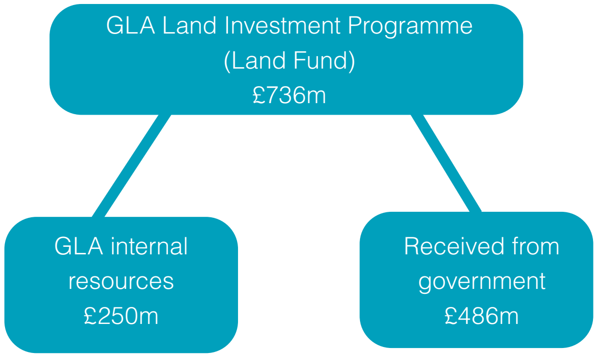
Land Fund #2: how the GLA could attract co-investment to help build more homes

Executive Summary

To remain a competitive global city and a great place to live, work and play, London needs to build more homes. The coronavirus pandemic has caused a delay to construction activity and the long-term impact on the housing market and wider economy remains unclear. However, post-Covid, London will still require a step-change in housing supply to deliver the 66,000 new homes a year it needs, as set out in the London Plan.

In 2017, the Mayor created a £250m Land Fund from the Greater London Authority's own resources. The Fund aims to invest in buying and preparing land for housing, as well as using financial instruments and joint venture investments to unlock and accelerate development. As the land is sold on to third parties to develop, the intention is for receipts to be recycled and used to finance other interventions. After the Fund was created the GLA secured £486m for land assembly from government – which came with criteria and targets about its allocation – giving the GLA an overall £736m land investment programme operating under the banner of the Land Fund.



This report focuses on steps the GLA could take to support an increase in housebuilding by establishing a new version of the Land Fund – what this report calls Land Fund #2 – on a co-investment basis, helping to unlock new money that will stimulate construction of new homes at a crucial time for London's economy.

To realise this opportunity the GLA could undertake three steps:

Step 1: Clarify the structure of Land Fund #2 and the type of financial interventions it will use. The scope of the current Land Fund is broad and while there are benefits in maintaining flexibility, providing clarity over key elements of Land Fund #2 – and perhaps segmenting its areas of focus – would improve the potential for attracting co-investment.

Step 2: Identify opportunities for co-investment. Having provided clarity and structure around specific financial interventions, the GLA could then identify where there are opportunities to secure and leverage co-investment, as well as identify potential providers – either project-specific or programmatic partners – for the co-investment opportunities.

Step 3: Articulate the investment opportunity and go to market. The GLA will need to explain the co-investment opportunity on offer, demonstrating an understanding of the market, presenting a clear investment strategy, identifying a seed portfolio and further pipeline, setting out the nature of co-investment it is seeking, proposing an appropriate governance structure, and demonstrating it has the capacity and track record to deliver the deal.

Based on a co-investment model, Land Fund #2 would provide the GLA with more resource to support the construction of more homes. Taking the GLA's £250m contribution to the original Land Fund as a starting point for illustrative purposes, if the GLA allocated:

1/3 of the funding available to equity investments on a 1:1 leverage model for an average investment time horizon of ten years; and

2/3 of the funding available to loan investments on a 1:3 leverage model for an average investment time horizon of five years,

the potential co-investment over a ten-year period could be in excess of £1bn, which could provide 20,000 new homes.

Introduction

In 2018-19, London First together with PwC convened a working group of leading developers and advisers, chaired by Liz Peace CBE, to review the GLA's Land Fund – money used by the GLA to bring land forward for housing development – and consider the steps that the GLA could take to establish a new Land Fund based on co-investment. In March 2020, the Mayor authorised the undertaking of market-testing and advice about the creation of a commercial strand of the Land Fund[1] but the onset of the coronavirus pandemic meant resource had to be refocussed to address the immediate challenges facing London.

The pandemic has caused a delay to construction activity and for a time in 2020 brought a near standstill to the housing market. It has been estimated that construction output in London may have fallen by 34% in 2020 and will only recover to its 2019 level by 2023[2]. While the government put in place a package of measures to support housebuilding, and the housing market has, in the short-term, proved to be resilient, the long-term impact on the market remains unclear, and the trajectory of a wider economic recovery remains uncertain.

