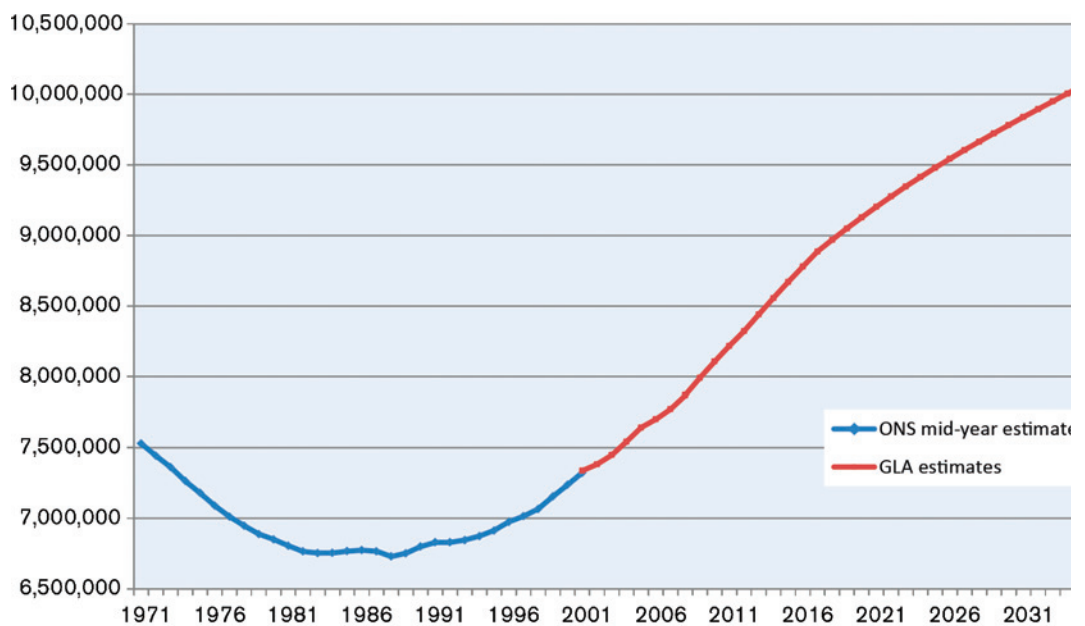
Many of the recommendations could be implemented by the Mayor through changes to the London Plan and by adopting a new, bolder approach to his relationship with those boroughs that are not building enough new homes. Some of the recommendations, such as the call for hard building targets and a new financial incentive, require legislative change. We see this legislative change being tied into a wider process, which is the next stage of the devolution of powers from central to London government.

THE SCALE OF THE CHALLENGE

The population of London will increase by a million this decade, and is forecast to increase by a further million in the next. This could be positive news for London's future economy, but only if we have the homes needed to enable a growing population to live and work in the capital.

Figure 1
London's population, 1971–2036

Source: Office for National Statistics mid-year estimates to 2001, GLA estimates 2002 to 2006



1 Draft Further Alterations to the London Plan, Greater London Authority: January 2014 <http://www.london.gov.uk/priorities/planning/london-plan/draft-further-alterations-to-the-london-plan>

2 The London Housing Strategy, Draft for Consultation, Greater London Authority: November 2013 <http://london.gov.uk/priorities/housing-land/draft-london-housing-strategy>

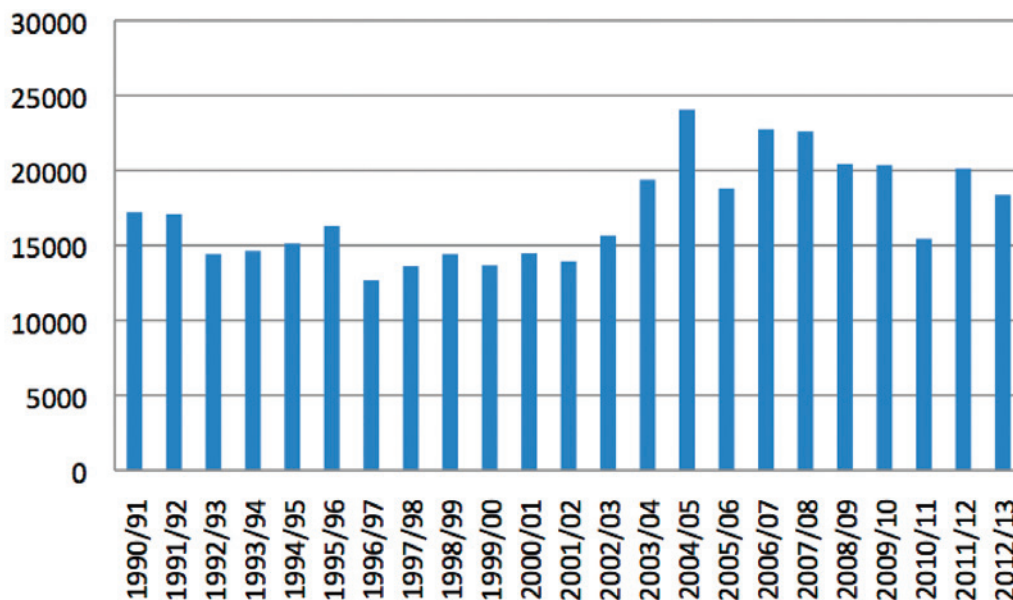
3 Spotlight London Demand, Savills: November 2013 and Supplying London's Housing Needs, CBRE: January 2014 http://www.savills.co.uk/research_articles/141563/171043-0 <http://www.mynewsdesk.com/uk/cbre/documents/supplying-london-s-housing-needs-32431>

4 The Politics of Housing, National Housing Federation and Social Market Foundation: November 2013 http://www.smf.co.uk/files/8013/8365/5584/Politics_of_Housing_final.pdf
And for the figures about house building in London, see the graph in section 4 of this report.

