

LSE London response to consultation on Mayor's Draft Housing Strategy
20 February 2014

Key Points

- We all agree that London desperately needs more housing, and that a step change to 42,000 units per year (ideally more) is desirable. But although the document is called a 'strategy,' it seems to lack exactly that—a *strategy* for bringing about genuinely radical change.
- Even if the 42,000 were achieved the gap between supply and demand for housing would continue to widen with serious impacts on prices, rents and affordability. The strategy should set out what will happen if the target is not met. Our view is that overall standards will fall and costs will rise, negatively impacting on both economic growth and the welfare of Londoners.
- Co-operation and coordination with the wider South East must be pursued around realistic figures for the whole region.
- The strategy must not just promote large, spatially concentrated brownfield sites, but also support small and medium size builders and the development of small sites, infill, custom-build and the conversion of non-residential units.
- The majority of the group argued that London would benefit if a limited area of greenbelt land with good access and infrastructure were released for the development of high-quality new communities. However this must be done with great care, taking account of community and environmental costs and benefits.
- Such releases should be complementary to policies to increase densities both in suburban and inner city areas.
- One way to kick-start development would be via partnership schemes involving forms of equity stake, planning or profit overage agreements that enable developers to pay for the land and planning obligations *as* the development produces income. The strategy should address this approach more directly and encourage wider adoption.
- Ways need to be found to improve the build out rate on large sites, including the provision of privately rented units in the early phases; multiple developers; a wider range of dwelling types; or even publicly led development agencies.
- However some of the suggested approaches to private renting may be counter-productive when they call for single tenure developments.
- We welcome the statement that there is a major shortage of intermediate housing but remain concerned that there is little in the strategy to fill the gap.
- In conclusion we argue that housing *is* a real and major crisis impacting on London's future and that radically different approaches are needed to improve conditions. A more detailed strategy must be developed involving both the wider region and the London boroughs more directly – perhaps initially through a taskforce.
- Finally the strategy misses an opportunity to set out clearly what the very obvious market failure in London consists of and how it might be seriously addressed to provide far higher levels of output well beyond the time horizon of the London Plan.

Introduction

On 7 February 2014, LSE London hosted a discussion of the Mayor's Draft Housing Strategy at the London School of Economics (see list of attendees at Annex 1). A background paper on the demographics was on the table (attached as Annex 2).

The response to the consultation reflects this discussion as well as some of the relevant findings from LSE London research and their implications for the Draft Plan.

Introduction

We welcome the opportunity to comment on the Draft Housing Strategy, which raises many important issues around how to achieve a large scale increase in new housing over the lifetime of the Plan. The Draft Strategy reflects the benefits of having a regional authority in place that can take a strategic view in a way not possible in the rest of the country. It includes many positive ways forward, notably with respect to bringing large sites into use; developing the role of the private rented sector; and achieving a range of housing affordable to different groups of households.

Annual target for new construction

The draft strategy sets a target for new housing construction of 42,000 units per year. This is lower than the need identified in 2008 by NHPAU as necessary to maintain 2005 affordability levels. Since projections of population and household growth have increased considerably, it is also far below that implied by current GLA population and household estimates.

Even more concerning, as the document makes clear such numbers have only been achieved in London for brief periods in the 1930s (relatively unplanned private construction on the then-urban fringe) and the 1960s (the heyday of council housing). Within the current planning and finance environment neither of these options is available today – so a different more partnership-based approach is required.

We all agree that London desperately needs more housing, and that a step change to 42,000 units per year (ideally more) is desirable. But although the Mayor is required to produce a housing strategy, he does not (except in limited instances) have the power to compel boroughs, developers or other market actors to do what it says. So although the document is called a 'strategy,' it seems to lack exactly that—a *strategy* for bringing about genuinely radical change.

