



Knowledge Transfer:
Higher Education
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Housing in London: Addressing the Supply Crisis



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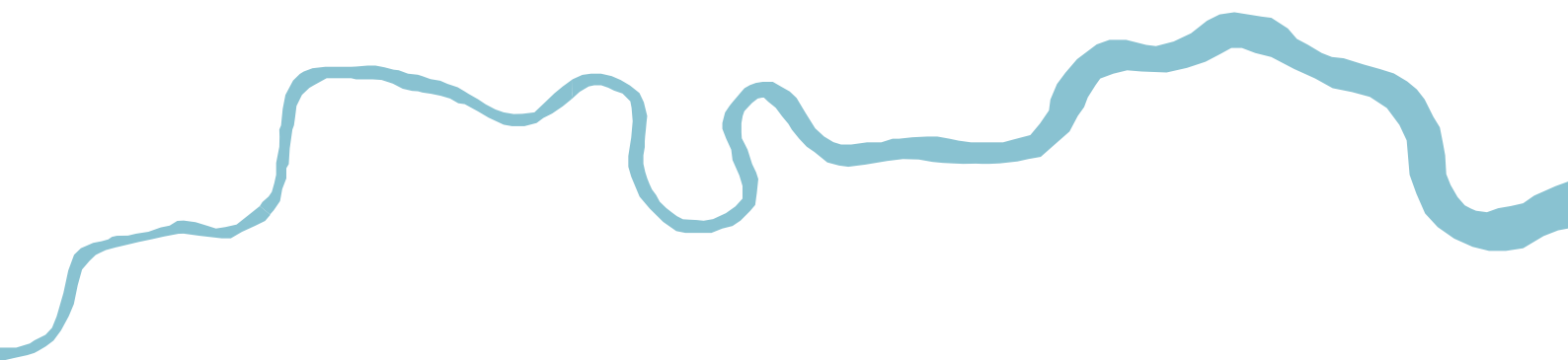
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Content

The Issues.....	4
The Barriers.....	5
New Housing and the London Plan.....	7
Improving Private Renting.....	10
Alternative Housing.....	12
The Role of Foreign Money.....	14
Cross Cutting Issues.....	16



The Issues

London's current housing crisis is not unique. In the early 1970s some Londoners trying to buy property were gazumped by 100%, while those trying to rent privately often had to make large side-payments even for substandard accommodation. And there are other cities today where prices are increasingly out of line with incomes - in central Sydney for example, the median house price is over A\$1m, higher than in London. In fact, in almost all major cities there are headlines about housing crises.

In part it's because housing has become an internationally traded asset and investors facing macro-economic instability in their own countries consider real estate in places like London to be a secure investment. Low interest rates make borrowing easier (for some; others are excluded from the credit market). But this increase in demand has not been met by a corresponding growth in supply, as the global financial crisis saw new housing investment grind to a halt in most industrialised countries. In most it has yet fully to recover. Almost everywhere, worsening income distributions mean poorer households struggle to find adequate accommodation they can afford.

So what is special about London's crisis? In one sense, nothing: the capital has a growing economy and an expanding population whose increasing demand for housing generates higher prices and rents. To that extent London is like many other cities. But the fundamental problem is that for decades housing supply has not expanded sufficiently in the face of growing demand. The UK housing system over-responds to economic downturns so housing investment is cut back rapidly, while it under-responds to increasing demand. As a result in each economic cycle there has been less housing investment than in the preceding one. Even during a decade-long period of growth, from the mid-1990s to 2007, at most 30,000 new homes per annum were built - far below the numbers needed to house the growing population of London.

Since the financial crisis the situation has worsened. Output is only now reaching around 20,000 per annum, even though the population continues to grow rapidly and income growth is projected to accelerate, putting massive upward pressure on demand. If the future is like the past the only thing that can ease the problems of the housing market in London is recession!

The future has to be different. We need more than short-term measures that suddenly expand supply, welcome as these would be. We need to change the fundamentals in order to make the housing system more robust to economic cycles and generate far higher levels of investment not only in London but also in the greater South East.

In decades past, government supply subsidies supported construction of large amounts of social housing. These homes were often directly commissioned by local authorities and built on their land. In effect this created a separate supply chain that provided housing for particular groups of households. This system has been increasingly replaced by a more market-led approach. Now housing associations must purchase land or buildings on the open market with less and less help from government capital grants, and private developers produce a high proportion of new affordable housing under planning agreements. This framework is unlikely to change, except that more public land could be used.

We now need to house four generations, and this is a very big ask for the housing market. How can the development process be improved so that demand for additional housing is met more effectively through new investment?