The Mayor is currently consulting on changes to the London Plan¹ – and has just finished consulting on his Housing Strategy² – both of which propose an increase in his house building target to 42,000 per year. Yet, the current Mayoral house building target of 32,000 new homes per year has not been met since the 1970s, and many analysts believe a minimum of 50,000 homes per year are needed to meet future growth.³

But, the situation is not hopeless – this challenge has been met before. General Elections in the 1950s and 1960s saw political parties competing over which could build the most homes, with house building nationally peaking at just over 350,000 homes in 1968, although house building peaked in London in 1934 at approximately 80,000 homes.⁴ Of course circumstances were

Figure 2
New homes built
in Greater London,
1990/91 – 2012/13
 Source: GLA



somewhat different – post-war reconstruction, slum clearance and a lighter touch planning regime, to name but three factors – but the critical difference was political will. However, not everything built during this period has stood the test of time. Mistakes were made in the design and quality of some of these homes. A new era of house building must be careful not to repeat the mistakes of the past.

Table 1
The average mix-
adjusted house price
 Source: ONS, December 2013

UK	LONDON
£250,000	£450,000

5 London Councillors' Poll, London Communications Agency: November 2013 <http://www.londoncommunications.co.uk/2013/11/london-councillors-poll/>

In London, there is a political paradox that can lead to paralysis. A recent poll of London councillors⁵ asking about their priorities for their local area showed that providing more homes was the joint overall top priority (along with creating more school places). Yet at the local level in some parts of London it seems that politicians believe there are more votes to be won by opposing new housing development - a mentality of “we need more homes; but not here.”

WIDER ECONOMIC BENEFITS OF HOUSING

As well as providing good quality homes for Londoners, there are wider economic benefits to be gained by providing more new housing. For example, building 50,000 homes a year between 2015 and 2031 could generate £18 billion in additional Mayoral and borough income and add £43.2 billion in (direct and indirect) GVA to London's economy. Annex B contains some high level statistics about the economic benefits of building new housing.

OUR APPROACH

The gap between housing supply and demand creates a range of economic and social problems for London, which are further complicated by the mix of tenures and subsidy arrangements between different types of housing.

We have sought to cut through this complexity and focus our approach in three ways:

- **First**, we look at housing through the lens of economic competitiveness: demand outstripping supply inevitably means rising housing prices and thus rising cost pressures for employers. A recent survey of business leaders in London⁶ rated housing supply and the cost of housing as the second most important obstacle to improving London's competitiveness (with the related challenge of improving transport infrastructure being the most important). Reforms that would increase house building by tens of thousands of homes per year would reduce the pressure on prices and make many of the social policy issues, around overcrowding, affordability and accessibility, less acute.
- **Second**, our focus is on overall housing supply. We do not address in detail issues around tenure - the kind of homes that should be built and the social policies around housing, other than specifically where we believe that a change of policy would lead to an increase in supply. These are important and complex issues on which other organisations are focused. We would note, however, that while a significant increase in housing supply in London would not solve these issues, it would make them more tractable.
- **Third**, given the pressures on public finances, we have not called for additional public money – welcome as this would be – although we do think there is a strong case for London's councils to be allowed greater freedom to leverage their balance sheets to support new housing development.

6 London Boardroom Barometer, London First and Deloitte: December 2013
<http://londonfirst.co.uk/wp-content/uploads/2013/12/London-Boardroom-Barometer-presentation.pdf>

The issues that we have identified in this report are:

- improving housing delivery through targets, incentives and planning reforms
- getting land in London into development;
- increasing density and building new suburbs; and
- new ways to build more homes

We are painting in primary colours: none of the options we have identified to increase housing supply is easy or provides a single “silver bullet”, but taken as a package they would make a significant difference. We plan further work on the ideas contained in the report, but we are putting them into the public arena now to start a debate. If we are going to maintain London’s competitiveness, we must significantly increase housing supply. If not these measures, then what?

1

IMPROVING HOUSING DELIVERY THROUGH TARGETS, INCENTIVES AND PLANNING REFORMS

THE ISSUE

Building houses in London's dense, urban environment is an innately complex process, made harder by a sometimes slow and inconsistent planning process. There are 33 local councils – the 32 boroughs and the City of London – each with differing local plans, processes and political priorities. This creates a number of barriers to delivery:

- some boroughs have poorly performing planning departments – agreeing all of the necessary permissions around construction can take a long and uncertain time;
- some boroughs' decision making processes can be unrealistic – turning down applications where developers are unable to meet their demands for public benefits⁷, irrespective of the affordability to the developer of such commitments; and
- some boroughs don't want any more development. At its simplest level, local planning committees, made up of elected councillors, would prefer to turn down a planning application rather than upset local voters.

Taken together, these variables create risks that are too difficult either to price or to manage, which in turn act as a disincentive to entry into the London market for those seeking to invest in or develop housing.⁸

⁷ Historically, such benefits have been delivered through Section 106 agreements which vary depending on the circumstances and scale of the development. For large developments such benefits can often consist of new schools, medical centres, and recreational and community facilities, amongst other things.

