LSE London

Accelerating Housing Production in London

Main Findings

June 2016

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with Melissa Fernandez

About this project

Over the last year LSE London organised a series of seminars, round tables and site visits around this the question of how to accelerate new housing development in the capital. Together with practitioners we have analysed barriers to increasing the pace of development in London and explored possible solutions. Participants at our events have included architects, developers and academics, as well as representatives of central government, boroughs, the GLA and housing advocacy groups. More detailed reports can be found at lselondonhousing.org/.

We are grateful for funding from LSE's Higher Education Innovation Fund (HEIF). We thank all those who have taken part so enthusiastically in this work from many different perspectives. These findings represent LSE London's analysis and do not necessarily reflect the views of all those who participated.

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The images in this report were all taken in June 2016 and demonstrate the diversity of new residential development in one corner of London. They do not necessarily relate to the adjacent text.

All photos by Ulises Moreno, LSE London
Cover image: Plumstead

Accelerating Housing Production in London

Our Question

In 2015/16, 24,140 new homes were completed in London. New Mayor Sadiq Khan has announced an ambitious target of 50,000 units per annum. What should he and others do, immediately and in the longer term, **to accelerate housing output within London's boundaries?**

The Context

What is special about London compared to the rest of the country?

- Rapid population growth
- High rates of migration and mobility
- Much younger population including large numbers of family households
- Excellent public transport
- Very good access to jobs and opportunities in a wide range of employment sectors
- High proportion of social rented housing in inner areas
- Flexible housing stock, which contributes to high occupation densities especially in the PRS
- Expensive land, often with high-value alternative uses
- Predominance of brownfield sites leading to high costs for assembly, clearance and decontamination

Implications for London's housing needs

- The biggest gap is housing for lower-income employed households, including younger entrants to the labour market and those in low-paid service/transport/public sector jobs. The range of affordable options for them is limited.
- Because house prices and rents are so high compared to incomes, a much higher proportion of households needs some form of housing assistance.
- Rented housing is relatively more appropriate in London than in the rest of the country. It can suit mobile workers, lower-income employed households, students, young professionals and in-migrants, as well as traditional social tenants.
- Even so, the level of owner-occupation in the capital, at just under 50% of households, has probably dropped below long-term equilibrium so there is no harm trying to increase it in line with many households' aspirations.

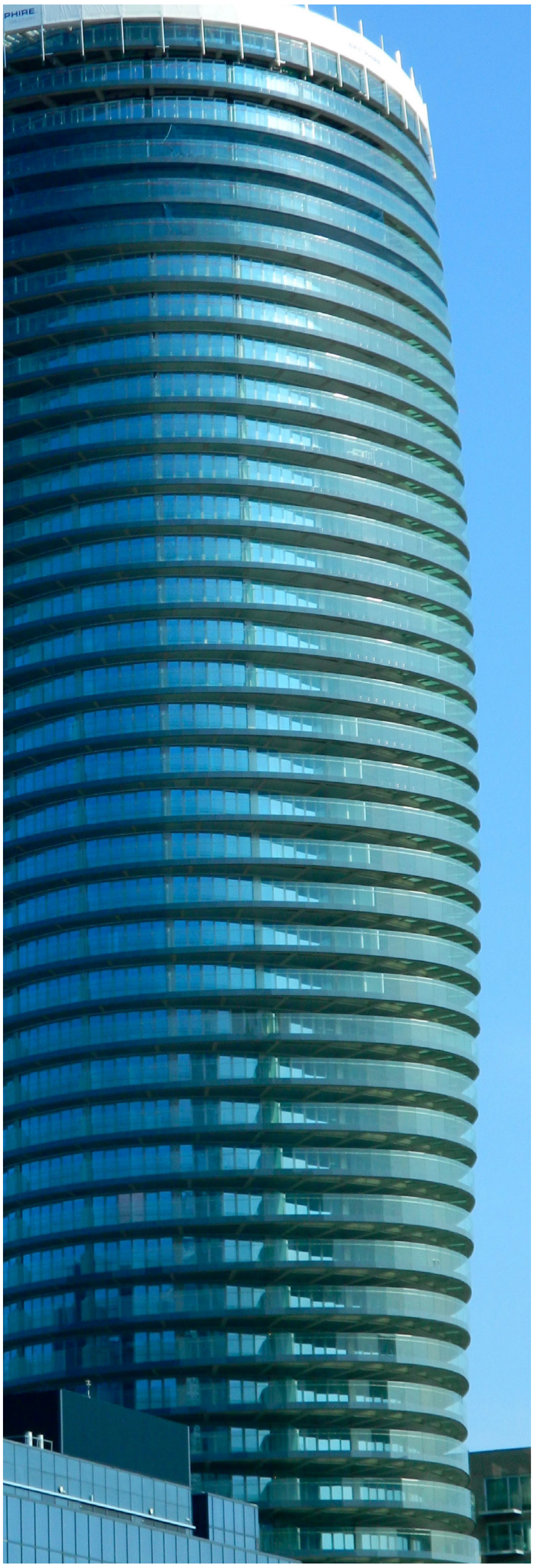
What is special about London compared to the rest of the country?