Ideas about how to unlock new investment, particularly from the private sector, will play a crucial role in supporting London's housebuilding pipeline, contributing to the wider economic recovery of the capital and the UK as a whole. This report outlines the steps the GLA could take to push on with the creation of Land Fund #2; helping both to address the capital's systemic failure to meet its housing need, while also stimulating short to medium term construction activity.

Background

In recent decades London – as one of the main economic centres in the world – has seen an increase in both employment and population growth. Yet at the same time, the city has failed to build enough homes, particularly affordable homes. This has led to several negative consequences. High housing costs mean that some people cannot afford to live in the capital. More Londoners live in overcrowded homes. Many struggle to afford high rents. For younger Londoners, home ownership is increasingly seen as a distant dream[3]. And for the business community in London, high housing costs threaten the capital's future as a leading global city, hindering recruitment and retention of staff.

The new London Plan – the Mayor's spatial strategy for the city – states that London has a housing need of 66,000 new homes every year for the foreseeable future. However, the Plan's housebuilding target has been reduced to 52,000 new homes a year due to concerns about the deliverability of the amount of development originally planned for on small sites[4]. The Plan has a strategic target for 50% of homes built in London to be genuinely affordable homes[5]. Economic analysis shows that in order to meet the housing need figure set out in the London Plan, annual housing investment across the public and private sector would need to rise by 65%, from £13.3bn to £21.9bn[6]. Indeed, the Mayor estimates that to meet London's affordable housing requirement from 2022-2032 £4.9bn of grant is required every year over the ten years[7].

The GLA has identified that the availability of land, at the right price, in the right place, and in the hands of organisations that are capable of building homes, is the most critical factor for increasing and accelerating the supply of new homes[8]. London First previously set out recommendations[9] about how the Mayor could establish his Homes for Londoners (HfL) initiative, calling for it, amongst other things, to focus on getting more land out into the market for development:

> HfL's primary role must be getting public land ready for development. Where practicable, HfL, on behalf of the GLA, should assemble sites around core public landholdings; set out an acceptable level of density for development; and offer them to the market with clear requirements about the mix of tenures required. Securing a new pipeline of developable land owned by, or the disposal of which is controlled by, HfL provides the Mayor with the ability to directly influence and enhance housebuilding.

The need for a proactive approach has been recognised by the GLA. The London Housing Strategy commits to taking a more interventionist approach in the land market, with this being operationalised through the creation of a £250m Land Fund in September 2017. The Fund aims to invest in buying and preparing land for housing, as well as using financial instruments and joint venture investments where appropriate. As the land is sold on to third parties to develop, the receipts will be recycled to fund future interventions. More information about the Land Fund and its current activity is contained in Annex A.

Since the announcement of the Land Fund in 2017, the GLA secured an additional £486m for land assembly from the government – which came with criteria and targets about its allocation – giving the GLA an overall £736m land investment programme operating under the banner of the Land Fund. But the scale of the challenge facing the capital to build the homes that are needed and, in general, the high price of land in London means more resource is required. Building on the positive action taken by the GLA to originally establish the Land Fund and the Mayoral decision to authorise market-testing and advice about the creation of a commercial strand of the Land Fund, this report identifies the steps that could be taken by the GLA to form 'Land Fund #2', with the aim of creating a new co-investment Fund to help build more homes.

This report is set out as follows:

- proposals for a Land Fund #2, an overview of a three-step plan the GLA could pursue to attract co-investment, leveraging in further public and private sources of capital to a new Fund; and
- a conclusion, outlining how the GLA could proceed, including an illustrative analysis on the potential impact Land Fund #2 could have.

Land Fund #2: securing co-investment into a new Fund

Given the high cost of land in London and the scale of the challenge facing the capital to build the homes it needs, the £250m allocated to the Fund by the GLA was a positive first step. Securing funding from the Government to add to the Fund was a welcome addition. The relatively swift allocation of much of the current Land Fund has demonstrated that there is interest from those building in London to work with the GLA through the Fund. This is unsurprising and highlights several benefits that the GLA can bring to a potential partner, such as:

- providing clear political commitment and financial resource to support the delivery of new homes;
- the use of its network – across boroughs, public sector stakeholders, housing associations, developers, landowners – and the value these relationships can bring, particularly from a "deals origination" perspective; and
- the ability to draw upon a range of powers and resources where necessary, such as planning and compulsory purchase, to unlock development and structure successful deals – noting, of course, the need to manage these processes sensitively and deal appropriately with any potential conflicts of interest, whether real or perceived.