⁸ According to a report by Moiror commissioned by the GLA, 70% of private sale housing starts from June 2012 – June 2013 were undertaken by 23 firms but with only one of these firms considered to be a genuine new entrant into the London market. See Barriers to Housing Delivery, Greater London Authority: December 2012 <http://www.london.gov.uk/sites/default/files/Barriers%20to%20Housing%20Delivery.pdf>

THE SOLUTIONS

LONDON-WIDE PLANNING

The Mayor currently has both plan-making and decision-taking powers. In terms of plan-making, the Mayor sets out strategic planning policy for London in the London Plan and ensures that the boroughs' local plans are in conformity with this strategic policy. In terms of determining planning applications, the Mayor must be consulted on planning applications of strategic importance and has the ability to refuse planning permission or take over the application for his own determination. In relation to housing, the threshold for what constitutes strategic importance is 150 or more homes (houses or flats).⁹

⁹ <http://www.london.gov.uk/priorities/planning/planning-london/playing-strategic-role-planning-0>

We think the Mayor is best able to balance the local interests of London's different communities with the need of the city as a whole to see a substantial increase in housing supply. This suggests that the Mayor should *either* directly take more planning decisions over housing *or* be able to set tougher requirements on the boroughs. Each approach has its strengths and weaknesses.

Making the Mayor the planning authority for all schemes in London above 50 homes, for example, with one set of rules governing permissions, would simplify development and would make entry into the market easier as new investors would have one planning authority to deal with rather than 33. However, this would inevitably create friction between the Mayor and boroughs and would also lead to the Mayor having to process substantially more applications.

Alternatively, the Mayor could set house building targets for the boroughs and have a duty to take over the determining role only where boroughs fail to meet these targets. Underpinning this new performance regime would be a strong financial incentive for boroughs to increase house building (which is discussed below). This approach would also have to maintain the support - through effective consultation - of local people, to ensure that new development provides benefits for the community and wins their support.

RECOMMENDATION 1

We favour the target and incentive approach, which could work as follows:

- the existing London Plan house building monitoring targets would be turned into hard delivery targets;
- to ensure that the targets are fair and accurately reflect demand, the process to set them would: be overseen by an independent expert committee; be based on a total determined by the Mayor; and be subject to examination through the planning process¹⁰;
- the delivery targets would be used to monitor borough performance over a set period of time, perhaps five years; and
- if a borough failed to meet its target during this period, the Mayor would intervene to determine all housing applications in the borough above a low threshold, for a set period.

¹⁰ The current process for setting the targets is arrived at through undertaking a number of different studies – The Strategic Housing Land Availability Assessment (SHLAA) and Strategic Housing Market Assessment (SHMA), which the London Plan attempts to reconcile.

The above framework is a starting point. Detailed thought would of course have to be given to how this system would operate over the economic cycle.

INCENTIVES

While many London councillors can see the need for the city to have more housing, local pressures can make any particular development unattractive. New housing places pressures on local services and there is often resistance to new development from existing residents. There needs to be a clear financial incentive that rewards housing delivery at a borough level and is simple to understand and consistent over time.

The Government sought to address this issue through the introduction of The New Homes Bonus (NHB). The NHB is paid to a council each year for six years, with the amount of money given being based on the amount of extra council tax revenue raised by the construction of each new-build home, conversion and empty home brought back into use. There is an additional supplement paid for building an affordable home.

The NHB was hailed as the start of a “local house building revolution”¹¹ but it has worked less well in practice. Reports by both the National Audit Office and the House of Commons Public Accounts Committee have criticised its effectiveness.¹²

¹¹ Grant Shapps kick starts local house building revolution, Department for Communities and Local Government announcement: February 2011 <https://www.gov.uk/government/news/grant-shapps-kickstarts-local-housebuilding-revolution>

¹² The New Homes Bonus, National Audit Office: March 2013 http://www.nao.org.uk/wp-content/uploads/2013/03/10122-001-New-Homes-Bonus_HC-1047.pdf
The New Homes Bonus, House of Commons Committee of Public Accounts: October 2013 <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/114/114.pdf>

One of the main problems with the NHB as an incentive is that it is an unpredictable windfall, which prevents councils planning how to spend the receipts. There is also no certainty that the terms of the scheme will remain constant over time; indeed, the design has already been altered to top slice some money to Local Enterprise Partnerships, reinforcing the view that this is an unreliable source of income to fund future spending commitments.

RECOMMENDATION 2

A real and sustainable incentive on boroughs to support housing growth is required. This could be achieved through reforming the local government finance regime, along the lines of the London Finance Commission's recommendation for the devolution of property taxes to London - principally business rates, council tax and stamp duty land tax (but also including the annual tax on enveloped dwellings and capital gains property disposal tax). This would be offset in a pound-for-pound exchange for existing government grant.¹³ Under this new system the boroughs should be given a new, long-term, predictable and real financial incentive that will enable them to benefit directly from the construction of new homes and will motivate them to support new house building.

13 Raising the Capital, The report of the London Finance Commission: May 2013 http://www.london.gov.uk/sites/default/files/Raising%20the%20capital_0.pdf

In addition to the new target and incentive regime outlined above, there is a need to look at other ways in which the planning process can be improved to support housing delivery. In particular, the process of providing affordable housing and how brownfield land is brought back into use, both of which are discussed below.

