

A Sustainable Increase in London's Housing Supply?

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Photo p. 2: Site visit, Kipling Estate, Bermondsey: view east from roof of Burwash House. 2016

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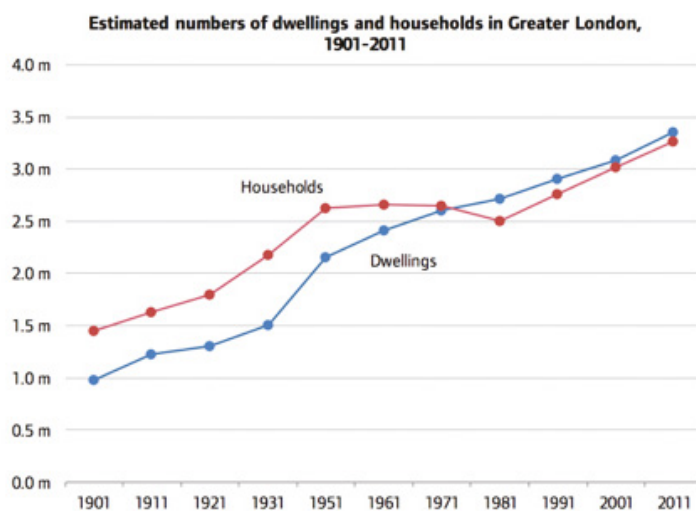
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1. The housing crisis in perspective

It has become commonplace to speak of London's 'housing crisis', as if the situation were sudden and unanticipated. In fact it is neither: the undersupply of new housing in the capital has been a persistent problem for at least thirty years, and the likely consequences were clear to those who looked closely at the issue. The position has worsened rapidly in the last decade but is part of a longer-term, systemic failure. It is therefore worth starting by looking at fundamentals. To clarify these pressures we make use of three important figures set out in the Mayor's Housing Strategy, published late last year.

First, London's population is now growing fast, but this has not always been the case: from the peak in 1939 the number of inhabitants fell from 8.6 million to a low of 6.6 million in 1986—a decline of 23%. Almost all of this decline was in central London. This, together with rising incomes, allowed the many households who were sharing to live separately and household formation to increase rapidly. But it was only in the 1970s that there was, for the first time in the twentieth century, a balance between households and dwellings (figure 1). For a decade thereafter even the numbers of households, fell as a gap opened up between the number of dwellings and the number of households enabling a large increase in the slum clearance programme (figure 2).

Figure 1



Source: *Housing in London: 2017. The evidence base for the Mayors Housing Strategy*

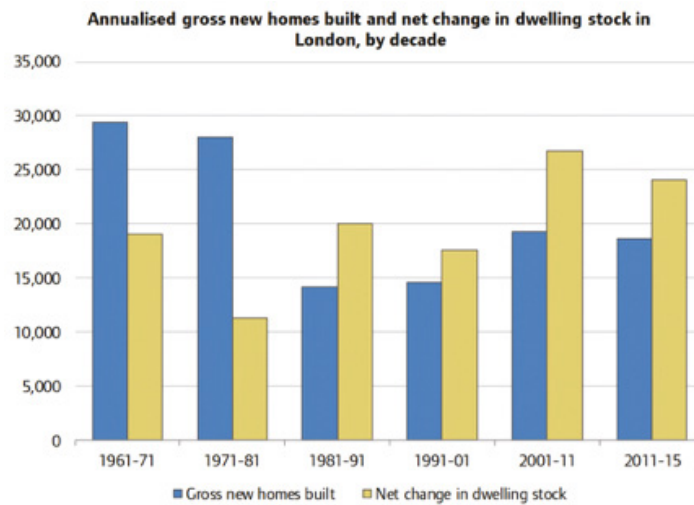
From the early 1980s household numbers started to grow again (as a result not just of demographic change but of income growth and financial liberalisation). Equally the dwelling stock grew more rapidly as slum clearance programmes were completed and change of use and conversions became more normal. Both increases preceded population growth which, against expert prediction, began to resume from 1988.

For the last thirty years population growth has dominated the story. After a remarkably rapid turnaround the population of London surpassed its pre-war peak in 2015 and the forecast is for continued strong growth. Between 1991 and 2016 London's population increased by over 27%. Most importantly, over the same period the dwelling stock has gone up by less than 20% — resulting in a situation where the numbers of households and dwellings are only just in

balance. This left nothing for the vacancies that enable the housing system to adjust effectively and has put enormous pressure on household formation, house prices and rents.

Even so, the real tensions have been concentrated in the last decade. From 2006 to 2016 population grew by almost 17%. The number of households increased considerably more slowly, by 13%, reflecting the rapidly tightening housing market. One outcome has been a very large rise in the numbers of multi-adult households (parents with adult children, singles and sometimes couples living together within one dwelling). In turn this led both to an increase in average household size (not seen for a century or more) and higher densities of occupation as well as increases in overcrowding, homelessness and rooflessness.