The opportunity now exists for the GLA to build on the success of the Land Fund by establishing a new co-investment Fund. The current Land Fund has been established with a wide range of objectives and with the potential to deploy capital in various forms. This approach has the benefit of allowing the GLA to intervene in the most appropriate way, with the flexibility to suit the individual circumstances of a transaction. However, adopting a broad scope also has implications in terms of (a) the extent to which the GLA has the capacity to deliver such a wide mandate; (b) the expertise to rationally allocate its limited capital when presented with a number of worthy projects; and (c) the ability to raise co-investment.

It is legitimate for the Mayor to pursue a multifaceted set of objectives for the Land Fund. Indeed, if the only objective were to make a commercial return, this may be regarded as neglecting the wider social benefits that are typically (though not exclusively) prioritised by the public sector. However, if significant levels of co-investment are to be secured in a new Fund, the balance between commercial return and wider social benefits and policy outcomes may need to be appropriately calibrated.

The initial £250m allocated to the Land Fund has been deployed alongside project specific partners, who are selected to work on individual transactions, and the GLA has been able to mobilise other public sector capital as well as private investment (See Annex A for more information). This approach has proven to be successful, allowing the GLA to intervene with the flexibility to suit the individual circumstances of a transaction. There is, however, an opportunity for GLA to increase the amount of money it is able to invest by finding a programmatic investment partner(s), one who is prepared to invest in a pipeline of multiple similar transactions.

Partnering with a single or multiple programmatic investment partner(s) could allow the GLA to mobilise private capital at scale and would give it access to a partner(s) with complementary skills and capabilities. Additionally, there would be a potential for follow-on investments from the partner(s) if the initial allocation were successful. In selecting its strategic partner(s), the GLA could benefit from competitive terms by running a competitive process with bidding rounds.

This section sets out three key steps the GLA will need to consider in order to secure co-investment from a strategic partner(s), into a new Land Fund. These are:

- **Step 1 – Clarify the structure of Land Fund #2 and the type of financial interventions it will use**
- **Step 2 – Identify opportunities for co-investment**
- **Step 3 – Articulate the investment opportunity and go to market**

Analysis of the three steps

Step 1: Clarify the structure of Land Fund #2 and the type of financial interventions it will use

Land Fund #2 will be a commercial investment Fund, albeit one that has additional objectives beyond solely making a commercial return. It is helpful to distinguish the types of financial intervention that the GLA might consider (equity, debt or both), with a view to providing a framework for potential strategic partners to understand the role(s) they could play.

For each type of financial intervention the GLA undertakes, it will need to consider what level of exposure it wants across all the categories (i.e. how much capital to commit to equity investments versus loan investments, and within the loan investments, the specific type of loan and so on). Factors the GLA may consider when allocating the funds include: what returns it requires; what its risk appetite is; what the market opportunity is; and what the target outcomes are (e.g. financial returns, increased amounts of affordable housing, enable industrial intensification etc.).

Clarity on the products and the broad parameters of how the GLA intends to allocate the capital it has available will provide an important signal to potential co-investors regarding options for the form of their co-investment.

Step 2: Identify opportunities for co-investment

In order to identify what the best opportunities are for securing a programmatic partner, the GLA should articulate what the potential co-investment opportunity is, the types of potential co-investor they are seeking and their preferred method for co-investment (debt, equity, or a hybrid).

A summary of the market opportunity, divided between potential equity and loan interventions, is outlined below, along with some case studies of existing analogous investments to provide a broader context. The potential co-investment scenarios and types of participating organisations outlined below are not exhaustive[10].

Equity

What is the co-investment opportunity?

The GLA and a co-investor could invest equity and take direct interest in land. In addition to site assembly, the GLA role could be to de-risk schemes for development through, for example, securing planning, investing in infrastructure and site preparation, and preparing the sites for disposal. In the current Land Fund, it is understood that the GLA may also maintain their investment in the scheme during construction alongside its partners. Investing equity into schemes can be useful for a number of reasons, including:

- **sharing risk,** particularly where the financial capacity and / or risk appetite of the current owner is a constraint to bringing forward land in the most advantageous form (for example, planning risk, including change of use, upfront costs or level of demand risk are too high, or ambition for the scheme is curtailed);
- **unlocking further capital,** where, for example, lenders require further risk capital in the structure before they are willing / able to invest; and
- **sharing in value uplift,** where the GLA and a co-investor can de-risk schemes by bringing them through the planning and infrastructure processes, there is the opportunity to create and accelerate the realisation of value uplift. This could help to accelerate recycling of capital and further unlock future development opportunities.