The Barriers

Housing in London: Addressing the Supply Crisis was a year-long knowledge exchange project series which aimed to explore that question with key housing stakeholders around the capital. Researchers from LSE London, a research centre at the London School of Economics, organised a series of roundtable workshops, site visits, and conference-style events with these local experts around four key themes:

- a) New Housing and the London Plan
- b) Improving Private Renting
- c) Alternative Housing
- d) The Role of Foreign Money

This report presents the key lessons learned from this knowledge exchange. It aimed first to

identify barriers to effective development, then to put forward recommendations for overcoming them, making supply more responsive and leading to a step change in output levels.

Through the debate and analysis that formed the core of the project we identified three types of challenges: *institutional*, *procedural* and *fundamental resource* issues. Our related research¹ added depth to our understanding of these major concerns.

Table 1 identifies the most important issues. Few will come as a surprise. But lying behind the individual issues are some fundamental, and interlinked, concerns. In the push to increase supply through individual initiatives, politicians and professionals can miss these underlying connections.

Table 1 Fundamental Challenges Impacting Supply

Challenges	The Issues	Main Barriers
<i>Institutional Challenges</i>	- Planned development either never happens or takes a long time - Political objections to development may accurately reflect voter preferences	- Staff and resource shortages in planning departments - Lack of institutional memory within local authorities - Limited partnership working between boroughs - Nimbyism - Emphasis on trading rather than production of housing
<i>Procedural Challenges</i>	- Developable land is in multiple ownership - Developers too conservative in their applications - Securing planning permission is costly in terms of resources and time - Uncertainty about planning obligations increases risk	- Individual determination of planning obligations on each site - Protracted and costly viability negotiations - Asymmetry of expertise between developers and local authorities - Difficulties in land assembly when ownership pattern is complex
<i>Fundamental Resource Challenges</i>	- Land does not come forward - Land is inefficiently developed - Infrastructure is not in place - Construction industry lacks capacity - Finance is unavailable - Housing produced is unaffordable	- High land values lead to expectations of continued increases - Planning densities too low in some areas - Land supply constraints - Construction market excludes smaller companies - Lenders reluctant to provide development finance, especially to SMEs

¹This includes a study of housing opportunities and mobility for young professionals in London; a pilot study on the local impact of new residential development in the capital city; a report on the conditions and impacts of international investment in London's housing market; research on the private rented sector ranging from the effects of landlord licensing in local authorities, rent stabilization and principles for affordability to the experience of private renting for middle-income families; and a long-term ethnographic study of the development of cohousing and other alternative forms of construction. For details of these and other publications, see: <http://www.lse.ac.uk/geographyAndEnvironment/research/london/research.aspx>

These need to be recognised if we hope genuinely to transform the market. They are:

- (i) **Mistrust and misunderstanding:** Different stakeholders have very different views on each of these issues. They also have firm opinions about where other stakeholders are coming from. However these assumptions are rarely voiced explicitly, and stakeholders often blame each other for problems which could be dealt with effectively in partnership;
- (ii) **Mismatched incentives and objectives:** Incentives for stakeholders need to be far more closely matched to those objectives which cannot be changed. Private developers must maximise profits; local authorities need to earn revenue as well as please their voters; governments and their agencies are looking for value for money. We need to make it worthwhile for local authorities to support innovation, infrastructure providers to address bottlenecks and developers to speed up construction in a coherent rather than a piecemeal fashion;
- (iii) **Misalignment of policies:** Policies tend to be issue-specific, but a more overarching approach is needed. Addressing a single barrier without taking account of how it interacts with others can make things worse. In particular reducing the constraints on demand without having the potential to expand supply will simply increase land values and further benefit land owners and traders at the expense of production;
- (iv) **Missing or weak institutions:** In many countries a strategic level of government that determines overall priorities addresses these issues. The GLA does this in London although with relatively limited powers, but in the greater South East there is no analogous institution;

(v) **A misguided approach to regulation:**

Most of the problems come down to land and the system by which it is developed or redeveloped. The UK system is based on nationalised development rights and individual site-specific planning permission (often involving multiple applications followed by appeals). It has led to an adversarial, costly and time-consuming process. Advocates call it flexible, but in fact it does not easily allow for adjustment to changing circumstances;

(vi) **A mis-structured development sector:**

The lack of innovation and flexibility in the construction industry is in part an outcome of the nature of the planning system but it is also strongly related to the volatility of the macro economy and the impact of macro stabilisation policies.

If we accept that these issues do matter, we need to decide how we can address them at borough and London levels. We need policies and regulatory and market changes that act with rather than against one another.

The following sections examine ways forward in four areas - land use planning and development; the potential for new private renting; additional alternative housing; and the role international money can play in supporting supply - before moving on to discuss particular cross cutting issues and policy recommendations.