Figure 2



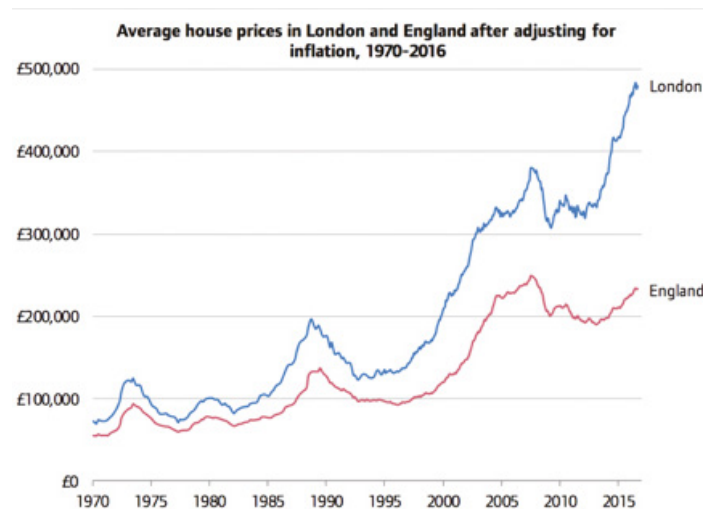
Source: *Housing in London: 2017. The evidence base for the Mayors Housing Strategy*

Most importantly, the dwelling stock has only grown by 8.5% since 2006—i.e. only around 65% of the growth in household numbers and 50% of the growth in population over the same period. This despite the fact that the numbers of new homes built and additional units arising from change of use and net conversions have been higher since the turn of the century than in any decade since the end of the war.

The third figure shows the impact that these growing pressures have had on London's house prices, and thus on affordability, as compared to England as a

whole. There is a great deal of volatility but the general picture is that prices in the capital, while higher than the rest of the country, followed a similar trajectory until population started to rise in the 1980s. But again the big adjustment did not really start till the mid-1990s. Prices then diverged rapidly over the last decade to a point where London's house prices are not far short of double those in England as a whole. The reasons for this are associated not just with demographics but also globalisation and even quantitative easing. But the fundamental problem remains that the housing system appears unable to adjust to these pressures.

Figure 3



Source: *Housing in London: 2017. The evidence base for the Mayors Housing Strategy*

How the London housing system has developed over the last seven decades suggests a number of important lessons for the future:

- Demand is far more volatile than supply — and this is inherent in the housing system;
- Demand pressures come not just from demographic change but from income growth, financial liberalisation, macro-economic/world economy factors and cultural change;
- Despite the massive decline in social sector output that started in the 1970s, net additions to the housing stock since the turn of the century have been higher than at any time since the war;
- Thus, if the demand pressures continue, the housing shortage can only be addressed by an unprecedented expansion in housing output along with other changes (e.g. in taxation and subsidy) to ensure a more equitable distribution of what is available.

In principle therefore the problem could be ‘solved’ by reduced demand, as happened in the first three decades after the war. But this would imply lower incomes and poorer-quality housing outcomes for many. We need a healthy London economy; this inherently means pressure on housing. If people still want to come to London to take advantage of economic opportunity there has to be not just a very large step change in housing output, but also a more efficient use of the existing stock. It is this scenario that the Mayor’s housing strategy aims to address.

To make such an unprecedented adjustment requires far more than optimistic words. In particular, much of the city’s governing and planning framework was

established during the years of decline, and in a thousand small ways it responds more to the needs of a shrinking city than a growing one. But if London is to continue to grow, the trajectory of housing supply needs to change in far more fundamental ways than the current system allows for (Whitehead, 2017).

This report sets out our analysis of how to do that. We add our voice to those of the many colleagues from academia, journalism, experts from government and the private and third sectors who have been grappling with the issue for years. They have produced dozens of reports and inquiries, containing probably thousands of recommendations (Annex 1).

Over the last year we have seen the publication of a White Paper, the Draft London Housing Strategy, the Draft London Plan, a national budget with a lot to say about housing. In addition we are promised a green paper on social housing; changes to the S106/CIL and viability regimes; and a fundamental reworking of housing needs assessments. The tragedy at Grenfell Tower has changed the political landscape around housing and contributed to a step change in how policy is perceived. The challenge is to turn this momentum into sustainable outcomes.

There has been some progress notably with respect to net new additions to London’s housing stock. But it is hard to pinpoint precisely which policy change(s) led to the increase — or indeed to what degree it could be ascribed to policy change at all. And that is one of the themes of this report: the need for a better theory of change about how policies are expected to play out on the ground, and the need for better monitoring.



Site visit, Wembley: purpose-built student accommodation using prefabricated modules. May 2017

2. How we worked

This is the third of three Knowledge Exchange and Impact projects aimed at fostering debate between academics, practitioners and government. The series started in September 2014 when the scale of the housing problem, and its extreme nature in London, was only just beginning to be realised¹.

The aim of all three projects has been to identify ways of accelerating residential development in London, to monitor how the system has been changing and to offer suggestions to policy makers and practitioners about how to encourage the positive and to overcome the barriers.

The approach is that of 'knowledge exchange' rather than traditional research. We have brought together expertise from across the spectrum – officials at all levels of government, developers both private and public, housing advocates, planners and many others to debate and exchange ideas.

The programme has included:

- Round table discussions
- Consultations on the Housing White Paper; the election manifestos and the draft London Housing Strategy;
- Site visits to places showing interesting innovations in for example construction methods, land assembly, pace of development, tenure mix
- One-to-one interviews/conversations
- Presentations at conferences and industry events
- Comparative discussions with experts from other countries

The report emphasises our findings from these discussions and interactions but it also draws on our own research on many aspects of housing development especially in London and of course on the very wide range of relevant literature published during the last few years.