- The governance of housing and planning is split amongst the Mayor and 33 boroughs, which have 33 sets of planning policies, political priorities and processes. While the Mayor does produce a housing strategy he has limited legal powers over residential development except in the context of the London Plan
- Many national housing policies (e.g. Starter Homes, replacement of higher-value local authority sales) are not suited to London with its high land values, build costs and prices
- Legal constraints on local authorities, especially around use of Right to Buy revenues and accommodation of homeless families, limit London-wide solutions. The expectation that local authorities will house homeless families within their boundaries conflicts with market realities in all of inner London and most of the outer boroughs.
- Creating a workable devolution model would be challenging; the structure used e.g. in Manchester, where local authorities came together voluntarily, probably would not work here
- The viability approach introduced to deal with post-crash realities is simply not

working now
- The big sites that necessarily will contribute most to new housing provision are being built out far too slowly.

Opportunities

- There is a new Mayor
- The political environment (pace June 24th) is characterised by goodwill both between national and London government and between the Mayor and the boroughs
- Potential changes to CPO powers could make land assembly easier and help achieve more affordable homes
- Changes in the incentive structure for local authorities, including the transfer of business rates and New Homes Bonus, are shifting attitudes to new build in some boroughs
- There is potential for tweaking some central government policies.



Canary Wharf

Our Recommendations

1 Make the planning process more certain and transparent

The British planning system is based on site-by-site negotiation between planning authorities and developers. The question most often at issue is the amount and type of s106 'developer contribution' the local authority requires. In London this significantly takes the form of affordable housing. Boroughs specify requirements in local plans for the proportion of affordable housing on new developments and the Mayor sets targets in the London Plan, but these are not binding: in practice they serve only as a starting point for negotiation. These site-by-site negotiations are costly for both local authority and developer, often lead to long delays, and are opaque to public scrutiny. Perhaps most importantly, the fact that outcomes are uncertain increases risk and allows participants to 'game' the system.

The situation is complicated by the government's 'viability' policy, introduced to address the problem of stalled sites in the wake of the global financial crisis. Viability rules allow developers to challenge s106 requirements if they would make a proposed development 'unviable' (that is, if the developer would forego profit or make a loss).

Opponents say the viability rules in effect give developers a second bite of the cherry, allowing them to reopen settled agreements. They also point to the lack of transparency in viability discussions (the financial calculations on which they are based are generally considered commercially confidential), boroughs' lack of specialist skills in-house to produce or analyse viability statements, and the fact that boroughs often adopt different approaches. And viability challenges delay development even further. Developers try to take advantage of these rules but many privately say they offer perverse incentives and generate needless cost and delay.

A move to a 'tariff' system — that is, a non-negotiable across-the-board percentage requirement for affordable housing on new developments — would provide more certainty and speed the planning and development process. But less affordable housing would be obtained in many areas, while some sites would become non-viable. It is thus probably politically unacceptable.