New Housing and the London Plan

It would be easy to blame the current housing crisis on an overly burdensome planning system or greedy land-banking developers. Our research indicates that neither of these singly tells the story. Accelerating housing production can take place within the current system but improvements in increasing land availability, improving clarity and transparency, providing leadership that encourages actors to work together and the introduction of financial mechanisms at the local authority level that can fund new development could significantly boost supply.

Taking for example the ‘artificial scarcity of land’ — we would argue that a review of greenbelt regulations, which would allow for a managed release of developable land near transport hubs, would be politically contentious but appropriate. Additionally, addressing land banking through measures like Housing Zones show real promise as they allow local authorities to assemble brownfield land, minimise or eliminate planning restrictions within the area and forge partnerships with developers and

housing businesses to deliver substantial volumes of units.

Related to this issue of land availability, there is a need for more clarity and transparency concerning public sector land holdings and the status of land in the planning pipeline. The London Land Commission could be a potentially positive step in the land supply equation.

Clarity and transparency are also called for in negotiations centred on viability and affordable housing targets. Both planners and developers are concerned with complexity of negotiating the ‘soft’ elements of planning permissions like affordability and density.

Finally, authorities could play a larger role in financing new construction by establishing revolving infrastructure funds. Because of soon-to-be-implemented changes to the governance of local pension funds, members could soon have the chance to challenge pension funds to invest a modest proportion of their potential investment in residential property.

It is evident that there is little desire or need for major reform of the planning system. Nevertheless, we have found from discussions with planners, developers and other key stakeholders that there are some concrete changes related to planning that could accelerate the production of new housing supply. Local authorities should play more of an enabling, driving role in the development of new housing, which should include:

- a) actively making more land available for development,
- b) improving clarity and transparency,
- c) providing leadership which incentivises and encouraging developers and other actors to work together (particularly by identifying strategic growth areas such as Housing Zones), and
- d) introducing financial mechanisms at the local authority level which can fund new development.

However, austerity means that it is increasingly difficult for councils to provide these services effectively.

One area these changes must address is the ‘artificial scarcity of land’ as it is described in the Lyons Review. There are a variety of suggestions related to the fact that land is constrained as a result of greenbelt and historic conservation regulation. For authors like Paul Cheshire² the reasonable thing to do is to strategically release greenbelt land and relax planning regulations in London around sightlines and conservation more generally to produce taller buildings. Reviewing green belt regulations in London in a carefully managed way appears on balance a very reasonable measure, albeit a politically contentious one. One specific reason for stressing this approach is that unless London positively addresses land shortages within its borders it will be harder to try to persuade authorities in the rest of the South East to play their part. London cannot

² See: <http://blogs.lse.ac.uk/politicsandpolicy/greenbelt-myth-is-the-driving-force-behind-housing-crisis/>

and never has been able to provide for growing housing needs entirely within its borders and population growth in the South East far exceeds current expectations of new supply.

Land banking forms the second part of the 'artificial scarcity story'. Here things like Housing Zones show real promise in the ability to bring more land to market by giving local authorities the power to identify and assemble brownfield land, minimise or eliminate planning restrictions within the area and forge partnerships with developers and housing businesses to deliver substantial volumes of units. The key here is helping to facilitate land assembly and then bring development forward.

Modification/clarification around Compulsory Purchase Orders is a big part of this. There seems to be some real reticence to use CPO, even when justified, due to questions around its legalities. The compensation rules for CPOs for large scale sites should be reformed to ensure that landowners are offered a generous benefit from the sale of the land while ensuring that the uplift in land value as a result of planning and development can be captured to fund the infrastructure required.

Related to this issue of land availability, there is a need for more clarity and transparency concerning public sector land holdings and the status of land in the planning pipeline.



Project site visit, Tower Hamlets



Project site visit, Tower Hamlets

We view the London Land Commission, which is helping to identify public sector brownfield land, as a positive step in the land supply equation. In addition, we could envisage a system that showed land price data and ownership (including options) as a good mechanism for bringing more developers into the game because of better data. However, given the track record with previous large IT data information projects there could be major obstacles to be overcome.

Perhaps one of the most important planning concerns centres on viability and affordable housing targets. There is a lot of consternation out there on both sides (planners and developers) about how hard it is to navigate the planning system when the rules (affordability targets, density, etc.) are seen as negotiable elements of planning. This leads to people basing their bid price for land on an assumption that they can get more out of planning than the rules might allow - thus driving up price. A transparent set of numbers (affordable units/density) that were fixed could aid considerably here. However, no one should take lightly the difficulties around setting these numbers. One of the Lyons Review's key recommendations was that guidance should be produced to 'ensure a single and robust methodology for viability assessment to reduce the scope for different interpretations of viability and reduce



uncertainty³. But more than that is needed to remove the circularity in current interpretations by which those who were overoptimistic when buying land can offset that stupidity by reducing obligations on viability grounds.