Four attributes of LSE London underlie this work:

- We are independent researchers with no political axe to grind;
- We have an informed understanding of the issues involved, based on decades of research;
- We have close relationships with almost all relevant decision-making groups;
- We have a real-world familiarity with London.

The three-stage approach enabled us to build strong relationships with all groups involved in trying to increase and improve housing investment in London. It has also built up trust that we have a valuable role to play in continuing to clarify the relationships between policy and outcomes; to monitor progress; to identify not just continuing barriers but also in particular what is working and can be better supported; and to provide a platform for stakeholders to discuss tensions and opportunities in an independent environment.

¹ LSE has a dedicated KEI fund to support knowledge exchange activities based on LSE research and/or LSE expertise. This fund combines the Higher Education Innovation Fund (HEIF) and Impact Acceleration Account (IAA) allocations received by the School.

3. LSE London's earlier recommendations

This is the third LSE London report on accelerating new housing development in London. The earlier reports, written in 2015 and 2016, set out our analysis of the main barriers to increasing the rate of new supply (Holman et al 2015 and Whitehead et al 2016). They also presented recommendations based on our knowledge-exchange engagement with public and private actors. From the first, our aim has been to influence local, London-wide and national policy to improve the capital's housing-supply system. Our messages have therefore been aimed primarily at national government, the Mayor and the GLA, and boroughs, as they set the policy framework. Nonetheless the interdependent nature of the system means improvements will only happen if all stakeholders work together, so the reports also contained messages for private developers, housing associations, landowners, financiers and those involved in civic engagement.

The main messages from the two reports are summarised (in no particular order) in Boxes 1 and 2. It should be emphasised that even if all the recommendations were adopted, the resulting changes alone would not 'solve' the housing crisis — there are wider systemic issues and in a sense each of these recommendations is the tip of a much larger iceberg.

Our messages fall largely into five broad categories:

1. improving the operation of the planning system and providing greater certainty;
2. ensuring there is enough land in the right places and at the right price;
3. improving the structure and operations of the construction industry;
4. setting specific goals and monitoring progress to improve future decision-making; and
5. fostering innovation by encouraging new actors and new ways of working.

Box 1: from *Housing in London: Addressing the Supply Crisis*

Key recommendations to identified actors, 2015

Make planning more predictable by

- moving towards targets for s106 developer contributions and away from site-by-site negotiation (the GLA, boroughs, central government)
- improving cross-borough networking (boroughs, GLA)

Increase availability of land by

- encouraging public landowners to partner with developers (boroughs and other public landowners)
- allowing development on highly-accessible Green Belt sites (central government, local authorities)
- clarifying CPO powers to enable faster land assembly (central government)

Speed up processes by

- increasing planning fees, so local authorities can employ enough planners (central government)
- supporting boroughs with specialist expertise and partnership templates (GLA)
- rationalising viability assessments (central government)
- dividing large sites amongst a number of developers to speed output (boroughs, GLA)

Expand construction capacity by

- providing shovel-ready small sites for smaller developers (boroughs)
- commissioning housing directly in partnership with developers (boroughs)
- identifying why the biggest sites are not producing proportionate numbers of new homes (boroughs, GLA)

Foster innovation by

- exchanging knowledge about how to support alternative housing (boroughs, GLA, community groups)
- monitoring and scaling up successful demonstration projects (developers/landlords)

Box 2: from *Rising to the Challenge: London's Housing Crisis*

Key actors and actions 2016

- Central government and the GLA should make the planning process more certain and transparent, in particular by revising viability rules
- The GLA should proactively bring large sites forward, and ensure a better mix of site sizes. Together with boroughs they should better monitor what is happening on large sites, and quickly address any problems
- Central government should allow some policies to operate across London – eg expenditure of right-to-buy receipts and homelessness initiatives—and should extend permitted development to retail, but only if sensible developer contributions are required
- Planning authorities should let build-to-rent operators manage affordable units themselves
- The GLA should provide guidance about how to reconcile commercial returns and social objectives in build-to-rent schemes
- Developers and planners should work to increase the use of modern methods of construction

The original reports provide details about the recommendations and the thinking behind them. Several of the main recommendations from our earlier reports have been taken up, at least to some degree; we discuss this further below. Others remain valid and have yet to be addressed.

While we stand behind most of the messages from our earlier reports, we have had second thoughts about a few. Perhaps the most important is housing zones, of which there are currently 30 in London. In 2015 we saw these as a potentially powerful tool to focus attention and resources on defined local areas and called for the expansion of the programme. In 2016 we were more cautious, suggesting that existing housing zones should be allowed to bed in before designating more. Since then the evidence is that some are working well; some are moribund; and that in some cases GLA money is being removed (Future of London 2017b). Monitoring data which were expected to be made readily available have not been forthcoming and policy changes have affected viability and indeed interest.

During the 3 ½ years of our programme, there has been growing consensus about the kinds of changes that are needed, and many of our key messages have now become mainstream thinking and are beginning to be included in policy initiatives. Of course, ours was not the only voice calling for these changes: many of our suggestions echoed those of other observers (Annex 2). In turn our messages were repeated in policy discussions at many levels.