AFFORDABLE HOUSING

Negotiations between developers and boroughs about the level of affordable housing that a development can provide can often become a complex and protracted process. In some instances, this negotiation can cause significant delay to gaining permission and starting construction. There is therefore scope to improve the way that affordable housing is provided in London. We see three main areas in particular:

RECOMMENDATION 3

- encourage boroughs to be more flexible about allowing affordable homes to be built off-site – near to the development – when this results in more affordable homes being provided;
- require boroughs to surrender to the GLA any developers' payments made in lieu of affordable housing provision if they remain unspent or uncommitted to affordable housing after two years – in effect, use it or lose it; and
- move to establishing a London-wide scheme for affordable homes built per development. This should be based on the actual numbers achieved over recent years and must take into account the other charges placed on development, such as Section 106 agreements and the Community Infrastructure Levy.

2

GETTING LAND IN LONDON INTO DEVELOPMENT

THE ISSUE

Getting more land into development is an essential part of increasing housing supply. There are two parts to this issue:

- first, the private sector needs to be able to develop its land and, when it has the necessary permissions, to get on with development; and
- second, vigorous leadership is needed to get surplus public sector land into the market for development.

THE SOLUTIONS

PRIVATE LAND

The GLA has noted that there are 210,000 unimplemented planning permissions in London and, thus, something wrong with the market.¹⁴ There are a number of underlying issues:

- planning permission being in place does not mean all of the necessary permissions have been agreed – there may be protracted negotiation about practical implementation issues such as changes to rights of way or agreeing detailed designs and materials;
- unimplemented permissions can be part of large developments that will be delivered in phases (a particular issue for London where there are many such developments) or form part of a developer's pipeline of work – developers, like any other business, need a supply pipeline to be able to manage and grow their business successfully;
- a delay in the delivery of infrastructure such as a new road or rail connection can prevent a site from being developed; and
- some schemes, due to wider economic factors, are no longer viable. However, in many instances, a degree of negotiation and flexibility between the developer and the local planning authority can kick start the development.

To improve the speed of the process we recommend:

¹⁴ Barriers to Housing Delivery: December 2012.

RECOMMENDATION 4

- “Permission” should mean permission to start development. The grant of planning permission often includes numerous conditions, some of which are required to be discharged before construction can start (the detail of the landscaping, for example). On occasions, such conditions are notified to the developer only at the planning committee report stage, following which further discussion is needed before actual development can begin. To help speed up the process:
 - the number of pre-construction conditions should be reduced – moving away from issues relating to design or operation;
 - where conditions really are necessary, discussion about them must take place at an early stage so that the applicant can start construction once the approval notice is issued;
 - if early discussion cannot resolve the issue, development should proceed on the basis that the issue is resolved prior to the construction of the relevant part of the development beginning.

There is a perception on the part of some politicians that land banking (where developers hold land with planning permission to take advantage of rising land values, with no intention to develop) is a major cause of the high level of unimplemented permissions. While there are, no doubt, examples in London, the experience of those active in the market suggests that other factors, as discussed above, are better able to explain the gap between planning permissions and actual development.

RECOMMENDATION 5

- The Mayor could assemble data to assess the scale and cause of unimplemented planning permissions in London, and publish a list of sites where all the permissions are in place but there are no good reasons why development isn't taking place.
- Boroughs could use their compulsory purchase powers to bring land back to the market, where:
 - a reasonable period of time from the permission being granted – say five years – has elapsed; and
 - after consultation with the landowner and/or developer, they are satisfied there are no credible plans to develop in the medium term; and
 - where it is in the public interest that it be brought forward.
- The Mayor should explore ways in which the GLA can support – whether through finance or expertise – the boroughs using these powers.

PUBLIC SECTOR LAND

The creation of the Mayor's London Development Panel has improved the process by which surplus public sector land and assets are disposed of. There are good examples of parts of the public sector, such as the Metropolitan Police, proactively reviewing their estates and making disposals where necessary. However, in general, progress remains slow. There are obvious examples of empty sites or redundant buildings owned by the public sector and many public buildings that are poorly utilised. A comprehensive asset management strategy is required, to assess buildings and land within the public sector and identify scope for shared space and consolidation. Having identified what is surplus to requirements, *a new approach to disposal is necessary.*

RECOMMENDATION 6

The key principles underpinning this approach should be:

- Government should empower the Mayor to identify the publicly owned sites in London - under the ownership of central government through to local government, including all public bodies - which are surplus to the public sector's operational needs – a 21st century “Domesday Book” for housing delivery;
- the Mayor should act as the disposing agent for such surplus sites;
- the disposal strategy should prioritise the potential for building homes, taking into account the speed of construction and the quality of homes delivered, with the price realised (and particularly the up-front consideration) being a secondary consideration;
- the bodies that own the land should receive the receipts generated through the disposal of the land, or its use, as an equity investment in the resulting development; and, finally
- the public sector should support the disposal process via the planning system through zoning or Local Development Orders, but should not obtain planning permission before disposal. This should be left to the market and each site's purchaser.

A considerable amount of work needs to be done to convert these principles into a practical regime. However, this approach has the potential to transform the effective utilisation of land in London.

BROWNFIELD LAND

There is wide spread agreement that as many new homes as possible should be built on brownfield land (previously developed land that is no longer in use). The push for “brownfield first” could be supported by the Mayor and the boroughs prioritising investment in infrastructure and remediation to help bring difficult brownfield sites to the market more quickly than would otherwise be the case, although, clearly, financial resources are currently constrained (investment in transport infrastructure is discussed in section three).

There is, however, something that can be done to promote development on brownfield land that does not require money from the public sector. Some boroughs prevent former industrial areas from being brought forward for a change of use in the hope that industry, and the local jobs it provides, will return. In most cases it simply will not.