The viability scheme has served its purpose and we recommend that it be phased out. While it remains in place it would be helpful to streamline the process, so **we recommend that boroughs agree a uniform approach to considering viability and make all assessments public (following the example of RB Greenwich).**

2 Bring in more developers on large sites and increase the mix of sites available.

A high proportion of outstanding planning permissions is for homes on large sites. These tend to be built out very slowly. Sites with permissions for more than 1,500 units are especially important, both because there are a lot of them and because they are particularly slow. In eight boroughs, some in the Thames Estuary but others in central London, it would take over 250 years to build out existing permissions at current rates of construction. On somewhat smaller sites (with between 500 and 1500 units) the situation is less extreme but still highly concerning. We can only achieve a step change in delivery if building on these sites can be accelerated.

Why is delivery so slow? As a rule, volume house builders limit the build-out rate on any

Woolwich Arsenal

single site, no matter how large, in order to maintain the market. More fundamentally these sites often require infrastructure and upfront finance to meet planning conditions. One core issue is that big likes to work with big: the owner of a big site wants to make the most out of it so prefers to work with a big developer; the big developer wants control over the whole site; and it is much easier for the local authority to work with a small number of stakeholders.

But having multiple developers on big sites, building a wider range of housing types and tenures, has to be the way forward. **We recommend that the GLA take a stronger co-ordination role, and that holders of planning permissions on larger sites be incentivised to let multiple developers work on them simultaneously.** This approach would help to create neighbourhoods that people can live in comfortably much more quickly. It would mean more builders and a greater variety of dwellings for sale; it would also involve purpose-built private rented accommodation in some locations, and possibly direct commissioning of development, bringing in some additional resources. Housing Zones offer lessons about the need to prioritise; the need for careful business plans which identify the immediate constraints and means of overcoming them; strategic use of subsidy to speed up the process; and not trying to do too many things at once.

The lack of small sites is quite distinct from the question of how to address big sites. The number of small builders active in London has declined precipitously and is continuing to fall. Small builders themselves do not think they can play a major role on big sites; to reverse the decline they need an increased supply of small and medium sized sites – a mix which has almost disappeared in some areas. There are good examples of local authorities working to identify small publicly owned sites and to bring them forward to support smaller builders (e.g. in Croydon), and there is a strong case for supporting proactive developers who identify sites themselves. But planning departments need staffing and resources to address these small sites, and given local-authority resource constraints they are often viewed as generating more work than they are worth. **We recommend that the GLA support boroughs to bring forward small sites by providing expertise, disseminating good practice and standardising basic planning and legal processes.**

3 Build more purpose-built private rented housing

There are several arguments for expanding purpose-built private renting: London needs the housing; it brings in new sources of finance; investors have a strong incentive to build out quickly; PRS developments suit innovative methods of production and use different skills and resources; and there are government incentives available. Finally, such accommodation can work better for tenants, who benefit from longer leases, certainty about rent increases and professional management. All of this sounds positive, and there is now (after more than a decade of expectation) some evidence of success.

The main barrier is, as developers point out, that the gross development value of PRS-only schemes is less than for-sale schemes. This means PRS developers cannot afford to pay as much for land as speculative for-sale house builders — especially if they must provide the same proportion of affordable housing. Yet much of what is being built is at the expensive end of the market and if it involves a loss of affordable housing the case for special treatment has not really been made.

There are institutional investors with broadly based portfolios who can afford to include some lower-yield properties in London, as they take a very long-term view of investment in the capital. They are often willing to provide an element of affordable housing but want to own and manage entire buildings and probably entire sites, rather than letting housing associations control the discounted market rent or affordable home-ownership elements. However many London local authorities are unhappy with this model and will not readily give permission even if the affordable housing is secured for a long period. **We recommend that boroughs allow established corporate landlords to provide and manage affordable as well as market accommodation.**

4 Focus on existing Housing Zones rather than creating new ones

The concept of Housing Zones was originally put forward in the last Mayor's Housing Strategy. There are now 31 Zones in the capital, which are projected to provide 77,000 new homes (34% of which will be affordable). Central government and the last Mayor made

Lewisham

£600 million available for these areas, which will include not just housing but also major station upgrades, new schools, bridges and community amenities. The aim is to unlock sites that had been stalled because of inadequate infrastructure, contamination, land assembly issues or other factors. The original idea was rather nebulous but the scheme has now been fleshed out and has proved popular with local planners and with developers.