4. What has been done

The past three years have seen a bewildering flurry of housing analysis and debate (to which we and many others have contributed) and similar activity on the policy front, with a number of policy changes at all levels. The changes are welcome and are mostly in the right direction, but the initiatives have been messy and piecemeal and sometimes contradictory. This messiness is to some extent the natural and expected product of the democratic process. It also reflects a governance framework in which three different tiers – central government, the GLA and the boroughs – all have some power over 'housing policy'. Nationally, we identified at least 11 housing-policy measures in the November budget, in addition to the raft of measures in February's Housing White Paper (February) – the House of Commons Library summarises the various national initiatives in a 44-page report (Wilson 2017). In London the draft Housing Strategy and draft London Plan were published in quick succession in late 2017.

A number of the new policy measures respond to recommendations in our earlier reports. In the five broad categories listed above, these include

1. Improving the operation of the planning system and providing greater certainty

Because of our discretionary planning system, decisions about whether development will be allowed on a particular site are made on a case-by-case basis. After the principle of development has been established follow discussions about developer contributions to affordable housing and other community infrastructure through S106; only once these elements are agreed can construction start. The process, which is basically a negotiation, can take months or even years. This delay and lack of certainty are factored into developers' financial models, increasing required returns and stopping marginal developments from happening.

There is widespread understanding of the importance of this issue, and the Mayor has attempted to address it through supplementary planning guidelines (GLA 2017b), which suggest that planning applications promising 35% affordable housing (50% if using public land) should be acceptable in terms of S106. The increased certainty is good in principle, although many observers have questioned whether these particular numbers are achievable in all areas of London and at all points of the market cycle.

After the guidelines were published, the Mayor called for an increase from 35% affordable housing to 50%, with an aspiration to achieve 65% in line with housing needs – which tended to undermine the certainty the SPG was intended to provide. In addition, it should be remembered that boroughs, not the GLA, are responsible for planning decisions: the Mayor can advise but not (usually) instruct.

At national level there has also been progress. The Housing White Paper emphasises the need for local authorities to make plans in a timely way, and recognises that the operation of CIL and S106 is a source of uncertainty. The Autumn Budget however kicked the issue into touch by stating that DCLG would launch a consultation with detailed proposals on the following measures: removing restriction of Section 106 pooling; speeding up the process of setting and revising CIL; allowing authorities to set rates which better reflected the uplift in land values between proposed and existing use; and changing indexation of CIL rates to house price inflation, rather than build costs. They also noted that all the protections for viability from CIL, such as the Examination in Public, would be retained.

In September 2017 the DCLG issued a set of proposals for consultation (DCLG 2017). This set out a new approach to measuring Objectively Assessed Need (including removing the word 'objectively'), and called for an approach to viability based on area-wide assessment at local plan stage. The argument is that there would then be no need to test viability again at the planning application stage. Most commentators have argued that site-specific issues are so important that this is not feasible, especially on larger sites and indeed in London. If anything therefore uncertainty has been exacerbated.

2. Ensuring there is enough land in the right places and at the right price

New housing cannot be built without land. There is no absolute shortage of land in London (yet): there are many large sites that are not yet built out, and still several lying fallow. However, much potentially suitable land is held by landowners who have no plans to develop or to sell. Other sites are fragmented among many different owners, reflecting centuries of transactions in the London land market. And, again reflecting the capital's history, much development land needs remediation before it can be built on.

Our 2015 report said the GLA and should play a leadership role in bringing land as far as the construction stage. The Draft London Housing Strategy, published last September (GLA 2017a), says the Mayor will henceforth adopt a more interventionist role in land assembly, and we have seen an example already with the August 2017 purchase of a seven-acre site in Waltham Forest for 100% affordable housing. The London Land Commission published a brownfield register in 2016 which identified surplus public land for at least 130,000 units.

The Housing White Paper also recognised the importance of land release and announced a £45 million land release fund, supplemented in the 2017 Autumn Budget by £1.1 billion for a Land Assembly Fund. The White Paper also announced consultation about allowing local authorities to dispose of land at less than 'best consideration' (i.e., not requiring them to get the highest financial price for it), and asked for views about whether they should have more land assembly powers. Changes to both would clearly be helpful. However these are subjects that have been discussed for years; the announcement of yet another consultation – rather than action – is disappointing.

3. Improving the structure and operations of the construction industry

We recommended that one way of expanding construction output was for boroughs and other public landowners to commission housing in partnership with developers. So-called 'direct commissioning' could be seen as a descendant of the council housebuilding programmes of the 1960s and 1970s, which provided hundreds of thousands of homes per year at the height of production. The benefits of this approach are that it would effectively introduce a source of cheap land but also a long-term source of revenue. Most importantly by having a guaranteed customer, build-out rates could be faster than speculative for-sale developers achieve.

Central government launched five direct commissioning pilots in January 2016, including at the very large Old Oak Common site in London. There were a number of problems with the sites identified. MPs complained that a year on there were few results, and outside London direct commissioning has morphed into the Accelerated Construction programme being taken forward by the Homes and Communities Agency – soon to be renamed Homes England.

Prior to 2011, local authorities were only able to perform functions that were specifically permitted by

Parliament. But the 2011 Localism Act turned this on its head by giving local authorities a 'general power of competence'. They are now able to perform any activity than an individual could legally do, without requiring approval. This opened the way for boroughs to develop housing using general borrowing powers and money from their general fund (i.e., not within the Housing Revenue Account). In the last few years several London boroughs have formed their own development companies and are building new homes either on their own or in joint ventures with commercial developers (Hackett 2017). The wholly-owned companies are still small-scale but some of the JVs are huge, and controversial – for example the Lend Lease joint ventures with Haringey and Southwark.