Finally, authorities could play a larger role in financing new construction by establishing revolving infrastructure funds. Because of soon-to-be-implemented changes to the governance of local pension funds, members could soon have the chance to challenge pension funds to invest a modest proportion of their potential investment in residential property. The Elphicke review⁴ argues that an investment of 3% could lever in up to £5 billion investment for housing. Revolving infrastructure funds specifically offer a way of pooling central and local funding to target priorities in a contextually sensitive way and allow for the initial outlay to be recouped over time. Our discussions with local authorities like Croydon have already revealed cases where these funds are being used to unlock developable land.

Key Recommendations:

- Promote more Housing Zones areas where local authorities identify and assemble brownfield land, simplify planning restrictions within the area and forge partnerships with developers and housing businesses to deliver substantial volumes of housing units
- Strategically release greenbelt land in a carefully managed way
- Clarify and modify CPO powers and procedures, particularly the right of local authorities to use them if needed to assemble land for Housing Zone-type development; reform the compensation rules for CPOs for large scale sites to ensure that landowners are offered a generous return from the sale of the land while ensuring that the uplift in land value as a result of planning and development can be captured to fund the infrastructure required
- Examine the possibility of setting transparent and consistent targets for affordable housing and local infrastructure that are fixed to reduce the costs and time of extensive negotiations between planning departments and developers

³ See: *The Lyons Housing Review: Mobilising across the nation to build the homes our children need*. (2014: 76).

⁴ See: *The Elphicke-House Report. From statutory provider to Housing Delivery Enabler: Review into the local authority role in housing supply*. Department for Communities and Local Government.



Improving Private Renting

Dedicating some blocks or sections of big sites to PRS use could help accelerate residential development in London. A few large builders account for most of the capital's new housing. They tend to 'drip feed' new homes onto the market rather than releasing large chunks of stock. This helps cash flow (income from the sale of early units helps finance later ones); facilitates sequencing of construction tasks; and keeps the market from being flooded with identical units. Even on sites that will eventually have thousands of homes, developers usually sell only a few hundred a year.

Producing entire blocks for sale to large landlords would let developers build faster and bring in cash, but should not affect sales to owner-occupiers. So why aren't they doing this already? Two main reasons: First, bulk lots of PRS housing sell for less per unit than individual for-sale dwellings. This is partly because big purchasers want volume discounts, but also

because their valuations are based on projected rental yield, which gives lower prices than other buyers will pay. Second, there are few potential buyers, although pioneers have started to emerge (e.g. QDD at East Village or Genesis and M&G at Stratford Halo). While developers could act as landlords themselves, and a few have done so, most want to sell in order to generate income.

What could be done?

Initiatives designed to stimulate new dedicated PRS construction include the government's Build to Rent fund and the Mayor's Housing Zones. Here the planning system can support PRS-specific construction if the developer makes a commitment that the housing will be rented for a defined period. We support this 'covenanted' PRS model, as long as it does not lead to reductions in the overall amount of new affordable housing.

Potential role of PRS in new supply

Most new residential development in London is carried out by a small number of large house builders. These developers follow a tested model of 'drip feeding' new housing onto the market, rather than releasing large chunks of stock at the same time. This is for three reasons: it helps cash flow (because income from the sale of early units helps finance the construction of later ones); it facilitates the sequencing of construction tasks; and it ensures that the market is not flooded with identical units, which would depress prices. Even on sites that will eventually accommodate thousands of homes, development for sale proceeds at a rate of a few hundred units a year at most.

The targeting of some blocks or sections of big sites for PRS use could help accelerate development, as policy makers have recognised. In effect, this would revive the model of large PRS-only blocks last seen in London in the 1930s. This is because PRS blocks and owner-occupied units are essentially two separate markets. Producing entire blocks for

sale to large landlords would allow for much faster build rates, would bring in cash, and would not affect sales to owner-occupiers.

However, this is not straightforward. The English planning system makes no distinction between owner-occupied and rented housing. Residential development is a single category, and owners of private dwellings are free to occupy them or rent them to others (although they may be required to register as landlords in a minority of local authorities). This means that there is no permanent stock of private rented housing, as any dwelling may switch from one tenure to another at any time. On the other hand, it also means there is nothing to stop developers from producing tranches of housing specifically for the PRS.

Why aren't they doing so already, if PRS has such evident benefits? There are two main reasons. First, lots of PRS housing sell for less per unit than individual owner-occupied dwellings. This is partly because purchasers expect volume discounts, but more importantly because the amount they will offer is based on



projected rental yield, which results in lower prices than owner-occupiers are willing to pay. This means PRS blocks are not as profitable for developers: the price of land (which in London makes up the majority of the cost of a new dwelling) is a function of the most profitable use of that land. If PRS-specific housing is to be an attractive product from the developer's point of view, the cost of land needs to come down. Second, there is not yet a critical mass of potential buyers for this sort of housing, although pioneers have started to emerge (e.g. QDD at East Village, Genesis and M&G at Stratford Halo). While developers can retain ownership and act as landlords themselves, and a few have indeed done so, most would prefer to sell in order to generate income.

