



Briefing Notes



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New Housing and the London Plan

What do we know?

London's population in 2011 at 8.2 m only just exceeds the population in 1951 – but falling household size and much higher incomes means far more housing is required

Between 2001 and 2011 the population grew by 14% but the number of households only went up by 8%, increasing densities to the point where household size rose for the first time (from 2.4 to 2.5) and headship rates among younger households fell sharply.

The Mayor's Housing Strategy called for 42,000 homes a year to be built in London over the next 20 years, based on the SHLAA. The Mayor's London Housing Market Assessment (SHMA) now identifies 49,000 as needed to meet requirements. Other research calls for higher figures – for instance London Councils' research estimates 52,600 homes a year are needed and our own estimates suggest an even higher figure especially if there is continued economic growth.

None of these figures would even maintain current rates of household formation let alone improve conditions. If supply cannot keep pace with demand, population growth and especially household numbers will fall.

London has not achieved anything like these output levels in any year since the 1930s. The post-war peak was 37,400 homes in 1971. In the 1990s London managed an average of 15,000 units per annum. In 2005/6 completions rose to over 25,000 but fell back sharply after the crisis and are only just coming back above 20,000.

What are the issues?

Allowing for higher densities, Opportunity Areas and more industrial land being brought into residential use the London Plan now suggests that the land can be found for at least 49,000 units per year. In planning terms there are strong signs of increased activity with planning permissions well above target levels and 216,000 units in the pipeline.

However:

Current policy relies heavily on large sites which are slow to build out –Molior in 2012 found that of roughly 210,000 new homes in the pipeline 180,000 permissions were tied up in 148 schemes of 250 houses or over, implying that a more 'realistic' planning pipeline was 50,000-70,000 homes per annum during the next three years if EVERY scheme began building immediately.

The 2014 Molior update now suggests that, redefining 'big schemes' (as over 20 units or more), housing starts are much more in line with the number needed to achieve the 49,000 requirement. The problem has therefore shifted from permissions not starting to starts not generating completions – which fell last year. Some of this can be put down to traditionally low build out rates to maintain prices on the site– but this can only be part of the story. So an immediate question is – are we witnessing a slow build-up to a step change in output levels or are we just moving back to past levels of output (or maybe even less given the reduced numbers of developers)?

Demographics, finance, interest rates and the role of London in the global economy all to a greater or lesser extent drive the housing market in London. If London is to remain an attractive and vital hub of the UK economy it must be able to attract and house its workforce. The demographics on which planning figures are based continually call for more; finance for development has become easier over the last two years but is still unavailable for most smaller builders; interest rates are likely to rise; and no-one would want London's competitiveness to be eroded. So there are positives and negatives – but nothing which yet suggests a sustainable step change in investment.

There is a great deal of comment from the Treasury among others that planning is the main factor getting in the way of housing delivery. Given the numbers in London this would not appear to be the case – or at least not the full story. Whilst developers have noted that planning can be slow, most report a good relationship with local authorities. Major planning related concerns seem to revolve around project viability (given planning obligations), some slowness in negotiating reserved matters and a degree of uncertainty caused by numerous shifts by central government in the architecture of planning.

Proposed solutions include:

- Strategically releasing suitable greenbelt sites to increase the supply of available land
- A more stringent approach to permissions leading to a “use it or lose it”/ “build it or bin it” framework that sets targets on completion timelines
- Repackaging large sites to ensure a number of developers working together
- Encouraging more medium sized developers/ more diversity in the market to increase capacity and indeed competition.
- In particular identifying funding streams for smaller builders to develop windfall sites which in the past have contributed a significant proportion of completions in London.

Improving Private Renting

What do we know?

In 2011 some 26.5% of London dwellings were rented (vs 16.7% in the rest of England) —a near-doubling from 12.7% in 1991. The main drivers of this shift to private renting include London's population growth (both natural and through migration), its age profile (the capital has higher proportions of young people and students than the rest of the country), and the fact that would-be first-time buyers face increasing house prices and tightened mortgage conditions.

On the supply side, deregulation of rents in 1988 and the introduction of buy-to-let mortgages in the mid-90s boosted investment in the sector. Although there are a few companies with significant PRS holdings (Grainger being the largest), most landlords are private individuals. Most PRS lets are Assured Shorthold Tenancies (ASTs); these generally last for 6 or 12 months, after which the landlord can ask the tenant to leave.

There is enormous variation across London in the scale of the sector: in four wards in Westminster over 56% of households rent, but in much of outer London (especially Croydon and Bromley) the proportion is under 10%. Similarly, the median monthly rent in London in 1Q2014 was £1300 but the borough figure ranged from £2350/month in Kensington & Chelsea to £822 in Barking and Dagenham.

What are the issues?