RECOMMENDATION 7

The Mayor should therefore immediately require boroughs to review their designation of strategic industrial land to demonstrate that the designation is realistic. If it is not, other uses should be permitted, with a presumption in favour of residential led mixed use development.

3

INCREASING DENSITY AND BUILDING NEW SUBURBS

THE ISSUE

There is, obviously, a finite supply of land within London's current borders that is suitable for housing; but, equally, we could house millions more Londoners were we to have areas of similar density as the city centres of New York, Hong Kong, Singapore or Paris. Whether homes are built inside or outside the M25 - inside is likely to be the easier to deliver - a coordinated approach to housing growth and transport investment is required to make development work for Londoners and the South East as a whole.

Figure 3
City Density Maps

Source: LSE Cities, London School of Economics and Political Science



THE SOLUTIONS

DENSIFICATION

As noted in section 2, it is desirable to deliver as many new homes as possible on brownfield land. Densification has to be one of the main ways in which this can be achieved. Not everywhere in London is a suitable location for high density development, but within every borough there are many locations that could comfortably accommodate an increase in housing density. There is considerable scope, particularly in outer London, to look again at how densification can be achieved.

The Mayor is currently consulting on changes to the London Plan and has suggested a raft of changes to policy that would support densification. We welcome this approach and, in particular, support the following changes:

- **opportunity areas and intensification areas:** a commitment to ensure that the minimum number of homes to be built in these areas is fit for purpose and to ensure also that aspirational employment allocations do not prevent more housing development from coming forward;¹⁵
- **town centres:** boroughs should actively manage the changing role of town centres, especially where there is a need to adjust to the evolving retail landscape, and should encourage high density residential led mixed use development;¹⁶ and
- **outer London:** high density housing development in town centres with good transport links should be supported.¹⁷

¹⁵ See paragraphs 2.61 and 2.62, Draft Alterations: January 2014

¹⁶ See policy 2.15 Dc, c2 and c3 and paragraph 2.72e, Ibid.

¹⁷ See policy 2.7 Ah, Ibid.

RECOMMENDATION 8

Given the importance of densification to housing delivery in London, the London Plan should include one new, comprehensive policy on densification. In addition to the changes listed above, the new policy should:

- include support for the densification of areas of low quality housing – whether public or private;
- state that for densification to be sustainable in the context of regenerating existing housing stock, there must be good – as opposed to minimal – measures to compensate and provide for existing residents;
- provide a clear explanation of how policy on local character (of existing neighbourhoods - see Chapter 7 of the London Plan) should not be used as a permanent block on an increase in housing density and an excuse to keep a neighbourhood in aspic; and
- comment on the design of high density housing, which does not always have to mean tall buildings but should always mean high quality design, taking the best of the urban and suburban character.

18 Information and pictures provided by the Berkeley Group.

CASE STUDY

DENSIFICATION IN PRACTICE – WOODBERRY DOWN¹⁸

Woodberry Down lies in the northwest of the London Borough of Hackney. Between 1948 and the late 1960s, 42 blocks of local authority housing stock were built on the site. Over time, the estate fell into disrepair, beset with high crime rates, unemployment and the physical decline of the buildings themselves.

In 2002, Hackney Council selected Berkeley as its development partner to work with the council and Genesis Housing to regenerate the estate.

Woodberry Down's close proximity to public transport (both underground and overground stations) has allowed it to become a model of intensification, increasing the housing density to help make a place that can now support shops, schools and community facilities.

796 new homes have already been built - with residents' life satisfaction across all tenures at 90% compared to a UK average of 60% - and more than 5,000 homes will be completed by 2031.



The old estate

and what the new development will look like

CASE STUDY

THE POTENTIAL FOR DENSIFICATION – THAMESMEAD¹⁹

Situated in the London boroughs of Bexley and Greenwich, Thamesmead is already home to more than 40,000 people but has the potential to grow, with a significant amount of land available for development, including a 1.5km undeveloped river frontage. The arrival of Crossrail at nearby Abbey Wood station from 2018, and a possible new river crossing, will transform the connectivity of this area of outer London, making Canary Wharf accessible in just 11 minutes and the City only 15 minutes away.

In January 2014, Gallions Housing Association joined the Peabody Group (with Trust Thamesmead to follow in April 2014) to bring Thamesmead into a single well-resourced ownership. Peabody will invest an initial £225 million into the area and, working in partnership with the local boroughs, has plans to transform the site into a vibrant new place to live and work. These plans could lead to the construction of 4,000 new homes, thousands of new jobs and the provision of new education facilities and cultural programmes.



NEW SUBURBS

The first and best option is to increase housing supply on brownfield sites within London's existing borders. However, while theoretically perfectly possible, given densities compared with other world cities, the level of demand for housing and the complexities of bringing sites forward mean that this alone may not deliver enough supply sufficiently quickly. Additional options, such as the creation of new suburbs on green belt land, must therefore be considered. This will be easier to achieve within London's boundary as it is within the control of London government.

Providing fast and reliable transport infrastructure is an essential prerequisite to supporting the development of new suburbs. Evidence from Crossrail, the Jubilee Line Extension, the Northern Line Extension and the London Overground shows a significant increase in residential property values around new stations.²⁰ The value generated by new transport infrastructure, which supports new housing development, can play an important role in contributing towards the cost of paying for the transport infrastructure in the first place. Mechanisms such as the Community Infrastructure Levy can be used to capture this value.