Who are the types of co-investor?

The GLA could be the sole investor, however, this would tie up more capital, and mean the GLA has to manage all risks associated with the scheme. Given many of the opportunities will have an existing owner (“sponsor”) who may want to participate in the development returns from the new schemes, each scheme or investment opportunity could have a natural co-investment partner for the GLA.

Additionally, and thinking more broadly about the capital invested by the

GLA, it is possible for this to be split further between the GLA and an equity co-investor. While the specifics of each type of site and investment opportunity would likely need to be appraised on their own merits, there is scope and appetite in the market for a more strategic, or programmatic, co-investment partner to work with the GLA to invest equity across a number of sites. This approach would have the benefit of creating a multiplier effect with the GLA's capital, theoretically allowing it to stretch its investment further, as well as to share the equity risk.

There are several types of co-investor that could be attracted to a Land Fund #2 co-investment equity product, including pension funds, private equity, impact investors, and other institutional investors. For example, some investors may be attracted by the potential to create an "industrial intensification fund", which could help to deliver against new London Plan policies (particularly E7, industrial intensification co-location and substitution), alongside safeguarding important industrial floorspace in London. The benefits of this type of investment would include the ability to generate revenue in the short term (which could be used to fund activity in relation to securing change of use and a planning approval for residential) and capital growth (in the form of improved land values from alternative use).

Consideration would of course need to be given to the investment strategy, with parameters and investment criteria established at the outset. However, the opportunity to access pipeline, to share risk throughout the development process, and participate in value uplift and creation, and the wider ESG benefits that can be delivered from the underlying schemes could form the basis for an attractive proposition to be taken to market. As part of shaping this proposition, the GLA will need to consider the various cost/benefit configurations – for example, what the appetite is in the market to share planning risk, and what the cost of this capital is versus the GLA taking more of the planning risk and bringing in a co-investment partner post-planning? These various permutations should be considered before taking a proposition to market.

English Cities Fund – establishing a programmatic partnership

Established in 2001, The English Cities Fund brings together equity investment from Homes England, Legal and General and Muse, with additional debt finance provided by Barclays. The Fund seeks to deliver large-scale, complex, long-term regeneration projects. The Fund is not operated through a formal fund structure, and each party signs off its own investment. To date, Homes England has provided 25% of all fund investment (i.e. a 1:3 ratio of co-investment at fund level). Additional funding is raised at a project level from a range of institutional investment partners. In total, over £800m of third-party investment has been secured. Currently, the Fund has delivered six schemes worth £2.5bn, taking 100 acres of brownfield land and delivering 1,700 new homes and 1m sq ft of office, retail and leisure space. The Fund is a good example of how the GLA could look to create a programmatic partnership.

How much co-investment could be raised?

The level of co-investment that could be secured from these potential sources will vary depending on the specifics of the investment strategy that the GLA wants to pursue and the market appetite for this strategy. **However, on the assumption that the intention is that the GLA shares evenly in the risks and returns of direct equity investment, for the purpose of this analysis it is assumed that any equity co-investment could be matched on a 1:1 basis, or a 1:3 basis if a similar structure to the English Cities Fund can be replicated.**

Where the co-investment is from a third party, private sector source and on arms-length, equal terms, this will help to demonstrate that the GLA's investment is state-aid compliant. There may be scope to further leverage this with debt investment from a third-party provider, but that has not been factored into this analysis.

Loans

What is the co-investment opportunity?

The GLA and a co-investor could provide loans to counterparties to provide financial support for the acquisition of land that will be brought to market to support the GLA's objectives for the Fund. The terms of the GLA's investment will need to demonstrate that any investments comply with the relevant requirements for state investments on an ongoing basis as they evolve. This activity is useful for a number of reasons such as:

This activity is useful for a number of reasons such as:

- **helping to provide access to finance** where a borrower is facing challenges, such as creditworthiness, loan to values / ability to offer security, insufficient equity, and so on;
- **helping with the cost of finance** where the interest costs and fees associated with particular products impact the overall viability of the financing package for a borrower; and
- **helping to address risk** where, for example, the acquisition is early stage and a higher-value exit is dependent on several factors, such as needing to obtain alternative planning approval, provide new infrastructure, undertake decontamination and remedial work, and so on. (It should, however, be noted that this type of investment would typically be better suited to equity risk)[11].