Private rented housing in London is easier to find than in many comparable cities internationally, and the stock is growing—both of which are good. But the sector, which was traditionally seen as most suitable for the young and mobile, is now increasingly accommodating families and other households who would prefer a permanent home but cannot buy their own. And rents have been rising—average private rents in London rose 1.4% in the year to June 2014, according to the Office for National Statistics' index of private rents—but rents for *new* lets have risen by about 8%. This has led to calls from politicians and others for the reintroduction of rent regulation, which was abolished for new leases in 1989. Others counter that this would lead to disinvestment, particularly given that many UK landlords seek capital growth rather than steady income streams.

Government has long wanted financial institutions to get involved in the PRS in order to increase new investment, drive up quality and introduce more professional management. On average standards are improving but still seen as worryingly uneven. Institutions have been wary--the returns are not high enough given perceived risks (including reputational risk, a genuine issue) and the lot sizes of existing portfolios are too small. On the other hand there has been strong interest from overseas investors who buy new-build flats off-plan and rent them out, as many new schemes are marketed first—or sometimes only—in the Far East.

Institutional investors could be attracted if more PRS-only blocks were available, as the lot sizes would be big enough and they lend themselves to efficient professional management. Such blocks are typical in many countries but haven't been built here since the 1930s. The rest of the country is now looking to London, where there are some new PRS-only blocks; the best known is probably the former Olympic athletes' village in Stratford, whose PRS component is known as East Village. But PRS-only developments are hard to deliver here because the valuation of land is driven by owner-

occupation, and they only work in certain locations—good transport access etc—where densities can be high.

Historically, many of the low-income/vulnerable London households who couldn't get into social housing lived in the private rented sector, with their rents paid by housing benefit. Now, though, caps on Local Housing Allowance for new leases mean that tenants on housing benefit will no longer be able to afford to live in large parts of central and inner London.

Proposed solutions include:

- Educating landlords and tenants alike about the benefits of both longer leases and certainty about rent rises
- Encouraging buy-to-let lenders to follow the example of Mortgage Express (among others) and stop requiring that properties be let on short tenancies
- Requiring that some new-build blocks be used as private rental for a specified period ('covenanted private rental')
- Exploring whether the model of purpose-built student accommodation could be employed to accommodate other types of household
- Re-imposing rent regulation.

The solutions depend, of course, on how the problem is defined—and the solution to one problem (say, tenure security) might worsen another one (say, affordability).

Alternative Housing in London

What do we know?

London's housing—of all tenures—is widely considered to be a sphere of growing inequality and unaffordability: it is the most expensive in the country, an increasing number of potential households cannot form because of the extent of housing pressure and there is far more overcrowding than elsewhere. The increased cost of home ownership and private renting has put them out of reach for many, while social housing and other accommodation options for the most vulnerable are either largely inaccessible or penalized.

This is the setting in which alternative housing logics, models and practices have developed. 'Alternative' housing includes

- experimental and utopian schemes including co-housing and self-build, as well as
- technical solutions like live/work units, so-called 'flat-pack' housing and conversions (the Mayor's Housing Strategy Report states that conversions from industrial or commercial to residential uses have contributed more than new-build to the net increase in London's dwelling stock).

While some of these innovations are profit-driven, at the core of most alternative housing is a commitment to delivering community-driven housing forms or using participative methods in order to foster engagement, affordability and sustainability (both social and economic). Many schemes also espouse environmental goals.

Recent policy developments have created a more favourable environment for such initiatives. The 2011 Localism Act placed a certain amount of power into the hands of community groups, which could motivate the development of alternative physical, social and financial structures for housing. In 2012, the GLA proposed a new 'Build Your Own Home – the London Way' grant that would facilitate seed-funding for custom and self-build homes in the capital. The HCA has been particularly supportive of community-led developments and self-build initiatives through investment funds that seek to incentivise larger-scale production of custom-build projects. Its 'Community Right to Build' programme, implemented in phases, has combined financial support and planning flexibility for community groups with funding and legal obligations for local councils. At a national level DCLG has made some funding available for community self-builders; has issued guidance to councils which is intended to increase land availability; and has somewhat modified the tax regime. Most recently, DCLG has been making use of use of prefabricated off-site construction techniques, building modular passive houses for single people in housing need at affordable prices without requiring capital grant. Importantly the new Housing Zone prospectus emphasises the use of innovative techniques to speed up and diversify construction using off site construction and custom build approaches.

What are the issues?

Existing alternative housing practices can contribute to addressing London's supply crisis, but their role is marginal in relation to mainstream market models. We need a better understanding of what makes for success if these models are to be scaled up.

The major issue for developers of (socially) alternative housing, particularly in London, is finding a site. Alternative providers are often unable to compete with commercial developers, who will pay a price that reflects the value of standard residential development on a particular site.

‘Community Right to Build’ and other government initiatives are steps in the right direction. It seeks to increase the supply of alternative housing by giving local authorities incentives to bypass strictly profit-making developers in favour of community groups. But while the investment and support it provides are welcome, it raises questions regarding the way in which planning processes deal with short-term goals. If alternative housing is to be viable in the long term it needs to be based on bottom-up resident and community participation.