Crossrail and, potentially, Crossrail 2, which we strongly support, can facilitate significant increases in housing. This could range from higher density development in existing residential locations through to the creation of entirely new suburbs. The latter is a tried and tested model that helped London to expand in the early 20th century – the Metroland development that took place as the underground was expanded through North West London is probably the most well-known example but similar growth was experienced as the tube extended south and east in particular.

²⁰ See Funding Crossrail 2, Report of London First's Task Force, London First: February 2014
http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf

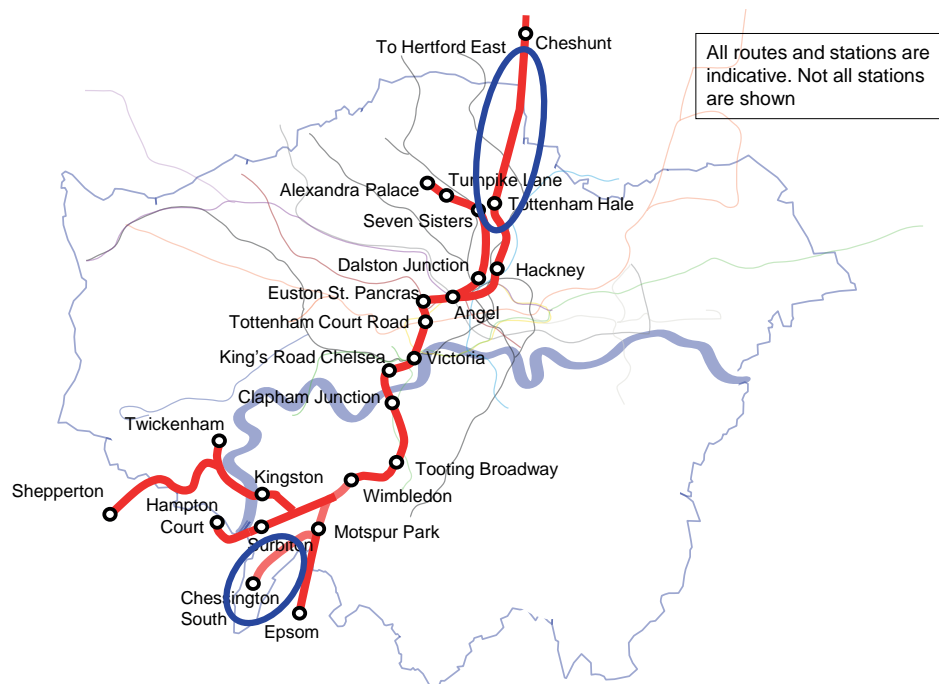
RECOMMENDATION 9

This model should be used again to support the next stages of London's growth. For example, Crossrail 2, a new south-west to north-east rail line in London would transform commuting times and help to reduce pressure on congested underground lines. This improved transport connectivity would open up parts of London for substantial new housing development. In particular, Brimsdown in the Upper Lea Valley and Chessington, south of the Royal Borough of Kingston upon Thames, are, for example, two areas that with improved transport connections could support the creation of significant new communities.²¹

21 Ibid.

London government must work in partnership with local communities to assess the best options for delivering new suburbs around new transport infrastructure. A reformed planning system with a strong financial incentive to support housing growth, as discussed in section one, will also be integral to gaining the support of local communities for more development.

Figure 4
Potential route for
Crossrail 2 and the
construction of new
Suburbs



There will be many other opportunities to deliver enhanced densities and new suburbs linked to existing or new transport infrastructure, both inside London's boundary and outside.

RECOMMENDATION 10

- To facilitate such development inside London, the Mayor should conduct two strategic reviews: one to analyse where new stops on existing rail and underground lines could be delivered to support new housing, and a second to consider the opportunities for re-designating green belt land within London for residential development.
- And to help support growth outside of London's boundary, the Mayor should work with surrounding authorities, through sharing data and evidence, with a view to seeing how they can also benefit from supporting London's growth; although clearly this will require the surrounding authorities to be willing to build more homes and local communities to support them.