4. Setting specific goals and monitoring progress effectively

There are three issues here, which apply to any public policy changes. First, policymakers need to be clear about how they expect the measure to change the situation on the ground – that is, they need to have a theory of affect. Second, they need to set specific goals or targets, to make clear what the measure is meant to achieve (and by when). Finally therefore they need the information to track the changes in key indicators in a timely way.

There has been some progress on the third – improving information around housing supply. The White Paper proposed allowing free access to Land Registry data, which is a step in the right direction. But there are major deficiencies in the data on planning permissions and starts and completions, as well as a virtual absence of data on housing land prices. The quality of construction data often results in large-scale adjustments between quarterly and annual figures which bring these data into disrepute.

5. Fostering innovation by encouraging new actors and new ways of working

One important disrupter is the build-to-rent sector (Savills and LSE London 2017). New operators provide blocks of purpose-built rental homes in single management, based on the US multi-family model but also reviving a type of housing last built in London in the 1930s. We recommended that institutional landlords of purpose-built private rented housing be permitted to provide and manage affordable housing within their developments themselves rather than being required to transfer it to housing associations. This approach was commended by the 2017 Mayoral SPG on affordable housing and viability (GLA 2017b).

The draft Housing Strategy contains helpful measures to support alternative forms of provision, including funding of a new Community-Led Housing Hub. Social alternatives include cohousing, intergenerational housing and other types of collaborative approaches. These schemes can serve as testbeds for new approaches that have the potential to be scaled up. Inevitably some will fail, but those that succeed can produce lessons that belie their small size, contributing to better housing options for Londoners in future.

We also recommended that housing associations should be supported to play a bigger role in mixed-tenure development including greater emphasis on intermediate tenures. The long-term reduction in government grant for new social and affordable housing, together with controls on rents, means that those associations that want to continue to provide new affordable homes must cross-subsidise internally. But they also have transferrable skills and resources and could play a much larger role in accelerating development. This is happening to the point that some housing associations are now among London's most important developers (Scanlon et al 2017a). Plans are also in place especially among the G15 to continue to expand that role although there is recognition that exposure to the market may be increasingly risky.

Finally, we supported increased use of modern methods of construction (MMC), including modular techniques. These methods are not necessarily much cheaper than traditional construction but are faster and more certain. They are already making some inroads in London's development market, especially given the shortage of skilled construction labour. The Housing White Paper set out the government's intention to promote more modular and factory-built homes, and the accelerated construction programme

announced in 2016 is also intended to make use of offsite manufacturing. The draft Housing Strategy says the Mayor will help fund affordable homes using precision manufacturing, and encourage private-sector discussions about how to grow capacity.



Site visit, Wembley: student accommodation, view from Fulton Road. May 2017

5. What next?

Although section 4 above suggests a lot has been done, much of what has happened is about recognising problems and consulting on ways forward rather than actually putting policies into operation. At the moment everyone appears frustrated: the main players share the broad goal of achieving a step change in housing supply but worry that policy activity is not coherent and is sometimes counter-productive. This is in part unavoidable as there are so many policies, so many stakeholders, and so many inherent tensions between them.

Even so, we are clearly far ahead of where we were in 2014, notably in terms of the agreed commitment to serious change. However frictions are showing, and one of our roles is to help clarify the conflicting priorities of various players and point to how these might be addressed.

We must make progress in the following areas if a step change in output is to be achieved. Some are immediately relevant to accelerating development, while others are necessary or highly desirable to ensure sustainability over the long term.

Changing attitudes

When we started this series of projects in 2014 the overall atmosphere felt quite toxic. The housing problem was undoubtedly moving up the agenda both nationally and in London. But there was no obvious way of generating a coherent strategy and relationships between major groups of players were antagonistic. Since then the atmosphere has almost completely changed: there is now a shared ambition, as well as recognition that all stakeholders must take more responsibility and that partnership is necessary. This is not to say – to employ a cliché – that all is sweetness and light. There are still many tensions, but there is also a framework within which the major actors are prepared to work, and a level of optimism we could not have envisaged three years ago.

The challenge is to maintain this impetus through what is likely to be quite a difficult period. If the predicted housing market downturn occurs, we need to use it as an opportunity rather than a reason to go back to the old ways.

Numbers

Here there has been very considerable success. The latest national net addition figure of 217,350 (2016-2017) is almost 15% higher than the previous year. Numbers are still not back to pre-crisis levels and the mix has changed towards permitted development, but the upward trend has been strong.

London's growth has been even stronger, with a 30% jump in 2016/17 to almost 40,000 net additions – way above pre-crisis levels. Within this total, completions are up 17% (as compared to 12% nationally). Permitted development increased by 73% to make up some 20% of the overall total. These figures are likely to be even higher in the coming year, based on earlier planning permissions and starts. This trajectory suggests that with further policy adjustments, it should be possible to achieve significantly higher levels of output than in the past. Even so, we are highly unlikely to meet the aspirational levels set out in the draft London Plan and it may be problematic to maintain the pace over the next few years.

What is unclear is exactly why the figures jumped so much. Part of the reason is that they simply reflect earlier increases in planning permissions and possibly the lumpiness of output rates given that most new development is in the form of apartments. The only specific policy change directly associated with the increases is permitted development. This is undoubtedly effectively adding to London's residential stock, although there are some concerns about standards. Most worryingly, permitted development lies outside the normal planning system and does not contribute to other community needs, particularly affordable housing.