Who are the types of co-investor?

The GLA could be the sole investor, however, this would tie up more capital, and mean the GLA has to manage all risks associated with the scheme. Therefore, there is an opportunity for the GLA to share the risk / return with a programmatic co-investor as well as to benefit from the skills and expertise of that third party.

There are several types of co-investor that could be attracted to a Land Fund #2 co-investment loan product, including banks, credit funds, and other institutional investors. For this type of financial intervention there is a relatively well-trodden path for the GLA to seek a co-investment partner.

Good examples include the Homes England and Barclays Housing Delivery Fund, and the Scottish Government's Mid-Market Rental Fund (see the case studies below).

Consideration would of course need to be given to the exact loan product(s) – senior, junior or mezzanine finance – that the GLA and a co-investor could finance. Subject to satisfying state aid requirements, there may be scope for the GLA to potentially choose the riskier tranche of loans, and therefore de-risk opportunities that would otherwise be unable to access debt at reasonable prices (see the Housing Delivery Fund case study).

Housing Delivery Fund – a co-investment programme based on loans

Created in 2018 by Barclays and Homes England, the £1bn fund provides finance to small- and medium-sized housebuilders to help broaden the housebuilder market. Homes England have provided £125m of funding and Barclays £875m. The senior debt is provided solely by Barclays (maximum of 65% loan to cost), the mezzanine debt is provided 50/50 by both parties (an additional 15% loan to cost) and the remaining 20% of finance is provided by the project sponsor. The extent of Homes England's leverage is 1:7 at fund level and 1:9 including project sponsor finance. Loans range from £5–100m, and to date the fund has agreed in excess of £150m of investments. The fund provides an example of how the GLA could use loans to create a programmatic co-investment model.

Mid-Market Rent Fund (MMR Fund) – a co-investment programme based on equity and loans

In 2018, PfP Capital established a fund to deliver and operate 1000 mid-market rent homes: homes where rents are lower than the private market but higher than social housing. The £160m fund secured £47.5m of investment by the Scottish Government in the form of a loan, a £10m capital commitment from Castle Rock Edinvar, and further capital from third parties. The fund is helping the Scottish Government to meet its wider housing plan, which is to deliver 50,000 affordable homes by 2021. Investors into the fund are seeking to benefit from CPI-linked returns derived from the rental income; the target yield ranges from 4.5 to 5%, with capital appreciation over the life of the Fund. The Fund has identified a pipeline of development to meet its initial 1,000 homes target, with acquisition and construction having started in 2019. The MMR Fund provides an example of how the GLA could use loans and other investors equity to create a programmatic co-investment model.

How much co-investment could be raised?

The level of co-investment that could be secured from these potential sources will vary – as with the potential for securing equity co-investment – depending on the specifics of each opportunity. Activity such as buying land carries a different (typically higher) risk profile than providing construction finance. As such, it would not be unusual for co-investment ratios to be lower. **In this context, and for illustrative purposes only, it may be possible to leverage 1:3 the investment made by GLA. On the further assumption that over a ten-year period the funds can be recycled at least once, then this would imply a total investment of 1:6 the GLA's initial investment.**

Step 3: Articulate co-investment opportunity and go to market

To kick-start the creation of Land Fund #2 the GLA would need to further articulate to the market the co-investment opportunity on offer. In order to attract the most suitable programmatic co-investment partner, the GLA would need to run a fair and transparent process. This would require a review of the track record and expertise of the potential investment partners, investment processes, cost of capital, and so on. Regardless of whether the co-investment being sought is for equity or loans, there are key aspects as to what this type of capital raise would typically include, which are summarised below.

Potential market

The GLA has unique access to deal flow (i.e. potential new business opportunities) in London. Where it can draw upon the insights this provides and broader market analysis to "size" the potential market opportunity, this can be used to build confidence with potential co-investors regarding the depth, commercial viability, and benefits / risks of the target markets.

The GLA could clearly articulate the drivers of the market it is targeting. This includes understanding how the demographics, macroeconomic environment, policy support, etc. affect the proposition. The GLA will also need to identify its competitors and demonstrate how its proposition differs from others.