What could be done?

There are already several initiatives designed to stimulate new dedicated PRS construction. These include the government's Build to Rent fund and the Mayor's Housing Zones, where the planning system may be used to support PRS in return for a commitment that the housing will remain in tenure for a defined period. These are positive steps and we would support in particular the extension of the covenanted PRS model, as long as this does not involve reductions in the amount of affordable housing achieved.

Key Recommendations:

- Greater involvement of large landowners, especially from the public sector. Given current relative returns and funding constraints, making private renting stack up often requires a land owner who is prepared to take an equity stake and/or is willing to defer receipt of payment until after the development is complete. This might be a public-sector owner such as a local authority or NHS trust; equally it might be a major private-sector employer. An equity stake, which could include deferred payment for land, is one way of addressing the requirement that local authority assets be sold into the 'highest and best use', and could in principle be combined with a covenant. Even if the 'highest and best use' requirement is met, a public owner will only allow land to be used for new private rented housing if it accepts that private renting is a necessary and desirable element in local housing provision, which should be reflected in clear identification in local needs assessments.
- The July budget contained unexpected changes to the tax treatment of small landlords. Private individuals and couples own the bulk of the sector and will continue to do so, even if institutional investment increases dramatically. It was announced that non-company landlords would no longer be able to deduct mortgage interest payments from rental income at the higher or additional rate of tax. From April 2017, deductibility will be capped at 20%. This amounts to a major tax increase that will particularly affect more 'professional' landlords, as they are likely to have several properties and to be leveraged. Indeed, some landlords will be required to pay more than their net rental income in tax under the new scheme, and there are already anecdotal reports of landlords looking to sell up. This new tax works against the professionalisation of the sector and we recommend that it be reconsidered.



Alternative Housing

Alternative housing and forms of living are increasingly sought in response to economic, social and environmental characteristics of the traditional homebuilding and ownership models.

Meeting this growing demand requires that there be a shift in people's views of what is possible. Knowledge about the process of designing and producing innovative housing has to be spread within and across local authorities and to a wider consumer and local enabler and regulator base. This may involve building mechanisms for institutional memory within and across local authorities, providing supporting tools for groups to be more commercially-minded and competitive as well as drawing on individuals, groups and communities with experience of success.

A key impasse to scaling up alternative housing is London's high cost of land. Whether they are experimental lifestyle choices motivated by a collaborative ethos, or material and technological innovations that can improve the form, quality or future sustainability- land prices make the

financing of such schemes especially problematic and costly, particularly for non-traditional developers. The decline of small and medium-size builders exacerbates this situation. To surpass such constraints, socially-oriented landowners need to be more engaged, existing local and national initiatives that support alternative efforts must be identified and tapped into and the communal, neighborhood and other values of alternative schemes should be included into traditional financial valuations of public land.

Other suggested ways to deal with financing are to: (a) use local authority revolving funds; (b) encourage local authorities to set up mechanisms that channels private funds into infrastructure and development, enabling them to free up land faster; (c) intensify density to reduce per-unit development costs; (d) make serviced self-build plots on council-owned land available; (e) modify rules to make mortgages for alternative developments of different kinds easier to access; and (f) change the mono-functional planning and land-use classification system.

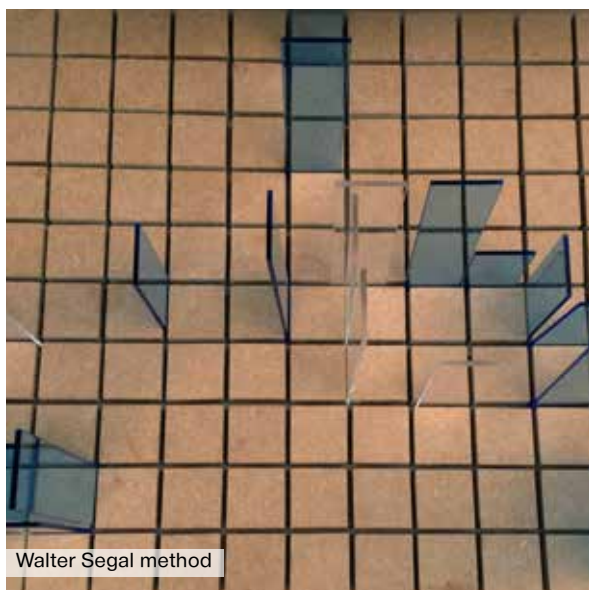
Relevance of alternative housing as additional supply