Demand for housing in London has been strong, and the population growing, for decades—yet new housing supply has remained persistently low. The document mentions some of the reasons for this lack of supply responsiveness. We believe it would be stronger if:

- (i) it focused on each of the important barriers in turn, and identified ways to eliminate or minimise these barriers (see Scanlon *et al* 2013 as one example of a delivery based approach specifically to private rental investment), and
- (ii) it distinguished between what might be done in the shorter term to increase output levels up to and above those achieved in 2007 and the more fundamental changes that must occur if there is to be sustained improvement in housing conditions in London in the long term.

Household growth vs new construction

London's population is forecast to grow rapidly over the plan period leading to an increase of perhaps 52,000 additional households per annum. Economic growth which is fundamental to London's success would further increase this level of demand. However the strategy sets an annual target of only 42,000 new dwellings, implying major constraints on that growth potential. Moreover, 42,000 is far above the figure in the current Plan, which identified capacity at little more than 30,000 per annum. Identifying large scale additional capacity can only be the first step in ensuring that this capacity is utilised – the strategy has to make clear how the newly identified land can actually be brought forward. Most importantly, many of these sites are not yet close to financial viability and lack the necessary infrastructure for sustainable development. And even if the 42,000 were achieved the gap between supply and demand for housing would continue to widen with serious impacts on prices, rents and affordability. The strategy should address this issue, and in particular should set out what will happen if the target is not met.

Our own views on the figures are:

- first, it is unlikely that household numbers will grow at the forecast rate if the target is not met—since there is an interaction between the housing market and demographic change households will either not form or will move away;
- second, there will be increased crowding and indeed overcrowding, especially among poorer households and those moving to the capital, and an increase in the number of homeless households. London's average household size is increasing for the first time in decades and we are seeing other signs of pressure quite far up the income scale, such as groups of couples jointly purchasing homes. Overall standards will fall and costs will rise, negatively impacting on both economic growth and the welfare of Londoners.

Interaction with the wider area

The Mayor's strategy directly impacts only the London boroughs, but London households and potential in-migrants make decisions about residential location across a much wider area; the capital's commuter belt covers most of southeast England. While the Mayor cannot control what happens in other local authorities, the strategy needs to present a more holistic view of the implications of a growth in household numbers that is not matched by new housing construction. For the future welfare of Londoners, and the health of London business – as well as to meet the general duty to co-operate - coordination has to be pursued around realistic figures for the whole region. Some newly forming households may choose to remain in tightly-packed London (and some households may not form at all, as young people move back in with parents), but others can be expected to move out beyond the greenbelt and commute into London for work. What does this mean for the growth of surrounding towns and villages? How will this impact the transport network and vice versa – notably both the potential development opportunities and increasing demands following from Crossrail and later Crossrail2? Most immediately: can planning arrangements manage this growth sustainably and effectively if it is not better spelled out in the Mayor's strategy?

Sites and developers

The draft strategy focuses on large sites and major developers, because these could produce the most new housing and the Mayor has particular responsibilities for these. There is a limited number of large brownfield sites, heavily concentrated in a few parts of London. While the London housing market is in many ways capital, and indeed region-wide, many people cannot easily move long distances. In particular access to the limited supply of affordable housing, while difficult everywhere, varies enormously across London and many people have valuable social and family local ties which help reduce the costs of services. So there must be increased supply wherever possible. As importantly, large sites are often built out slowly because of marketing techniques that call for drip feeding new supply. Windfall and smaller sites can help alleviate this problem. So the strategy should also promote other, parallel approaches to large, spatially-concentrated brownfield sites, including supporting small and medium sized builders and the development of small sites, infill, custom-build and the conversion of non-residential buildings.

One of the reasons for the shortage of a broader range of large development sites in London is the greenbelt. There are 32 500 hectares within the GLA area alone. The time has come to question whether every hectare of this should be sacrosanct and instead evaluate open land on the basis of its environmental and amenity value to Londoners. There are substantial parts of the greenbelt that are highly accessible but have low amenity and recreation value (Cheshire 2013). The majority of the group argued that London would be better served if a limited area of greenbelt land with good access and infrastructure were released for the development of high-quality new communities. However all agreed that where greenbelt land is released it must be done with great care, taking account of environmental and eco-system services and the need to maintain high quality open space. Such releases should be complemented by policies to increase densities both in suburban and inner city areas.