Investment strategy

The GLA will need to set out its investment strategy, which will include clarity on the investment proposition, target geographies/types of investment, target returns, term (i.e. investment period), portfolio limits, third-party financing assumptions, any fees if applicable, and any other financial information that may be relevant to potential investors.

Identification of a seed portfolio

Investors want to deploy capital into suitable investment opportunities and demonstrate returns on capital to their backers and stakeholders. The identification of a seed portfolio – a bundle of investment-ready opportunities – can allow the quick deployment of capital and build the confidence of investment partners. If applicable, the GLA could put a memorandum of understanding in place to give investors further confidence on the availability of the seed portfolio.

Where a pipeline of further opportunities beyond the seed portfolio can be demonstrated, this will further enhance investor confidence. It might also be important for investors to understand the selection criteria for the seed portfolio and further pipeline, and to understand the assessment that the GLA has undertaken for each site.

Clarity on investment ask

The GLA will need to set out the nature of the co-investment it is seeking (including how much and when), how deals will be structured – for example, is it equal investment, is it seeking a junior or senior position, how will funds be deployed and returns shared, what are the security arrangements, and so on – and how those investments will be managed.

Proposed governance and clarity on roles and responsibilities

The proposed governance structure covering joint investment criteria, how deals will be sourced (including any value / fee payable in relation to this deal sourcing), the investment process(es) of each investor, exit strategies, and ongoing monitoring will all need to be articulated by the GLA. Importantly, how under-performing and distressed investments will be managed will need to be agreed. Consideration could be given to the benefits that an independent fund manager could bring, particularly in helping to separate commercial decisions from political influence.

GLA's capacity and track record

The GLA will need to demonstrate that it has the resource and experience required to deliver the investment strategy. It could highlight the relevant experience of its internal team and their availability to commit to the success of the deal. If the GLA does not have internal capacity, it would then explain to investors how it plans to address this issue (for example, hiring external advisors).

Conclusion

The creation of the Land Fund in 2017 signalled a commitment by the Mayor to take a more interventionist approach in London's land market to support the delivery of more homes, particularly affordable homes. Having concluded several deals through the Fund, the GLA has an opportunity to leverage several of its key strengths – access to capital, ability to originate deals, capability to be a long-term patient investor, CPO and planning powers – by pushing on with its plans for what this report has called Land Fund #2.

Based on a co-investment model, Land Fund #2 would provide the GLA with more resource to support the construction of more new homes. In order to unlock co-investment at scale with a programmatic partner the GLA could undertake three steps:

Step 1: Clarify the structure of Land Fund #2 and the type of financial interventions it will use

The scope of the current Land Fund is broad and loosely defined, which reflects the GLA's intention for the Fund to be flexible and opportunistic. While there are benefits in maintaining flexibility, providing clarity over key elements of Land Fund #2 would improve the potential for attracting co-investment.

Step 2: Identify opportunities for co-investment

Based on activity in the wider market, there would appear to be opportunities for the GLA to secure programmatic co-investment through either loan or equity strategies, or both. For each, the GLA could set out what the potential co-investment opportunity is, the types of potential co-investor and their preferred method for co-investment (debt, equity, or a hybrid).

Step 3: Articulate the investment opportunity and go to market

The GLA will need to articulate to the market the co-investment opportunity on offer, which will include: demonstrating an understanding of the market; presenting a clear investment strategy; identifying a seed portfolio and further pipeline; setting out the nature of co-investment it is seeking; proposing a governance structure; and demonstrating it has the capacity and track record to deliver the deal.

So, how much investment could a Land Fund #2 secure? Taking the GLA's £250m contribution to the current Land Fund as a starting point for illustrative purposes, if the GLA allocated:

1/3 of the funding available to equity investments on a 1:1 leverage model for an average investment time horizon of ten years; and

2/3 of the funding available to loan investments on a 1:3 leverage model for an average investment time horizon of five years,

the potential co-investment over a ten-year period could be in excess of £1bn, which could provide 20,000 new homes.

This assumes an investment of around c.£50,000 per home, which is broadly consistent with the GLA's current Land Fund investments and pipeline. Scaling up internal resource at the GLA to secure co-investment would require considerable effort but the GLA is well positioned to do this. Securing co-investment into a Land Fund #2 would send a strong signal to investors, landowners, and developers that at a time of great uncertainty in the market steps can be taken to stimulate new investment and build the homes that Londoners so desperately need.