Housing Zones do not give access to major public investment – the amounts available are relatively small. Their strength is that they bring together all the major actors in a focussed way around these difficult sites. They instil confidence and provide a framework for finding solutions to problems that have stalled development. Thamesmead for example, which straddles two Housing Zones, contains a vast area of land fit for redevelopment but which has been plagued by poor transport links. After the GLA announced plans to provide funding to improve connectivity Peabody announced that it would increase the number of homes it was planning to build from 700 to 3,000 by 2025.

Many large sites fall into more than one borough (again see Thamesmead, which is in Bexley and Greenwich), which inevitably leads to coordination problems. The Housing Zone designation helps councils, developers and officers move forward in a more systematic way.

The strength of Housing Zones stems from the fact that that they are limited and special. They require serious and concentrated commitments of time, resources and enthusiasm from all partners. Extending the concept too far or too soon may dilute it, especially given that capacity in the construction industry and amongst borough planning teams is limited.

We therefore recommend that the Mayor focus on making the current set of Housing Zones work well rather than designate new ones.

5 Adjust national policies for London

London is unique. It is the biggest city in England, in the UK and in Europe — indeed its population is larger than half of EU member states. It is not surprising, then, that some national housing policies do not work particularly well in the capital. Because of its size, its rapid growth, its demographics and the scarcity of land, London needs a different mix of new housing as compared to much of the rest of the country. National housing policies need tweaking at minimum, and in some cases London-specific policies are called for.

Many of the issues arise because policies are applied at the level of individual planning authorities (of which London has 33) rather than the city as a whole. We argue that national government should permit — indeed encourage — a flexible, London-wide approach to some policies.

Starter Homes and shared ownership

There should be a fundamental re-think about what types of housing should be built given the nature of demand in London. Current government policies strongly prioritise owner occupation, but purchasing a home is out of reach for many more households in London as compared to the rest of the country. Policy-makers need to recognise that rental could well be the more suitable tenure option for most Londoners, and that building for owner occupation should not be the overriding focus in the capital.

The Starter Homes provisions of the Housing and Planning Act require that 20% of homes on most sites be provided for sale at a maximum of £450,000 in London. This will reduce the developer surplus available to provide genuinely affordable housing and in some cases may make the schemes unviable.

Use of Right to Buy receipts

The income from Right to Buy sales of council homes is ring-fenced and can only be used to provide new housing within the boundaries of the local authority concerned. While all boroughs want to maximise the amount of affordable housing available, the very high cost of land in inner London means that a given amount of money will provide less housing than in outer boroughs. Far more housing could be produced if boroughs were free to spend their RTB receipts in other parts of London.

We recommend that the GLA, the boroughs and central government agree a mechanism to use Right to Buy receipts and apply Starter Homes provisions London-wide rather than at the level of individual boroughs.

Ladywell

Conclusions

Government figures going back to 1981 show that in no single year in that period did London manage to build more homes than last year — indeed, in most years the number was only around 15-17,000. So ramping up to build 50,000 homes per year will be an enormous systemic challenge. The recommendations set out above will contribute, but we stress that no single change, on its own, will make a significant difference. Only if all of these changes are made — and more — is there any hope of achieving the Mayor's goal. Each major initiative will need supporting changes, from every level of government, and the aim must be to build an integrated system to meet the challenge.

The Mayor's key power is the London Plan. This can be modified to address immediate issues but the next version must offer a workable long-term strategy for the London economy, the London community, and housing development in particular.

Given the need for quick action, trade-offs and deal-making are necessary. The Mayor and other stakeholders will have sincere political or philosophical objections to some of the potential changes that could bring shorter-term gains (especially in the context of London-wide initiatives) as well as to some national government policies. Yet there are significant gains to be achieved. The key is to find the places where there is wiggle room to overcome both political tensions and practical, immediate problems.

Finally, London needs more consistency across boroughs on processes and on issues such as viability, and the GLA can help smooth the way.

But London certainly does not require a single approach across the board: the capital is not like the rest of the country and equally each borough has distinct needs and opportunities. London's huge strength is its diversity, and that should be reflected as much in its new housing as in its people.

Next Steps

Our full report, to be published in September 2016, will expand on these findings as well as additional recommendations. We would welcome comments on this document, which can be sent to lselondon@lse.ac.uk.

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