

**Written Submission from LSE London (London School of Economics, ID 845)  
for consideration in the Examination in Public of the New London Plan, 2019**

**Matter M24: Affordable housing**

***General remarks***

The London SHMA has found that 65% of London's need is for affordable housing, and the Mayor's strategic target is for 50% of new homes to be 'genuinely affordable'. This is a strikingly ambitious target, especially given the Plan's emphasis on low-cost rented homes (social rent/London Affordable Rent), which require the highest levels of subsidy.

There is no doubt that there is very high unmet demand for lower-cost housing in London, especially if we accept the assumptions of the Plan (some of which are implicit):

- that those who now live in the capital should be able to find housing in the areas where they currently live, regardless of their income or other circumstances;
- that lower-cost housing should be available across the city;
- that almost all new housing should be mixed in terms of income, unit size and tenure and that this mix should be at the level of individual buildings or schemes; and
- that lower-cost units should be indistinguishable (at least externally) from market units.

All of these are legitimate political goals that reflect the lessons of historic failures of urban planning and governance; some are dictated by national planning policy. However, they are all choices that increase the challenge and sometimes the cost of providing affordable housing, and raise issues around who pays.

*The responses below address certain sub-questions of Matter 24.* The questions ask about the effects of specific, individual affordable housing policies, and we have responded by addressing the expected effects of each policy in isolation. As the Plan and the Mayor's Housing Strategy make clear, policies H5-H8 are part of a wider suite of policy measures including grant funding and intervention in the land market, so they will not in fact operate alone. We make a few comments about how certain policies can be expected to interact, but it is for the panel to consider how all the measures will work together.

***Questions re Policy H5 (Delivering Affordable Housing)***

*b) Would the strategic target of 50% of all new homes to be genuinely affordable be justified in light of the identified need?*

Judged purely against need and without regard to deliverability, or indeed alternative approaches to subsidy, the 50% target looks reasonable and indeed is not high enough. The Plan itself makes this clear: even if the capacity numbers were to be achieved in practice (which, as we say in other submissions, is extremely unlikely), and the strategic target were to be met immediately, this would imply production of 33,000 affordable units/year (50% of 66,000). But the SHMA identifies a need for 43,500 affordable units per annum, so even on these highly unrealistic assumptions the policy, in

isolation, would leave a shortfall of 10,500 units per annum. Actual numbers of new affordable homes are likely to be much lower, so the true gap will be greater.

*c) In requiring major developments which trigger affordable housing requirements to provide affordable housing through the threshold approach, would the policy be effective in delivering the quantum of affordable housing required?*

No, not on its own. The Plan's affordable-housing policies set the strategic framework for boroughs' use of S106, through which they can require developers to provide a proportion of affordable housing as a condition of receiving planning permission. This mechanism has in recent years become the main channel for provision of new affordable homes. S106 is in effect a hypothecated tax on development.

Compared to its predecessor, the draft Plan increases the proportion of affordable housing expected through S106 by introducing a threshold significantly higher than the average previously achieved—and higher still for developments by housing associations and/or on public land. It also provides new guidance about how the total amount of affordable housing should be distributed, requiring that each scheme produce at least 30% at social or near-social rents (the highest subsidy level).

To meet the requirements developers would have to generate higher profits to cross-subsidise the affordable housing or pay less for the land. Evidence is already available that there is land that is not coming through into development, some because it was bought before the target was introduced and some because landowners now see less benefit in selling. The policy's eventual effect on the quantum of new affordable housing would depend on how responsive landowners, developers and consumers are to changes in costs and prices.

Realistically, the policy on its own would be unlikely to result in a significant increase in the overall *number* of affordable units, and could indeed cause the number to fall. The adoption of higher affordable-housing expectations through the threshold approach might however increase the *proportion* of affordable homes produced (although not up to the 50% level).

*d) Would the approach to affordable housing providers, public sector land and industrial land be justified and effective?*

The discussion below relates to public-sector and industrial land. We express no view as to whether the approach is justified, as this is a political decision. We assume that the definition of an 'effective' policy is one that would lead to up to half of new housing on (former) public land being affordable. Thus by definition an effective policy must be expected to lead to higher overall production of housing on (former) public land. The policy might be effective in the first sense but in our view is highly unlikely to be effective in the second, as it will reduce the financial incentive for public landowners to release land for development.

The Plan's justification for the 50% target is that 'as public assets, these landholdings should be used to deliver development and outcomes that are most needed by—and matter most to—the public.' The Plan performs an important signalling function, conveying the Mayor's strong view that public

landowners, whatever their functions, bear some responsibility for alleviating London's housing problems.

The range of public-sector bodies with landholdings is broad—from schools and prisons to NHS trusts and the Ministry of Defence. Most have core missions that do not involve housing. Landholdings not required for operational purposes are assets that might be sold or leased. When public bodies sell land, their goal (and normally legal responsibility) is often to secure the maximum price for it, to provide funding for their core activities. The ongoing squeeze on public-sector finance has increased the incentive for public landowners to maximise receipts from asset sales.