There is a growing tendency to develop alternative housing models in London. Our project defined 'alternative' in two ways: as experimental schemes that respond to intentional lifestyle choices, where residents are motivated by a commitment to community-driven, participative or self-managed forms of housing (e.g., co-housing and some kinds of self-build); and as a range of material and technological innovations that can improve the form, quality and future sustainability of supply (e.g. Y:Cube, prefabricated 'flat-pack' housing). Supporting the development of both of these kinds of alternatives would provide additional housing options to the typical and limited offer, paying attention to the diverse needs and desires of the city's population, with its changing demographics. Despite the variety of existing schemes across the capital, their 'niche' status means they face similar issues that need to be

addressed if they are to move more firmly into the traditional housing market.

Barriers identified

Land: The high cost of land in London makes the scaling up of any kind of alternative housing — whether experimental lifestyle choices motivated by a collaborative ethos, or material and technological innovations that can improve the form, its quality or future sustainability — extremely difficult. The following is a list of the potential ways to address this key impasse: (a) engage landowners interested in social as well as financial returns (e.g., churches, local authorities and housing associations); (b) incorporate the communal, neighbourhood and other values of alternative schemes into traditional financial valuations of public land, and think of ways to involve lay people and future residents; (c) support existing ideas like the identification and setting aside of land in central and outer London, garden cities and



Home Zones for community self-build initiatives; as well as releasing of land through Community Land Auctions.

Finance: London's land constraints make the financing of alternative housing schemes difficult and costly, particularly for non-traditional developers. The decline of small and medium size builders exacerbates this situation. Suggested ways to deal with this are to: (a) use local authority revolving funds; (b) encourage local authorities to set up mechanisms that channels private funds into infrastructure and development, enabling them to free up land faster; (c) intensify density to reduce per-unit development costs; (d) make serviced self-build plots on council-owned land available; (e) modify rules to make mortgages for alternative developments of different kinds easier to access; and (f) change the mono-functional planning and land-use classification system, which requires (for taxation purposes) a distinction between live *and* work.

Knowledge: To get politicians on board as well as to shift people's views of what is possible, knowledge about the process of designing and producing innovative housing has to be spread within and across local authorities and to a wider consumer and local enabler/regulator base. Negative preconceptions around less mainstream models like those that use prefab

technology must also be overcome in order to appeal to the wider population, while recognising that factors like location, amenities, neighbourhood, and aesthetics can matter significantly more to some households than housing typology. This may involve: (a) building mechanisms for institutional memory, including local publicly available databases of relevant information; (b) setting up a cross-London forum of exchange that allows for networks to develop and information to be exchanged, increasing future opportunities and speed; (c) encouraging local authorities to play a more active role in promoting alternative developments; (d) providing supporting tools for groups to be more commercially-minded and competitive; and (e) drawing and building on individuals, groups and communities with experience of successful development of alternative housing forms (including the importance of accounting for long-term affordability and robust social infrastructure into design) and finding ways to pass on their knowledge.

Key Recommendations:

- Encourage more land to be made available for alternative housing development by: engaging landowners interested in social as well as financial returns (e.g. churches, local authorities and housing associations); setting aside land for alternative housing forms within Housing Zones and large-scale masterplans and encouraging local authorities to establish funding mechanisms (like Revolving Infrastructure Funds) which channel private funds into infrastructure and investment, enabling more land to be brought forward more quickly.
- Foster avenues of London-wide knowledge exchange: (a) within and between local authorities on how best to support alternative housing development, and (b) between community groups and other relevant specialist stakeholders to improve skills and find capital.



The Role of Foreign Money

International money is seen as politically toxic — yet it is helping to accelerate large new developments in London, which include a variety of market and affordable housing.

The main political concerns are not about supply but with the (often overstated) fear that foreign buyers outbid Londoners only to leave the units vacant. Moreover, international buyers are often looking for flats in new apartment buildings of the sort which are now being developed — making it feel like a separate market place.

There are however many positive aspects of international involvement in supply. It brings in new equity from people prepared to take a longer view both in terms of development and the ownership of professionally managed private rented accommodation. New players can bring in different skills and a very much more positive approach to the speed at which development should take place — with the potential to build out large development sites much more quickly.

If they are to provide these benefits, investors are looking for greater certainty — about the planning process, about negotiations for infrastructure and affordable homes, about the tax regime and regulation of the private rented sector. Equally Londoners need to know that what is being provided is additional. So we require evidence on vacancies; on additional development funding; on speeding up development on particular sites; on the different patterns of returns required; and on how international money can be combined with more traditional forms of funding to accelerate the whole range of development opportunities.

International money is not directly aimed at addressing the affordability problem. Even so if it can provide significant additional finance, additional skills and most additional housing — and it appears that it can — it has an important and continuing role in providing more homes for Londoners.