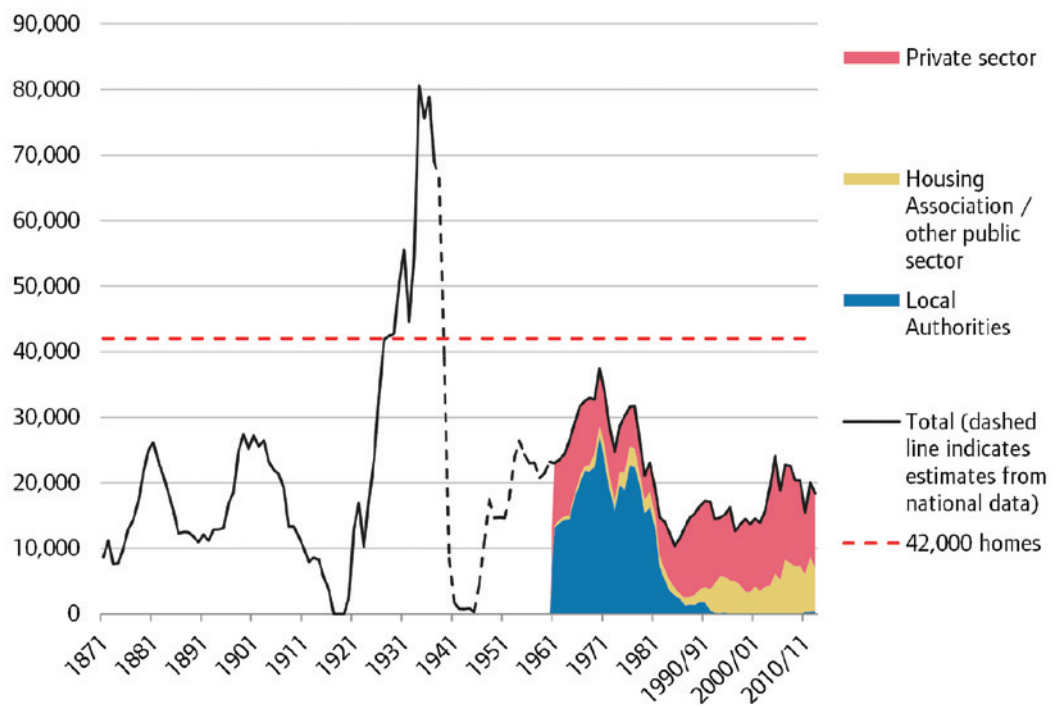
4 NEW WAYS TO BUILD MORE HOMES

THE ISSUE

If history is a guide to future performance, we will need to find new ways to help achieve a step change increase in house building. London's boroughs have historically played an important role in building new homes and could do so again if constraints on their ability to leverage their balance sheets were removed. And institutional investment into private rented sector development on a much larger scale than has hitherto been seen has the potential to play a similar role in London as it does in other world cities.

Figure 5
New homes built in Greater London, 1871 to 2012/13

Source: GLA, London Housing Strategy, November 2013.



THE SOLUTIONS

BOROUGH BUILDING

In recent years the Government has been keen to see housing associations leverage their balance sheets in order to build more homes but it has been less enthusiastic about councils doing so. Having reformed the Housing Revenue Account (HRA) system in 2012, the Government imposed a cash limit on HRA debt which has constrained the ability of councils to borrow sustainably for investment. This cap on borrowing goes beyond the normal prudential borrowing rules.

RECOMMENDATION 11

In line with the recommendations of the London Finance Commission, we support the removal of the specific restriction placed on local authorities to borrow against the value of their housing stock, when this would be within prudential limits.²³

²³ Raising the Capital: May 2013.

With greater financial flexibility at their disposal, we see a strong role for boroughs in supporting an increase in house building, most obviously through helping to finance estate regeneration projects in joint venture projects.

BUILD TO LET

Approximately 25 per cent of households in London are housed in the private rented sector and it is the only form of tenure in London that is growing as a share of the total.²⁴ Over the past couple of decades this form of tenure has grown rapidly and organically, rather than as the result of an explicit public policy objective. The overwhelming bulk of stock used in this way is provided by small landlords, each of whom owns a small number of units.

Build to let refers to the large scale provision of private rented homes financed through institutional investment. This would be new investment into London's housing supply and could play a significant role in helping to increase the overall level of supply, as well as accelerating the completion of existing large scale developments.

²⁴ The Mayor's Housing Covenant, Making the private sector work for Londoners, Greater London Authority: December 2012 <http://www.london.gov.uk/sites/default/files/Housing-Covenant-Making-the-PRS-work-for-Londoners.pdf>

There are additional benefits that build to let brings, such as promoting labour market mobility, flexibility and ease of access. Professionalising the sector offers the prospect of high quality homes, driving up standards in the private rented sector in general.

The GLA has demonstrated its willingness to facilitate more build to let developments, as have some boroughs. The Mayor's draft Housing Strategy called for 5,000 long term rented homes to be delivered every year and stated that the GLA would encourage developers to consider what role build to let homes could play in residential schemes of more than one phase.²⁵

²⁵ Homes for London: November 2013

RECOMMENDATION 12

The Mayor's proposed alterations to the London Plan include changes to policy intended to support an increase in build to let developments.²⁶ We welcome these changes - the Mayor needs to ensure they are adopted. In particular, we support a change to policy that requires all boroughs to:

²⁶ See policy 3.8 B a1 and paragraph 3.54 – 3.55, Draft Alterations: January 2014.

- plan for the private rented sector in their local plans;
- proactively look for build to let development opportunities in their area; and
- recognise the distinct economic model of the build to let tenure in policies and decision-taking by, for example, supporting the use of legally binding commitments (covenants) that a new development will remain privately rented for a specified period in return for flexibility in the level of affordable housing required, subject to viability testing.

Where such flexibility is shown, it should not mean that other parts of the residential market have additional affordable obligations placed upon them.

CAPACITY OF THE INDUSTRY

Underpinning the reforms suggested in this report is the need to address who will construct the new homes that London needs.

For reasons outlined earlier in this report, in recent times the number of new entrants building homes in London has narrowed, but London's housing market needs more companies competing to build the new homes that the city requires. We are starting to see some new entrants into the market, such as foreign investors who are taking on major sites and, in some instances, turning previously stalled schemes into new homes - Battersea Power Station, being a high-profile example.²⁷ But we need more and the easiest way to attract new entrants would be to undertake the type of reform advocated in this report.

Taken as a package, the report's recommendations are designed to create a structure that facilitates more house building. If this could be achieved it would lower the barriers to entry for new companies, which would, in turn, help to reduce the cost of capital, which is a particular constraint for small and medium-sized builders.

Whatever changes are introduced, London will not see the construction of new homes increase from 21,000 in 2011/12 to 50,000 new homes per year in only a couple of years. Such an increase will, amongst other things, require careful management of the supply chain. We believe that, in time, the market could and would adjust to support significantly more house building. This, in turn, will be achieved only if we have the political will to ensure that the right policies and structures are in place to make it happen.