In this context, there was agreement that higher density development was possible both in inner areas where high quality, high rise is seen as increasingly popular, and in suburban areas where smaller blocks of apartments have the potential to increase the effective use of land that is currently underutilised.

Use of the existing stock housing

The strategy focuses strongly on the production of *new* housing, but in London this will always represent a tiny proportion of the total housing stock. The strategy should also consider whether there are ways of improving the efficiency of use of *existing* housing. One option would be to introduce a tax on empty homes; another would be to return to a re-valued pre-1990 rating system, such that homeowners paid a tax proportional to the value of their house; both would incentivise ‘under-occupiers’ to downsize or to use their homes more effectively. We recognise that neither of these are currently within the Mayor’s remit – but the suggested reforms included within the Finance Commission’s recommendations would provide greater potential for introducing appropriate incentives (London Finance Commission 2013). Even within current powers there may be useful initiatives that could be considered, such as schemes to encourage subdivision of large owner-occupied and social houses and sub-letting within them.

Provision of public land for development

One of the barriers to development of existing large sites is that developers must generally pay for the land as well as often for planning obligations *before* they start to build. The developer's costs are upfront and income only starts to roll in when dwellings are sold. In the past developers could at a cost meet this gap with bank finance, but in the current financial environment this is difficult: banks charge high interest rates - if they will even lend to developers at all. One way to kick-start development would be via partnership schemes enabling developers to pay for the land and planning obligations *as* the development begins to produce income. Most private landowners will not consider this but public-sector landowners and beneficiaries can, and in fact several such deals have already taken place in London usually involving some form of equity stake, planning or profit overage agreements. The strategy should address this approach more directly and encourage its wider potential adoption.

Taking this a step further, we see no reason why the public sector itself cannot act as developer, especially of large sites and potential 'garden' suburbs. Development Corporations provide a well-documented and effective example of such a model, which has made positive returns over the longer term. Other contract-based models, as noted above, should also be encouraged; including local authority leadership.

Rate of development

Opportunity areas and housing zones can be mechanisms for simplifying and speeding up development but can only work effectively when other barriers notably infrastructure and finance are addressed in a more holistic fashion.

An important reason that the ambitious target for new homes is unlikely to be met is that developers do not build houses as fast as they can—rather, they build as many as they think they can sell into the local market without affecting prices (the 'absorption rate'). For most large developments this is considered to be maybe 100 units/year—even on a site that can accommodate thousands of homes. There are ways of improving this build out rate – the provision of privately rented units in the early phases; multiple developers; and a wider range of dwelling types. Equally, public sector development agencies, free from these considerations, could expect to build faster.

Private rental development

One way to increase the rate of new construction is to encourage the development of blocks for private rental. These can be brought to the market much faster and can boost overall housing production. This is recognised in the Draft Strategy but only to a relatively small degree. At least in inner London the potential for such developments, using innovative building techniques and a more commercial property style financing model has large scale potential (Scanlon *et al* 2013).

Some of the suggested approaches to private renting may however be counter-productive as they call for single tenure developments. Covenanted private renting is not a substitute for affordable housing and there is little evidence that developers or even institutional financiers have been put off by mixed tenure (including both owner-occupation and affordable housing) approaches (Whitehead and Travers 2013; Scanlon *et al* 2014).

The second issue relates to the appropriate form of tenure. We welcome the Mayor's commitment to the maintenance of AST (Assured Short-hold Tenancies) which landlords can use effectively to provide longer term leases where seen as desirable by both tenants and landlord. Equally the market may well be prepared to provide greater certainty around in- term rent increases. However most agreed that poorly understood regulatory changes and the expectation of such changes could frighten off both investors just beginning to enter the market and individual landlords (Scanlon *et al* 2013; 2014).