Annex A: The Current GLA Land Fund

The Land Fund is a relatively new and complementary strategy established by the GLA to the more traditional grant-based programmes that it runs such as its affordable housing programme. By its nature, the Land Fund is a more interventionist tool that allows the GLA to proactively bring more land forward for development.

At its inception, the GLA provided the Land Fund with £250m from its own resources. This was later supplemented by funding secured from Government in the form of three separate programmes totalling £486m[12]. Therefore, the GLA's overall land investment programme operating under the banner of the Land Fund totalled £736m. The Land Fund can be combined with other initiatives and opens up a range of alternative investment opportunities for the GLA. The GLA's £250m contribution to the Land Fund is allocated on a recoverable basis against criteria it has set. There are no constraints in how the £250m can be used (e.g. for debt or equity), maximising the flexibility in terms of how the money is allocated and with whom the GLA can partner.

Investment strategy

The GLA has set out an investment strategy for the Fund, explaining its objectives, actions, types of investments and governance structure[13]. The key information about the Fund is summarised below in Figure 1[14]. The GLA is seeking to invest its resources to generate financial returns commensurate to project risk and allow the repayment of the initial investment so that it can be recycled into other areas.

Figure 1: Key information about the Land Fund

Objectives

- bringing land forward for housing development more quickly;
- ensuring development of optimal, policy-compliant levels of affordable housing, with at least 50% affordable housing delivered on public land (across the portfolio of sites);
- working with partners to fund land, infrastructure and enabling works for schemes where additional housing may be possible, or where acceleration of delivery may be achieved with additional investment;
- having a greater level of influence over the level, pace, quality and tenure profile of affordable housing delivery;
- ensuring that more of London's planned and permissioned housing opportunities are proactively supported through to delivery, especially where these are stalled;
- diversifying the development sector by supporting innovative approaches to housing delivery and SME registered providers and private developers.

How the GLA will work

- working with boroughs and other public and private entities to identify and analyse opportunities to unlock and assemble sites;
- prioritising interventions where GLA investment unlocks or accelerates schemes;
- using the full suite of Mayoral powers and resources to underpin negotiations and acquisitions as necessary, including planning, development, and compulsory purchase powers.

Type of interventions

Land Fund intervention is flexible and could take the form of grant funding, debt finance or equity investments. Some of the ways in which the GLA can work with organisations to deploy funds include:

- senior or mezzanine debt finance for development costs (land and/or construction) and asset stabilisation
- equity investment;
- gap funding;
- land assembly;
- infrastructure;
- site remediation.

Governance

- The Fund is administered through a multi-staged assessment, decision-making and monitoring process. Propositions that clear due diligence are reviewed in senior officer meetings, some including independent members, prior to submission for approval to a GLA Director's Decision form.
- Successful proposals are subject to ongoing monitoring by GLA officers to ensure that the projects achieve the agreed targets, outputs and milestones, and that investments are recovered where appropriate.

Pipeline of the Fund

The GLA has a committed pipeline of 8 schemes that will see an allocation of just over £154m from the Fund to unlock delivery of approximately 15,200 homes, of which 49% will be genuinely affordable. The schemes are a mixture of infrastructure investment, development finance, mezzanine finance, and land acquisition. Once these schemes are contracted, about 61% of the £736m Land Fund will have been allocated.

Figure 2 summarises the Land Fund transactions that are in contract, which total to £296.7m and will deliver 10,339 homes, 50% (5,052) of which will be genuinely affordable. Below this is a more detailed explanation of one of the Land Fund projects – the North Middlesex Hospital scheme.

Figure 2: Land Fund transactions in contract[15]

Site	Counterparty	Intervention	No. of Homes (% Affordable)
St Ann's Hospital	Barnet, Enfield and Haringey Mental Health NHS Trust	GLA Land Acquisition	934 (60%)
Marshgate Lane	Anthology	Land Acquisition & Development Finance	350 (55%)
Woodlands and Master's House	Anthology	Land Acquisition & Development Finance	254 (44%)
Holloway Prison site	Peabody	Land Acquisition	900 (60%)
Swan Development Facility	Swan Housing	Land Acquisition & Development Finance	2,000 (60%)
Land at North Middlesex Hospital (LB Enfield)	LocatED	GLA Land Acquisition	220 (47%)
Meridian Water Rail	LB Enfield	Infrastructure Investment with GLA grant funding only	1,528 (45%)
Mount Anvil Development Finance	Mount Anvil	Land Acquisition & Development Finance	3,015 (39%)
Colindale Station	Private Owners	Land Acquisition	313 (50%)
Barking Riverside Station	BRL	Infrastructure Investment	700 (50%)
Lewisham - PMH Sites	LB Lewisham	Grant	125 (100%)