Success in increasing numbers has been one reason why the targets specified in the draft London Plan have risen so dramatically. The new numbers may have more to do with political necessity than with reality. They depend almost entirely on increasing densities in ways that will put a heavy burden on existing infrastructure, especially transport. They also depend on getting large sites and mixed-use sites working far more effectively, and ensuring that increased densities do not imply less land release (Gordon et al 2016).

Viability, negotiation and uncertainty

Viability is probably the most pressing issue. To address it effectively almost certainly requires changes to the National Planning Policy Framework. The current suggestion, put out for consultation by DCLG, is that viability need only be addressed at the local plan stage and not 'reopened' during the planning permission process. Such an approach is unlikely to be effective in London because of the nature of sites. The Mayor's approach of setting a threshold for the proportion of affordable housing required is a promising one and is undoubtedly bedding down. Even so, many players have serious concerns about where it will go next, which is creating uncertainty.

As with any tariff-style approach, there are trade-offs: it will not work on some sites because there simply is not enough planning gain once the next best opportunities are taken into account; on other sites more could potentially be achieved. Perhaps most importantly, setting a proportion does not of itself clarify the cost of the planning obligation to developer and landowner. Estimating these costs has become more complicated as additional elements such as the London living rent have been brought into play.

There is also uncertainty about where central government is going with S106 and CIL, and ideas around strategic CIL. The preferred approach will not become clear until DCLG puts proposals out for consultation, and the associated uncertainty will continue for some time thereafter. Any developer, whether public, private or third-sector, requires an appropriate return on investment taking account of risk. Delays and unexpected changes in cost add to risk – increasingly the likelihood that resources such as land or finance will not be made available and output levels will be lower.

Build to Rent

This is another area where there has been considerable success. In the past three years, far more players have become involved, including local authorities and housing associations as well as private developers and investors. Overseas investors are still coming forward. Even so there is concern that risks are increasing, notably because of lack of clarity about the costs of the affordable housing requirement. This uncertainty, together with possible delays, weighs more heavily on build to rent because the model is based on internal rates of return rather than capital values. The longer-term opportunities for partnerships are very considerable, particularly as public-sector organisations recognise the benefits of secure future revenues rather than simply realising capital. The operators generally

support longer contracts in the private rented sector and a better regulatory framework around quality but have some concerns about the possibility of rent controls.

Nurturing innovation

We need to welcome and nurture innovations of all kinds to help increase construction capacity; reduce the skills shortage; enable the better use of land; and meet a wider range of needs. The last few years have seen a range of interesting projects demonstrating the potential of modern methods of construction; co-housing; communal living; compact dwellings; units aimed at particular markets such as younger households; temporary structures and many more. But very few have grown to scale, and the same examples are repeatedly discussed.

Of course, it takes time to adapt building regulations, to attract finance and to gain commitment from investors. Careful study of those innovations that have taken off, such as student housing and to a lesser extent small units, could help us understand how to identify and better support new approaches with real potential.

Underlying the specifics discussed above, several more fundamental issues impede progress towards a coherent and effective housing policy for London.

Governance

Despite the much-improved atmosphere there are clear tensions between different levels of government, and between those who want to increase development and local communities who tend to see the costs to them in terms of greater pressure on services and infrastructure.

There has been a shift towards greater prescription from both central government (e.g., with respect to assessing housing need and the role of the local plan) and the GLA. While some prescription is arguably necessary if strategy is to work, boroughs and others say too much top-down direction makes it harder to undertake local initiatives and use local knowledge effectively, particularly given that boroughs continue to be responsible for planning. If the respective roles of the various levels of government are not clarified in a consensual way, at worst we could return to a version of planning by appeal. This would be disastrous for any significant acceleration in development.

Local authorities must bring their communities with them and not simply kick decisions into the long grass because of concerns about local politics. NIMBYism is perhaps the area where the atmosphere has changed the least and its costs deserve far more recognition. Linking infrastructure more closely to development and far greater interaction with the full range of voters (not just those always prepared to come forward) are both absolutely necessary.

The Green Belt and access to open space

The strong commitment of central government and the Mayor to protect the Green Belt from residential development may be politically expedient or even inevitable, but it clearly is not the way to maximise development on accessible sites within or outside the London boundary. Given that more than 20% of London's own land is designated as Green Belt, authorities outside London may well feel unwilling to help solve London's problems when there are unused opportunities within the boundaries of the capital (Mace et al 2016).

But even here there are signs of change, with many Green Belt reviews and discussions about swaps. Going forward, wherever major infrastructure changes accessibility and provides benefits to communities there should be a review of the costs and benefits of modifying the designation of affected land — with the full understanding that any Green Belt acreage lost should be replaced by more environmentally valuable land.

Another approach that is gaining momentum, which reflects a growing understanding of what urbanites most value in terms of open space, is to incentivise private developers to provide high-quality open space and amenities in large scale developments and to allow public access.

Property tax reform

In most advanced societies, local governments use annual property taxes to fund services and infrastructure including affordable housing. London boroughs and indeed local authorities across the country are working with one hand tied behind their backs because they only have access to S106 and CIL. Many decisions are therefore made at the centre. Equally, new homes bear a disproportionate tax burden as they are the only properties contributing to infrastructure while existing dwellings get the benefits of development but pay nothing. A more coherent local government/property taxation system is almost certainly a pre-requisite for well operating housing markets.