Affordable housing

The strategy contains little about how to house Londoners in most need. The two tier approach to social and affordable rents is to be welcomed as is the statement about the shortfall in intermediate housing provision. However affordable rents, at 80% of market, give lower-income employed Londoners little or no chance of avoiding the welfare trap.

The discussion of 'affordable' housing includes dwellings targeted at those earning up to £80,000/year—well over twice the average annual earnings in London. This is clearly a cause for concern. Whilst many middle-income households do face problems finding appropriate housing in London, the discussion of affordable housing should focus more on meeting the needs of the poor and vulnerable as well as lower-income employed households. In addition, and thinking more globally, any housing market that must begin to consider providing 'affordable' housing to higher-rate tax payers must surely be in serious need of repair.

In this context we welcome the statement in the Draft Strategy that there is a major shortage of intermediate housing but remain concerned that there is little in the strategy that will help fill the gap. The Mayor should look to support a wider range of intermediate options than are available via the current Help to Buy programme. There are models elsewhere – notably mid-market rent in Scotland - that are worth further examination in that context (Scanlon *et al* 2013). Equally there are longer-term equity share approaches, which local authorities could effectively support with limited HCA support (Smith *et al* 2013).

Conclusions

We welcome the aspirations of the Draft Strategy while noting that in some contexts it does not go far enough. Barriers to new development need to be more clearly identified and the ways to address them and to monitor success need to be spelled out.

There are three issues that should be more directly addressed:

First, is London really facing an economic and social housing crisis arising from the failure of the market and national and local government policy to provide adequate affordable homes – or is it just business as usual? We argue that it *is* a real and major crisis impacting on London's future and that radically different approaches are needed to improve conditions.

Second, what can the Mayor within his current powers do to address the situation? This is the core issue for strategy but needs a much more obvious strategic approach

to identifying barriers and the means of overcoming them – ie, what can be done immediately to increase investment; increase land availability of all types – not just big sites; to use these sites more efficiently by increasing densities and providing appropriate infrastructure; and what can a regional authority do to generate a more equal allocation of the available resources? In other words there needs to be a detailed strategy developed involving both the wider region and the London boroughs more directly – perhaps initially through a taskforce.

Third, there must be structural change into the longer term. What is suggested in the Housing Strategy document is not even enough to stop the situation worsening. The Mayor must use his influence and public profile to campaign for change in national policy and resources directed to these longer term issues as well as to increase London's own capacity to change the game. The current strategy misses an opportunity to set out clearly what the very obvious market failure in London consists of and how it might be seriously addressed to provide far higher levels of output well beyond the time horizon of the London Plan.

We see the Strategy as a starting point for this continued pressure for change using all the Mayor's powers together with his influence on central government policy to drive forward a new approach to ensuring adequate housing for all.