International money is politically toxic — yet it is helping to accelerate large new developments in London, which include a variety of market and affordable housing. It kept the central London market moving in the post crisis era and is prepared to put in equity, which is looking for longer term returns — a very different model from the traditional debt financing pro-cyclical UK approach to development observed in the past. All of this is good.

Much of the demand from international buyers is for new apartment buildings of the sort which is now being developed so, the match between building and demand is very close — making it feel like a separate market place from which locals are being excluded. Yet the main demands are as permanent residences or for buy to let properties, which are then rented out in the general market. The problem is that this housing is filling a gap in the London 'world city' market but not obviously impacting directly on the overall shortage issue (especially given continued in-migration).

The most important positive aspects are: it brings in new equity from people prepared to take a longer view (not just QDD style where the money comes in to purchase when units are complete but also equity funding for development). This can bring with it new management skills, which help build the new style large developments where delivery is speeded up. Can these benefits be transferred to other more mainstream types of development especially outside central London?

Ideally London also wants to attract more traditional types of international finance like pension funds which are looking for private renting — but again this will normally be at the upper end of the scale and could, if we are not careful, directly reduce the amount of affordable housing that will be provided.

International money is also looking for certainty — about regulation, about the tax regime and about how local authorities treat them. As landlords many would probably not mind a longer lease term with rents indexed within that



Project site visit, East London view

term as long as it was absolutely clear what the terms and conditions were. They clearly do not want incremental changes in tax apparently directed at them because of political pressure. They would like tariffs rather than negotiation with respect to affordable housing and local infrastructure. Important here is that many of these 'requests' would also be made by domestic institutional funders as well as developers.

International money is only a part of the answer — and the outcomes need clearly to be seen to be additional and not wasted through vacancy. So we need evidence on vacancies; evidence



Project site visit, East Village London

on additional funding for development itself; evidence on speeding up development on particular sites; evidence on different patterns of returns required; and evidence on how it can help bring in and interrelate with more traditional forms of funding to accelerate the whole range of development opportunities.

International money is currently a requirement for developing large sites — and can play a core role in making the step change to sustaining much higher output levels. But into the longer term, domestic demand and domestic money are also absolutely necessary to ensure high and stable levels of housing investment.

Even though international money is not directly aimed at addressing the affordability problem, if it can provide significant additional finance, additional skills and most importantly additional housing — and it appears that it can — it has an important and continuing role in providing more homes for Londoners.

Key Recommendations:

- International money is to be welcomed IF it adds to the stock and encourages more efficient production methods and management — we need to improve the evidence base on the impact of international money on speeding up development
- Encourage stability in the planning and regulatory regimes — not political fiddling for the sake of it
- Examine the potential mechanisms for increasing certainty with respect to individual planning permissions
- Clarify the position on rent/security regulation as soon as possible after the mayoral election
- Support the GLA and local authorities in local master planning and partnership approaches including international investors

Cross Cutting Issues



Expanding Development Capacity

How can we increase capacity in the construction industry? Four main methods have been identified:

- (i) bring SMEs back into the mix;
- (ii) make better use of housing associations;
- (iii) make greater use of contractors as opposed to partnering with developers — including expanding the role of off-site construction; and
- (iv) attract international investors as both developers and long-term investors in private renting and mixed tenure schemes.

Around half of all housing construction used to be undertaken by SMEs but many were killed by the financial crisis. There are three things preventing their re-emergence: a dearth of small sites coming forward, the costs of getting planning permission and a shortage of debt finance. Government introduced initiatives to make funding easier but take-up has been minimal because all three issues need to be addressed together. Local authorities need to give greater priority to smaller sites; it should again be cheap and rapid to secure outline planning permission, or authorities should provide shovel-ready sites; and government should ensure that initiatives like Help to Buy and starter homes are actually open to smaller builders. Custom built homes are another important way forward.

Over the last few years the larger, more assertive London housing associations have been cross-subsidising construction of affordable homes with income generated by more market oriented projects, developing both properties for market rent and for sale. Using a range of models they are working in partnership with other associations (including smaller associations who have borrowing capacity) and particularly local authorities to speed up development and increase output over the next few years.

But increasing the role of housing associations is not entirely straightforward. Local authorities already complain that they have to deal with too many of them — in some central London boroughs there are over 80 associations, each

with its own mission and approach. Equally, boroughs' very different stances on planning and allocation make it difficult for associations. The great variety of objectives among both housing associations and local authorities is one of the major reasons why partnership working is more difficult than it might appear on paper. And the current government's policies on housing association rents, welfare changes and the Right to Buy all can restrict housing associations' capacities. Even so, they are and will remain major players in accelerating development.