A more effective political voice for housing

At the moment there are probably too many voices speaking at once, and it is not clear that any has the political power to effect change. Theresa May has called housing the government's highest priority (after Brexit) and since 8 January, Sajid Javid has officially been Secretary of State for *Housing*, Communities and Local Government—the first time the word 'housing' has appeared in a Whitehall departmental name since 1970. This gives the issue a champion to fight for necessary resources in the cabinet.

One of the biggest issues is the position of London. Inherently governments tend to favour middle England, perhaps feeling that London can always stand on its own feet. This is particularly the case when central government revenues are at stake. Yet most commentators argue strongly that housing should really be a regional or local matter which would be best devolved, along with tax sources, to London's government (London Finance Commission 2013, 2017).

An emergency package

Relatively few of the policy changes that have taken place over the last three years have done much to help younger working households, who on current projections will generally be worse housed in 2039 than in 2011 (Scanlon et al 2015). Our work suggested there were ways of identifying additional land, finance and even construction resources, by changing the mix of skills required. In our previous reports we put forward the idea of an emergency housing package directed at the young-adult market — especially as this particular group is arguably a core part of sustaining the London economy into the longer term. But clearly any initiative must be closely integrated as one important strand of London's housing commitment. We intend to work with relevant stakeholders to explore ways of taking this forward.

6. The way forward - a London housing summit?

Why now?

Given the evident commitment from all stakeholders it may seem there is little need for further discussion. But with so many different initiatives; so many barriers, large and small, still holding up development; and so many continuing tensions (which could well worsen as the economic and political environment changes), this may be THE time to sort out how best to implement that commitment.

What would it do?

A serious London housing summit would bring together all the relevant actors to debate the reasons behind the supply unresponsiveness, agree common goals, and – importantly – publicly commit to a common plan of action.

This is not to suggest that there are no existing communication channels—there are plenty of one-to-one conversations amongst the different nodes of the system (developers lobby central government, boroughs talk to housing activists, financiers deal with BTR operators). And there are established networks like London Councils, the LCCI and London First, as well as special interest groups of every variety. They are all useful and necessary and we are not suggesting they be circumvented. In addition, there have been a large number of commissions, enquiries and reviews into various aspects of housing supply (Annex 1). These have improved our understanding of the issues and many of their recommendations have been taken up.

However, there is no forum for all the main actors to make their points to each other in the same debate, leading to a negotiated outcome, which is what a true summit offers. The focus would not be on fact finding – we already know plenty of facts—but rather on integrating all the different elements. We have argued that London housing supply is a tightly interlinked system, but that it is difficult to have an overview of it works at system level. A summit would let us start to develop a more holistic view, as participants could explain

- how the problem looks from their perspective – the assumptions, procedures, constraints and red lines that they take for granted but others may not understand
- their own ideas for how to improve things
- how they would be affected by other proposals on the table

- the second- and third-order effects that might not be foreseen.

A summit is also about deal-making. It would not lead to full consensus as there are inherently conflicting interests, but the goal would be to reach an agreement, not just produce another report. There are big potential benefits to such an approach: those involved feel like they have been listened to (Grenfell underscores the importance of this); participants would buy into a programme they agreed, rather than feeling policies were imposed on them; and the concentration of different types of expertise could lead to some genuine innovations.

Colleagues at LSE's Grantham Institute have looked at how best to organise summits to achieve agreement. Their findings, drawn from close observation of a series of UN climate change summits, are also more widely applicable. The event should be organised by a neutral host organisation, with a secretariat that focuses on facilitating the negotiation rather than dealing with detailed questions of policy content. The discussion and negotiation process should be transparent and inclusive to ensure all parties can contribute and feel that their views are heard. And summit organisers should enable 'constructive arguing', which

...lets negotiators from different parties mutually reveal information about the interests that underlie their positions and provide a rationale for possible solutions. (This) allows those involved in negotiations to consider interests more comprehensively and to craft a deal that is acceptable to all. It can also make parties more amenable to new solutions and compromises. (Manheim 2015, p. 3)

Who/What/When/Where?

Who would organise such an event? The GLA might seem an obvious choice, but as they are key summit participants it would be inappropriate for them to play this role. The lesson from international discussions is that a neutral third party is required.

Who would need to be there? An initial list would include

- A clearly independent chair – probably not from the housing fraternity
- Central government at ministerial level
- The Mayor
- The boroughs

- Private developers
- Housing associations
- The construction industry and architects
- Civil society — including representatives of tenants and neighbourhoods
- Financiers and investors
- Landowners

The most difficult challenge would be to secure commitment from the right people. A summit that is intended to produce an action programme needs to include people with the ability to make commitments. In the private sector this means chief executives, and in the public sector it means politicians. They would need to buy in to the process although would almost certainly not attend the whole event.

A summit involves a concentrated set of meetings and discussions in a single venue, over a few days or even a few weeks — it is an event, not a series of hearings or a virtual process. Given the need to secure commitment and get it into diaries, not to mention the preparatory

work that would be required from secretariat and participants, autumn 2018 is probably the earliest feasible date.

Where would it take place? In London, of course.

And finally—taking the outcomes forward

The role of the summit is to agree a long-term agenda to meet the needs of all Londoners, together with a plan of action to carry it forward. Progress then needs to be monitored, emerging problems addressed and opportunities realised. This follow-up work could be done by a body modelled on the Private Rented Sector Taskforce, which included specialists with a remit to work closely with the market and all other relevant stakeholders. We commend this approach.