References

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Annex 1

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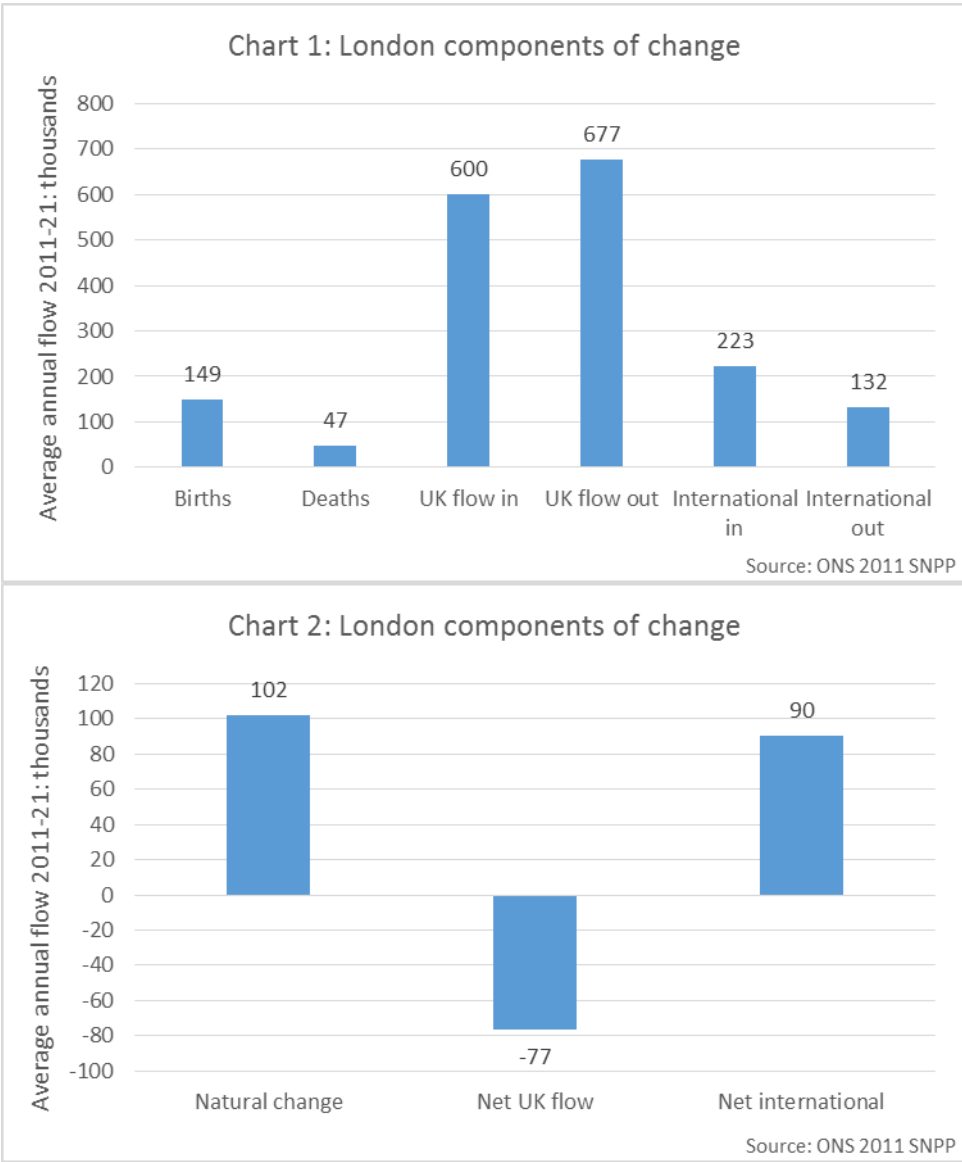
NOTES ON LONDON’S DEMOGRAPHY AND THE DRAFT LONDON HOUSING STRATEGY

Introduction

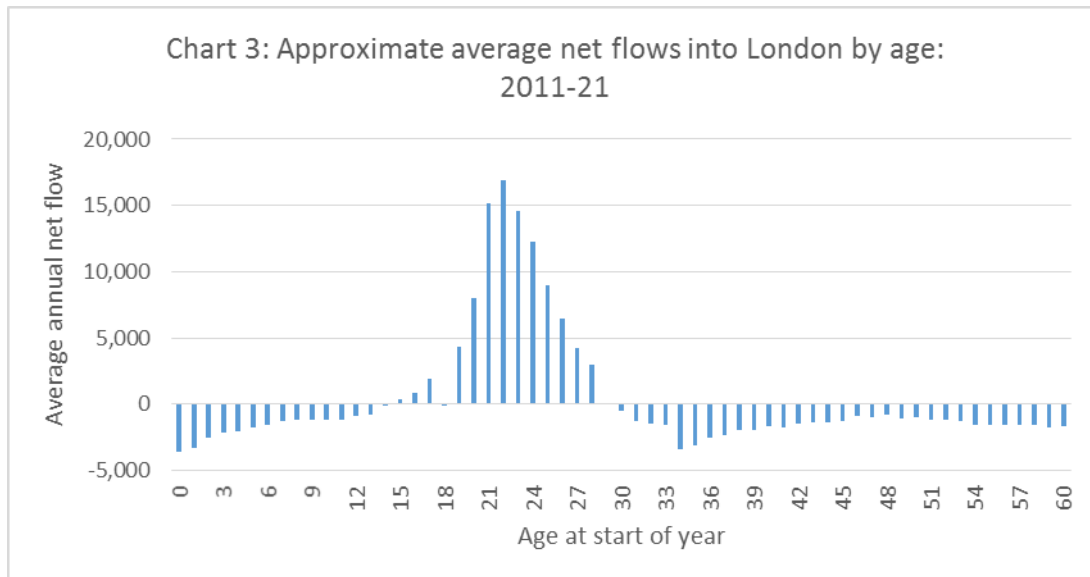
- 1. The draft London Housing Strategy proposes that London should build 42,000 homes a year. The latest DCLG projections suggest an annual average increase in households in London of 52,600 between 2011 and 2021. This note considers the implications of the difference between those two numbers.