²⁷ Research from CBRE shows the increasing prominence that foreign developers and investors are playing in delivering new homes in London. For example, four large developments in London backed by foreign investors have planning permission for 33,000 new homes. See Supplying London's Housing Needs, CBRE: January 2014.

ANNEX A

LONDON FIRST HOUSING TASK FORCE

Roger Bright, London First Board Member
and Chairman of the Task Force

Peter Halpenny, Development Director and
Deputy Managing Director, Ballymore

Rob Perrins, Group Managing Director, Berkeley Group

Mark Rogers, Chief Executive, Circle

Craig McWilliam, Executive Director, Grosvenor Britain & Ireland

Richard Cook, Head of Residential, Lend Lease

Kevin Cowin, Operations Director, Mace

Matthew Spry, Director, Nathaniel Lichfield & Partners

Stephen Howlett, Chief Executive, Peabody

Mary Parsons, Group Director, Business Development,
Places for People

Robert Grundy, Head of Housing Investment and Consultancy, Savills

Steve Trusler, Director of Strategy, Wates*

* Now at Laing O'Rourke

The analysis and conclusions contained in
this report are those of London First and no
endorsement should be inferred from any one
individual or organisation referred to above.

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like to thank Nathaniel Lichfield and Partners for
undertaking the analysis contained in Annex B.

ANNEX B

Economic Impacts of New Housing Delivery

The following economic benefits could be generated by the various scales of new housing delivery

Source: Nathaniel Lichfield & Partners



Direct Jobs
(Person-Years
of
Construction
Work)



Indirect/
Induced
Jobs (FTE)



Direct &
Indirect
GVA



First
Occupation
Expenditure



Additional
Resident
Expenditure



New Homes
Bonus
Payments



Additional
Mayoral and
LA Income

Housing Target

Housing Target	Per Year	60,700	91,600	£1.5bn	£141.6m	£636.5m	£47.4m	£311m
28,000 (2012 Housing Delivery)	Per Year	60,700	91,600	£1.5bn	£141.6m	£636.5m	£47.4m	£311m
32,000 p.a. (London Plan)	Per Year	68,973	104,100	£1.8bn	£161.1m	£723.8m	£53.9m	£353.7m
	2015-2031	1.1m	1.7m	£28.8bn	£2.6bn	£98.4bn	£4.4bn	£11.6bn
40,000 p.a.	Per Year	85,700	129,300	£2.2bn	£200m	£898.8m	£66.9m	£439.2m
	2015-2031	1.4m	2m	£35.2bn	£3.2bn	£122.2bn	£5.4bn	£14.4bn
50,000 p.a.	Per Year	107,000	161,700	£2.7bn	£250m	£1.1bn	£83.6m	£549m
	2015-2031	1.7m	2.6m	£43.2bn	£4bn	£152.8bn	£6.8bn	£18bn

Construction Jobs

New housing delivery makes an important contribution to the capital's construction industry by supporting a significant number of direct construction jobs each year. Standard build costs and ONS Annual Business Survey data are used as the basis for estimating the level of construction employment generated by proposed development scenarios. These jobs in turn support indirect and induced jobs in the construction supply chain, which are quantified by applying the National Housing Federation's multiplier of 2.51 to the number of direct jobs.

GVA

Together, direct and indirect construction employment makes a significant contribution to the local economy through Gross Value Added (GVA). This is calculated by applying 2013 Experian data on average GVA per worker for London (£56,700) to the estimated employment impact of the various scales of development.

Resident Expenditure

New housing development offers an opportunity to increase local expenditure as residents spend their money on goods and services in the local area. This additional expenditure in turn supports a range of retail and leisure jobs in local service sectors, helping to maintain the vitality of local economies across the capital. Recent research suggests that the average homeowner spends approximately £5,000 to make their house 'feel like home' within a year and a half of moving into a property. ONS Family Expenditure Survey data provides a basis for typical household spending and on-going resident expenditure. On-going resident expenditure is presented in compound terms, assuming that initial rates of completions are maintained over the 16 year plan period (2015 – 2031).

Council Tax

The Local Government Finance Act (which includes measures to support the localisation of support for Council Tax in England) gives local councils increased financial autonomy and opportunities to be more proactive about

how they use Council Tax to drive economic growth in their local area. Council tax is calculated using the Greater London split of council tax bands and apportioning national average council tax rates for 2013/2014. On-going Council Tax payments are presented in compound terms, assuming that current charges are maintained over the 16 year plan period (2015 – 2031).

New Homes Bonus

The New Homes Bonus (NHB) is an incentive-based system to support delivery of new housing by matching for a 6-year period the increase in Council Tax income from new homes or homes brought back into use. At a time when public sector finances are constrained through the Government's austerity measures, the NHB can provide a significant source of income for Local Authorities thereby ensuring that a share of economic benefits are returned to the local level. The NHB payments are generated using national average council tax levels and include an affordable housing premium of £350 per unit which is payable on an annual basis.

Community Infrastructure Levy

The Community Infrastructure Levy (CIL) allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. The income can be used to fund a wide range of infrastructure required as a result of development. In London, the Mayor has introduced a CIL to raise £300 million towards the delivery of Crossrail, which will support the capital's growing economy. New housing delivery has an important role to play in generating this funding. Average unit sizes and CIL rates have been applied to the different scales of housing delivery to estimate the potential Mayoral CIL contributions from developers. In addition to the Mayoral CIL, individual councils across the capital can also charge a CIL on new development within their Borough. The analysis assumes that all 33 Boroughs enforce the levy and applies an average CIL charge per sq.m of new residential development to estimate payments from developers.

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