Site visit, Battersea: south bank of Thames looking toward Battersea Power Station. July 2017

7. Conclusions

London's housing crisis is a result of the city's success. The problem would become more tractable if London were to become less successful, but that is an argument of despair. What the UK needs is a well-operating capital city that grasps opportunities and attracts in-migrants who can improve productivity and wellbeing. That means building a lot more homes to meet the needs of all types of households. New housing should be directed not just at those who can easily afford to pay or at those who qualify for social and affordable housing, but especially at younger households struggling to find somewhere to live that is affordable, of a reasonable standard and not overcrowded. A specific programme to house such households, with industry and City support, could draw in additional resources to give London's workers a fairer deal.

We have made progress in understanding what barriers must be removed in order to achieve the large step change required. Output has increased, but is not on a trajectory that will reach the targets set out in the draft London Plan. We now need to move beyond individual policy initiatives, fundamental as they are, to think more rigorously about how the multitude of policies (often enacted by different levels of government) interact; how we can monitor progress; and how we can generate much higher investment levels and sustain them over time. The need to adopt a whole-system view seems an obvious, indeed almost trivial, point. In practice, though, it is tremendously difficult - and absolutely necessary.

Looking at the issue holistically suggests the system will almost certainly need greater structural change than is currently envisaged: more of the same will not be enough.

Equally we must address the issue of sustainability. We must be poised to take advantage of any downturn, rather than allowing market reactions to reinforce volatility. This means making policy more agile and building in greater flexibility in funding arrangements. Importantly, we must recognise that land values alone cannot pay for all the infrastructure and affordable housing the city needs, and the gap will be bigger in a falling market. This has important implications for policy.

The White Paper acknowledges 'that the housing market is very different in different parts of the country', and says government needs 'to back mayors and local leaders to deliver in their areas for their communities. We will work with local authorities to understand all the options for increasing the supply of affordable housing.' A London Housing Summit could help decision-makers move from commitment to implementation and put in place a more detailed map of how to achieve London's housing goals.



Elephant and Castle: view towards Two Fifty One Southwark Bridge Road. December 2017

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Annex 1: Selected reports, commissions and inquiries into housing supply

- [Delivering sustainability: securing out future housing needs, HM Treasury](#), Barker, K (2004)
- [Housing Supply and Affordability](#) (2006) ODPM Select Committee Inquiry - Cm 6912.
- [Review of the barriers to institutional investment in private rented homes](#) (2012) Sir Adrian Montague, DCLG
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- [Mobilising across the nation to build the homes our children need: The Lyons housing review](#) (2014) Sir Michael Lyons
- [The Elphicke-House Report: From statutory provider to Housing Delivery Enabler: Review into the local authority role in housing supply](#) (2015) Natalie Elphicke and Keith House DCLG
- [Lyons Housing Commission – Update Report](#) (2016).
- [Building more homes](#) (2016) House of Lords Select Committee on Economic Affairs Report of Session 2016–17 HL Paper 20
- [Building A New Deal For London](#) (2016) London Housing Commission and IPPR.
- [Housing: State of the Nation](#) (2017) House of Commons Committee of Public Accounts Sixty-third Report of Session 2016–17 HC 958

Annex 2: Some recent proposals for increasing housing supply

Organisation	Proposal(s)
Centre for Cities (Sept 2017)	Build on the green belt
Various architects in NLA competition (2015)	Design solutions including floating homes, shells to be completed by occupiers, flats over public buildings, regeneration of infill sites in estates
London First	A range of proposals: reconsider green belt, support densification, better use surplus public land, make use of incentives and penalties
Mark Boleat/Housing and Finance Institute (Oct 2017)	Look beyond brownfield land, permit higher densities, public bodies to release surplus land, simplify CIL and S106 and reduce required % affordable housing and exclude councillors representing affected areas from voting on planning applications
World Architecture News Urban Challenge (2017) – 25 international architects	Create database of public land; form mayoral housing development corporation to capture land value; rebrand social housing and replace S106; introduce design code linking higher densities to better design; designate housing supply as infrastructure
RTPI (not exclusive to London) (February 2017)	Offer ready-permitted sites to SMEs; keep housing associations building; get the public sector building; allow local authorities to intervene in land market and capture land value
WSP Engineering (Nov 2017)	Use engineering techniques to build blocks over railway and tube lines
Policy Exchange (Feb 2016) Policy Exchange (September 2016)	Improve CPO powers and invest in large-scale build-to-rent using MMC; prioritise street-based development over high-rise blocks to produce better places and reduce neighbourhood opposition
London Assembly (August 2017)	Use off-site manufactured homes and government should invest more in factories to build them
Liberal Democrat mayoral manifesto (2016)	Continue Olympic precept and use funds to build homes
ResPublica + 5 housing associations (not London specific) (July 2017)	National Housing Fund: Government to borrow at low interest rates to allow housing associations to build homes for rent
Yes in My Backyard (London YIMBY) (August 2017)	Let individual streets decide about new development; let neighbourhoods or parishes amend their green belt; devolve power to change land use to city mayors
PUP Architects (August 2017)	Install micro-prefabs on top of existing buildings
Create Streets (May 2017)	Create a series of low rise, high density traditional towns along the banks of the Thames Estuary

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