Background

- 2. London’s population is driven by natural growth (births exceeding deaths) and net international migration only partially alleviated by net outward migration to the rest of the UK. Charts 1 and 2 show the ‘components of change’ projections for 2011 to 2021 from the ONSS 2011 SNPP.



3. The net average projected annual increase in London's population between 2011 and 2021 is 117,000 a year in the 2011 SNPP. This sees London grow from 8,204,000 to 9,371,000 in 2031.
4. The flows into and out of London from both abroad and the rest of the UK are crucial to how London develops. Chart 3 shows (approximately¹) how these flows vary with age



5. The net outflows up to the age of 14 are presumably the result of net outflows of families with children. The net inflow begins in earnest at 16-17, interrupted at 18, presumably by students leaving London to attend universities elsewhere. Through the 20s there are net inflows, but from 30 onwards there is a projected net outflow.
6. DCLG's 2011-based household projections suggest that London might grow from 3,280,000 households in 2011 to 3,800,000 in 2021, an annual average increase of 52,400.

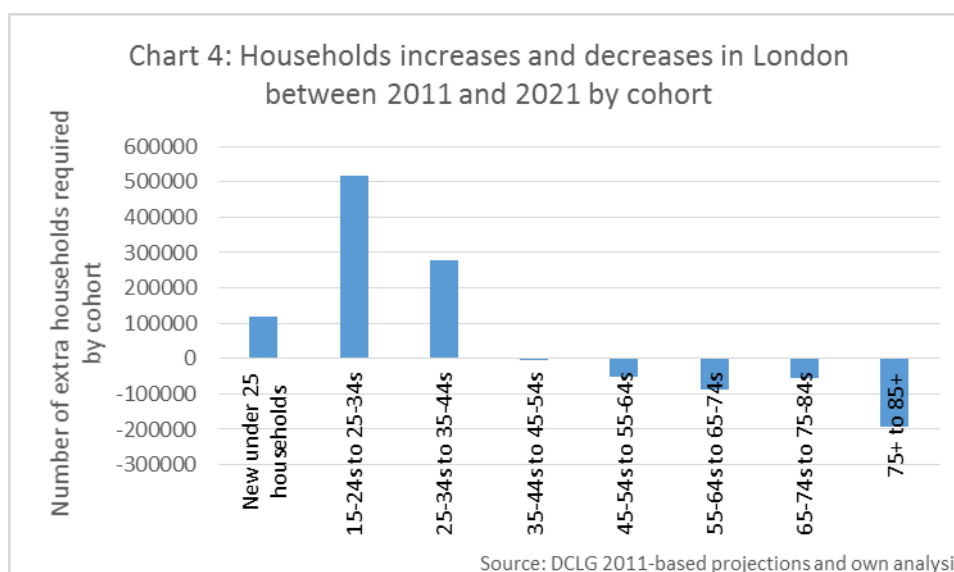
Issues

7. The DCLG projections assume that headship rates for those under 45 fall, the largest falls being for 25-34 year olds. (There is also a very small fall for 65-74 years olds.)
8. If instead of assuming continued falls, headship rates for age groups 15-24, 25-34 and 35-44 were to be held constant at the 2011 levels that would increase the average annual household increase by 6,200 to 58,600.
9. These figures (52,400 and 58,600) both assume the components of population change are as projected by the ONS's 2011 SNPP. ONS themselves have acknowledged that birth rates may have been overestimated, but that should not affect the increase in the number of households as children do not form