Another factor limiting capacity is the construction industry's focus on speculative development. Most developers 'build to the market', meaning that it takes a long time to build out large sites — even if several developers are involved and the mix of dwellings allows them to reach different markets. This approach also makes it difficult to use off-site construction methods, as it does not generate sufficient scale. But some developers are now making greater use of contracted design, and companies (often from overseas) with a different approach to build-out rates have shown that development can proceed more rapidly. Some of the examples we have identified, particularly the development of housing suitable for young professionals, show considerable potential to increase the rate of development. However these new approaches depend on both scale and stability in demand — something not generally seen in the UK context.

London has long attracted overseas buyers for its new housing, and is now starting to attract foreign developers as well, particularly from countries with long experience of building rapidly to scale. Their approaches to management, finance and development speed, and their experience operating professional private rented housing can inform the London market. Their involvement is beginning to generate additional supply. Growth depends on building effectively on these 'demonstration' projects — which in turn depends on breaking many of the barriers discussed above.

We have identified an initial set of measures⁵, below, that can improve the chances of success in expanding housing investment. They represent the first steps towards major expansion of capacity.

Recommendations:

Make planning more predictable:

- Introduce more Housing Zones — and monitor and modify effectively
- Introduce more transparent and consistent targets for affordable housing and infrastructure — move towards tariffs and away from negotiation
- Increase cross-borough networking, particularly around strategies for alternative housing
- Develop coherent policies on change of use through devolved powers to the GLA

Make land more available

- Encourage partnership arrangements involving public landowners, local authorities and developers
- Identify defined parcels of accessible green belt land that is not necessary for environmental sustainability for residential development
- Clarify and improve CPO powers and procedures to enable more effective and quicker land assembly
- Encourage a leadership role for the GLA and the London Land Commission in bringing land as far as the construction stage

Speed up processes

- Increase resources for local authority planning departments by more positive planning fee structures
- Enable the GLA to provide templates to support partnerships and resources for

- over-stretched local authority departments
- Rationalise viability assessments — again requiring GLA devolved powers
- Increase build-out rates by parcelling out sites to increase the number of developers and encourage a wider range of dwelling types
- Ensure more effective planning gain ‘clawback’ as prices increase, at the same time structuring planning gain payments to make quicker development more worthwhile
- Encourage public landowners to take an equity stake in partnership arrangements aimed at ensuring appropriate timing and funding infrastructure arrangements
- Establish more revolving infrastructure funds

Expand construction capacity

- Provide shovel-ready smaller sites for small developers
- Restructure government development finance programmes to make accessible to SMEs (again requires devolved powers)
- Encourage international developers with experience in rapid build-out rates into the London market
- Place greater emphasis on commissioning in partnership with developers in addition to speculative building
- Support housing associations to play a larger role in mixed tenure development including greater emphasis on intermediate tenures
- Identify in far more detail why the largest sites are not contributing adequately — only when they do so can output, particularly in central London, increase significantly

Lobby central government

- To restructure current GLA powers to enable a more strategic approach
- To devolve further powers to the GLA
- To make CPO powers more effective
- To make policy initiatives, notably Help to Buy and development finance, more London friendly

⁵ More detailed information about each theme and multi-media outputs from the project (including blogs, videos, podcasts, and an interactive map) can be found on our project website, www.iselondonhousing.org.



While these measures will help, we need to recognise that development capacity cannot be sustainably expanded in an uncertain demand environment. The extreme examples of Ireland and Spain show that just expanding building can unbalance the economy and generate large-scale supply overhangs. In this country, high production of new homes in the past was based on subsidised housing directly commissioned to meet social rather than market demand. Now, long-term success depends on reducing volatility in the macro economy, improving the operation of the mortgage market and introducing a range of more affordable tenures. The potential for continued acceleration in development in London therefore depends as much on the national economy as it does on London specific initiatives.

Three final points:

1. The list of recommendations is not one from which to pick and choose individual elements and expect them to be successful. It is a first attempt at a coherent set of requirements. It needs more work — and we intend, over the next few months, to develop the

recommendations into a coherent agenda for the new mayor.

2. Many of the recommendations require initiative from central government in partnership with the GLA — achieving a step change in development which can be maintained over economic cycles requires both devolution and continued partnership.
3. Even taken together, these recommendations will not solve the immediate crisis — prices are set to increase further unless there is recession or massive political uncertainties. There is therefore a strong case for a crisis package that builds on the demonstration projects we have identified to generate large volumes of well managed apartments that are suitable for younger households starting out on their careers. There are good examples but they need to be multiplied a hundred fold and that requires courage; debt financing by local authorities and the GLA; and contracted builders who can bring in more construction resources. It can be done — but it requires the political will and a lot of hard work.

For more information, please visit www.lselondonhousing.org
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