Case Study: North Middlesex University Hospital

In March 2019, the GLA acquired a 1.37 hectare site contained within the grounds of the North Middlesex University Hospital in Edmonton in the London Borough of Enfield. The site was previously owned by the Ministry for Housing, Communities and Local Government through its agent, LocatED (an operational agency for the Department for Education).

The site is expected to deliver at least 220 homes, with a minimum of 50% of those being genuinely affordable (by habitable room). The GLA launched the first stage of the procurement to find a development partner through the London Development Panel 2 (LDP2) on 4 December 2020, with construction of the first phase of the new homes expected to start on site by March 2023.

Through this scheme, the GLA aims to demonstrate how modern methods of construction can be used to deliver high quality, net zero-carbon homes on NHS sites. Working alongside the NHS Trust, the new homes will prioritise the health and well-being of the residents, addressing the evidence that links poor quality housing conditions with poor health. Any financial gain will be recycled to support the Mayor's wider housing objectives.

Alongside the site acquisition, the GLA has jointly commissioned a masterplan with the NHS Trust for the development of the wider hospital site. The masterplan will support the delivery of improvements to healthcare facilities, replacement car parking, and a new trust headquarters (currently located on the site acquired by the GLA). The masterplan will also seek to identify any opportunities for building more homes on surplus land on the wider hospital site. The GLA currently has a leaseback arrangement with the NHS Trust, which is paying the GLA rent to continue to occupy the site up to vacant possession.

Endnotes

1 See Mayoral Decision 2616, Investment Structures and Subsidiaries and Mayoral Decision 2207 Homes for Londoners Land Fund.

2 London's Economic Outlook, Greater London Authority, June 2020.

3 For a comprehensive summary of housing statistics in London see, Housing in London 2020, The evidence base for the London Housing Strategy, Greater London Authority, October 2020.

4 The Planning Inspectorate's 'Report of the Examination in Public of the London Plan 2019' (October 2019) recommended that the ten-year, small-site housing targets for boroughs be reduced, which in turn reduces the overall housing targets for boroughs from 649,350 to 522,850 dwellings; therefore, the annual housing target becomes just over 52,000 homes a year.

5 The Mayor's preferred affordable housing tenures are homes based on social rent levels, including Social Rent and London Affordable Rent (for households on low incomes, where the rent levels are based on the formulas in the Social Housing Regulator's Rent Standard Guidance), London Living Rent (intermediate affordable housing product with low rents that vary by ward across London), and London Shared Ownership (an intermediate ownership product which allows households to purchase a share in a new home and pay a low rent on the remaining, unsold, share).

6 Hard Choices, How much should the nation spend on building new homes? A report by Volterra and Partners for London First, September 2018.

7 The 2022-2032 Affordable Housing Funding Requirement for London, Greater London Authority, June 2019.

8 New Delivery Models: Homes for Londoners Sub-Group Report, Home for Londoners Board, July 2017.

9 Homes for Londoners, A blueprint for how the Mayor can deliver the homes London needs, London First and Dentons: July 2016.

10 The analysis has been conducted on a high-level basis and is designed to give an indication of what might be possible.

11 In terms of exit and repayment terms, the GLA's typical recovery will consist of repayment milestones around planning, sales of homes, re-financing and re-gearing as opportunities are de-risked, with each component subject to an ultimate longstop date. The GLA will need to manage and monitor compliance of counterparties with each of the detailed terms set out in specific loan agreements.

12 These programmes are the Small Sites Fund, Accelerated Construction Fund, and Land Assembly Fund. Together they total £486m, with the aim of unlocking the delivery of 8,000 homes by 2030.

13 Note the Fund is not a separate legal entity or an FCA accredited and regulated vehicle. Rather, it is a notional budget allocation that currently sits within the GLA.

14 Information provided by the GLA. Correct as of time of publication.

15 In some cases, the figures provided are estimates as the projects are at early stages of design/procurement.

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