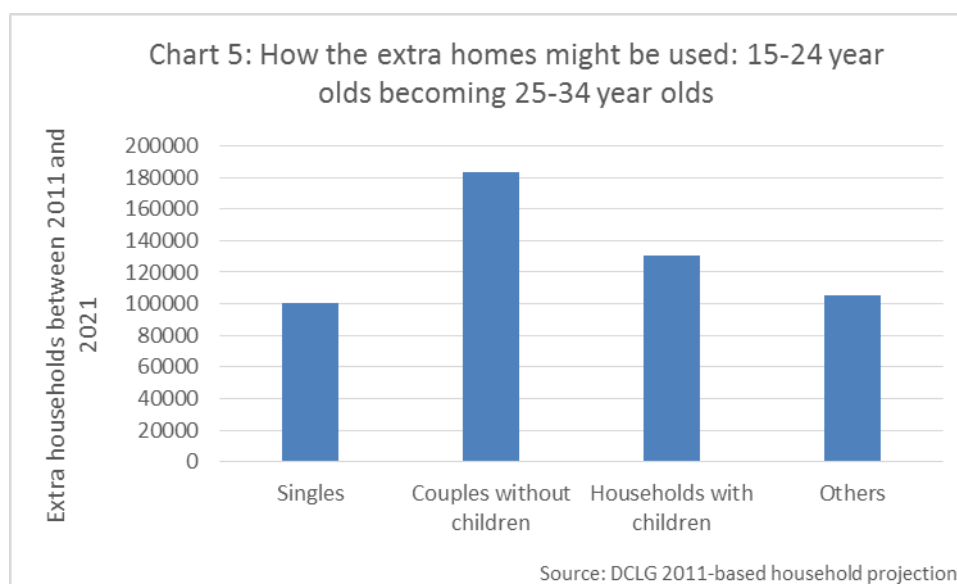
¹ The data have been calculated on the assumption that for the ages shown deaths are not a large factor and that therefore for a single year age group the increase or reduction in the size of the cohort between one year and the next is a reasonable approximation of the net flow at that age.

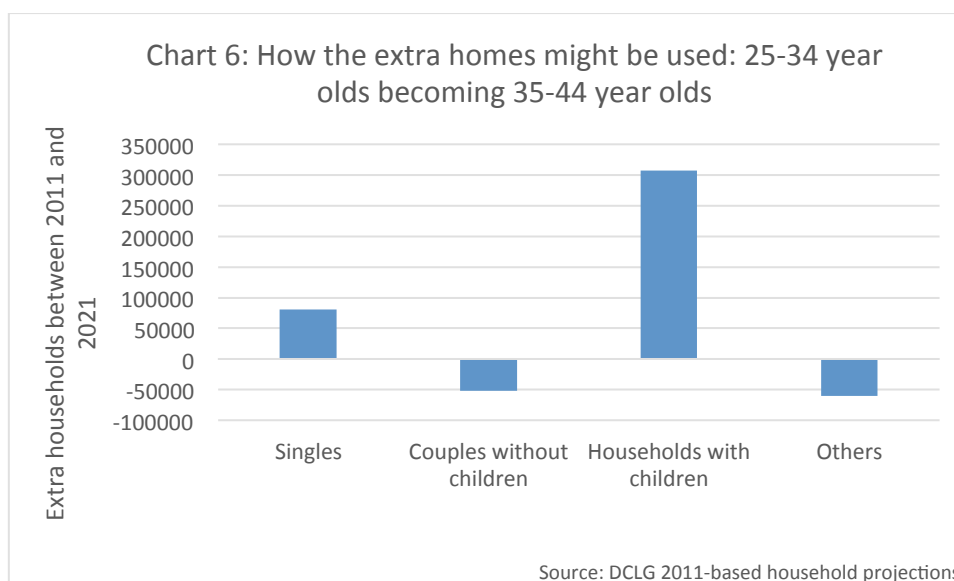
households. The international and internal migration assumptions are also crucial.