The 50% threshold for affordable housing on public land can be expected to reduce the capital value of public holdings of developable land in London. This is intentional and is what is meant by 'embedding' the threshold numbers into land values. How public landowners will respond to this change in incentives, and to the Plan's political message, will depend on their expectations about how long the policy will last and how rigorously it will be enforced, and on their own strategic goals. Many of these institutions do not routinely audit their landholdings so by default would not consider selling it for development (or developing it themselves). Some institutions regard their land as a strategic asset and source of future revenue. Landowners that aim to secure the highest price for their land may decide to hold it off the market in the hope that policy will be relaxed in future. The Plan seems implicitly to assume that the 50% affordable policy will not affect the rate at which public land is made available for development. The Mayor can direct his own organisations to make land available for housing and has done so for example with TfL, which has had to accept the tradeoffs involved. However most public landowners are not under the Mayor's control.

As for industrial land, the 50% threshold reduces the incentive to move industrial land to a higher-valued use. This may be in line with the Mayor's overall strategy but clearly has not been assessed in cost-benefit terms. The requirement is likely to reduce the land made available for housing.

### ***Questions re Policy H6 (Threshold Approach to Applications)***

*a) Would the threshold approach to viability, with a fast track route and viability tested route, as set out in policy H6, be justified and effective? Would the threshold level of affordable housing as set out in Policy H6B be justified and effective?*

One of the main goals of the threshold approach is to increase certainty/reduce risk, with the hope that this will speed up the process of agreeing planning permission and accelerate overall development. Our research into the barriers to faster housing delivery in London have identified protracted planning negotiations and complex requirements for developer contributions as a significant issue, especially for large schemes. This policy introduces greater clarity, both about the overall level of developer contributions to affordable housing and about the split within the overall total. This greater certainty is to be welcomed, subject to the concerns raised above.

The question of whether these targets are set at the correct level is not straightforward. They clearly would not produce the required amount of affordable homes even if the overall total of 66,000 were achieved. On the other hand, higher targets increase the chances that land will be held back, as

discussed above. In our discussions with key stakeholders before the target was introduced, they said that a target of thirty percent was more likely to enable the required total to be achieved.

One issue that has not been much discussed is how the emphasis on small sites might affect the capacity to achieve target levels. Small sites generally produce a lower proportion of affordable homes than do medium to larger sites for a whole range of viability reasons. The expectation for greatly increased production on small sites is a further reason why we might expect the outturn of affordable units to be lower than implied in the Plan.

Finally, changes in national policy on CIL and S106, as well as Mayoral CIL, all put more pressure on the residual available through S106 for affordable housing. Policy makers are looking to fund more infrastructure through CIL; this almost inherently will reduce the amount available to cross subsidise affordable housing. Overall therefore the likelihood is that it will become harder to achieve the target proportions identified in the NLP.

### **Questions re Policy H7 (Affordable Housing Tenure)**

*a) Would Policy H7 be effective in delivering the tenure of affordable housing to meet the objectives of Policy GG4?*

*c) Would the preferred affordable housing tenures be justified and effective in meeting identified need?*

This is another area where the many objectives with respect to delivery of affordable housing are likely to be inconsistent with one another. The provision of social rented housing requires far higher levels of subsidy than either affordable rents of other types or affordable home ownership, which can often be provided without subsidy additional to S106. If the proportion of social housing is to be increased then the numbers achievable purely through S106 are likely to be lower.

This is reflected in research done by the University of Liverpool for MHCLG<sup>1</sup>, which shows that while over 30% of the financial value of S106 affordable housing agreements was in London, this only generated around 17% of the total numbers of affordable housing provided across the country. In S106 contribution terms, one London affordable home on average cost around 80% more than the average for the country as a whole – showing that London affordable housing is very expensive to provide, especially at social rents. It is therefore likely that the emphasis on social rented housing, however much it is justified in need terms, will actually reduce the total quantity of housing made available over the period of the NLP.

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<sup>1</sup> Lord, A., Dunning, R., Dockerill, B., Carro, A., Burgess, G., Crook, A., Watkins, C., & Whitehead, C.M.E (2017) *The incidence, value and delivery of planning obligations in England in 2016-17*, London: Department of Communities & Local Government

**Questions re Policy H8 (Monitoring Affordable Housing)**

- a) *Would Policy H8 provide an effective framework for boroughs to monitor affordable housing?*

Here we raise only one issue. If the measure of affordable homes targets is to be in terms of habitable rooms for reasons to do with mix of dwelling types etc, then it seems to us (and we may be missing something?) that it will be extremely difficult to transpose this into units, as required for determining whether the policy has led to production of the numbers of affordable homes identified in the needs assessment.