10. The projected net outflow to the rest of the UK averaging 77,000 is dependent on there being somewhere for those people to go that they want to go to. With at least some home counties local authorities planning to deliver many fewer homes than the DCLG projections suggest it is very far from certain that that level of net out migration will be achieved. If it has not been done, an exercise to survey the local plans of the main receiving authorities of London out migrants would be very worthwhile.
11. If fewer than 52,400 household spaces a year are delivered the consequences will be a combination of:
 - Delayed household formation because of the lack of homes in which households can form.
 - Households being less adequately accommodated, with more ‘hidden households’
 - Lower net migration so that there are fewer households to accommodate. Given the constraints on out migration to the rest of the UK referred to in paragraph 9, this is likely to result in lower levels of in-migration from the rest of the UK – implying fewer people coming to live and work in London, possibly resulting in more in-commuting or an impact on labour supply.
12. Some insight can be gain into the potential impact on household formation and how well people are accommodated by looking in greater depth at the projected increase in households.
13. Chart 4 shows how the ten-year age groups used by DCLG for their household projections are projected to grow or shrink between 2011 and 2021. For example, the bar labelled ‘15-24s to 25-34s’ shows that the 15-24 cohort in 2011 is projected to grow by over 50,000 households as it becomes the 25-34 cohort in 2021 – i.e. by approximately the same amount as the net increase for all age groups.



14. As Chart 4 indicates, the London housing market functions by the growing requirements of those aged under 34 being partially offset by the homes released by those aged 45 and over. That is in part at least the result of the net out migration of those over 45 – which may not happen if there are not suitable places for them to go to.
15. A little manipulation of the DCLG projections reveals the breakdown by household type of the main ‘growing cohorts’. Charts 5 shows the split by household type of the extra households ‘needed’ by the 15-24 year olds in 2011 as they become the 25-34 year olds in 2021. Chart 6 shows the same for 25-34 year olds as they become the 35-44 year olds in 2021.





16. Note that for the younger of these two cohorts the increase in households is largely attributed to households without children, although households with children account for 25% of the increase in that cohort. For the older cohort the increase projected for households with children is actually bigger than the net increase for the cohort as a whole, there being reductions for 'couples without children' and 'others'.
17. If fewer than 52,400 household spaces are provided each year market mechanisms will operate to share out the shortfall through increased prices. That will inevitably impact on those seeking to enter the housing market, particularly those with least purchasing power. (Older households are largely already accommodated and will be less affected by prices that are higher than they might otherwise have been.) The impact is therefore likely to fall largely on the two cohorts projected to grow most – i.e. those in the 25-34 and 35-44 age groups in 2011.
18. It might be argued that a greater delay in those between 25 and 34 setting up single person households or a home with a partner is not necessarily of very great concern. The impact on the formation of families with children is, however, potentially more significant. Growing resentment at 'lives put on hold' has to be a possibility.

Summary

19. The key points to note are:
 - The DCLG 2011-based household projections suggest an increase of 52,400 households a year between 2011 and 2021, compared with the 42,000 homes proposed in the draft plan
 - The figure of 52,400 assumes continuing falls in household formation rates for those under 45. To eliminate those falls an additional 6,200 household spaces a year would be needed, implying a total of 58,600 extra household spaces a year.

- Both of those figures assume that the projected internal migration flows are achieved. The outflow to the rest of the UK is doubtful given that some home counties authorities are not planning to provide for housing in line with the DCLG projections.
- Under provision is likely to impact on the younger age groups rather than the older groups as the latter are largely already housed. This could affect both the number of young adults coming to London to work and the ability of couples to set up home and start families.

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5 February 2014