Proposed solutions include:

- Improving access to finance for both developers and final purchasers of alternative housing
- Identifying and removing barriers with respect to tax, partnership working and building regulations
- Creating a body of empirical knowledge about what works and what doesn’t
- Making land available to self-builders and other alternative housing providers
- Educating planners about the particular characteristics and needs of alternative development types
- Including social participation and social return on investment in the valuation of housing

The Role of Foreign Money

What do we know?

International investment in the UK economy is normally highly prized. However international investment in residential property is at best regarded with suspicion and at worst seen as a disaster.

The majority of statistics on the role of international investors in residential property come from the major estate agents and concentrate mainly on prime locations in central London. One big issue in understanding these statistics is that the definition of prime changes over time so longer term comparisons are difficult to interpret. Thus when they say that the proportions of overseas buyers in prime locations at around 38% in 2013 is exactly the same as in 1990 and perhaps lower than the 1980s, like is not being compared with like. What is clearly true is that the proportion rose rapidly after the financial crisis – in part because the total number of sales dropped dramatically as UK buyers withdrew from the market.

The proportion of new build in central London that is sold to international buyers is far larger than for existing units. Savills figures suggest that re-sales account for nearly 80% of the overall prime market and that over 60% of these buyers are from the UK. In the new build market however they assess the proportion of international buyers at over 70% (some other estimates are lower). Within this group the majority are being purchased to let; nearly 30% for main residences and 16% as second homes. Other figures suggest that perhaps 40% of new build in central London was purchased by Asian buyers who are normally looking for a rental return. As importantly a clear majority proportion of international buyers are resident in the UK and large numbers who are non-resident have strong economic and social ties with London. This and other evidence suggests that the ‘lights out in London’ issue is mainly confined to a relatively small part of the highest end areas of central London – where indeed there are clear signs of changing patterns of ownership and declining demand for local services.

Outside central London the proportions of international buyers of new build property is very much lower – at perhaps 20% for inner London and well under 10% in outer London. Given that the vast majority of new build is outside central London and the proportion of total sales that are new build is well under 20% the proportion of international sales is probably little more than 5 – 7% and falling as total housing transactions rise.

Finally sales under £2m seem to be continuing fairly briskly – although more slowly than in the last couple of years. Sales of properties over £2m have declined with many being withdrawn until post-election policy is clear.

What are the issues?

There are quite a number of issues raised by the flow of international money into the London property market – some of which are good and some bad. It is not a simple story.

The bad aspects are the ones that have been stressed in the media:

- international money pushes up demand and therefore prices excluding UK residents from the market. The evidence suggests that there have been big effects at the most expensive end of

the market concentrated in prime locations within central London – but the impact on the London market overall, while real is small;

- international money increases vacancies. As noted above, this is certainly true in some parts of prime central London but the vast majority are occupied. Vacancy rates in central London have been high since records began in the mid nineteenth century. There is little evidence that they are higher;
- international money may leave as fast as it has come if the value of the currency changes and confidence in the UK economy and the stability of the system is seen to be at stake. Certainly the reasons for investment are not as simple and for most UK residents this could in principle be a source of volatility.

The good aspects are mainly concentrated on the impact of international money on supply:

- international money saved the development industry after the crisis not only because it increased demand but because international buyers were used to off-plan sales and therefore supported the cash flow necessary for development. The evidence on this is strong – but it was mainly limited to central London and to large-scale apartment developments;
- international money has helped maintain the flow of affordable homes by unlocking market development. Again the evidence suggests that some thousands of affordable units have been brought forward – but it is also true that the proportion of affordable homes in these large developments is often quite small;
- international money is leading the surge in investment in large scale private rented developments with the emphasis on longer term leases and predictable rent increases. Again it is clearly true that much of the early interest came from institutions based in countries with experience of this type of renting – but few large scale private rented developments are yet on the ground.
- international money is looking for good management of the buildings and the environment and will help professionalise management of both private renting and leasehold developments. The pressures for this are undoubtedly there but the real impact cannot be judged in the short term.

Proposed solutions include:

- Those that have been raised in debate are mainly to reduce the negative impacts of international money. These include (with no comment as yet!):
- Banning non-resident sales as has been done in a small number of other European countries - possibly limiting the ban to some price ranges/locations;
- Requiring that all developments be offered for sale in the UK(either as well as abroad or exclusively)
- Restructuring taxation to ensure a flat playing field between those buying offshore and resident buyers (or to disadvantage off-shore sales);
- A mansion tax on high end housing in London;
- Restructuring property taxes to increase taxation on higher priced dwellings;
- Increasing the tax on vacant units to incentivise letting out empty properties;
- At the limit compulsory purchase of units held empty for a long period;

Those addressing the positive aspects mainly relate to bringing institutional investment into the private rented sector and have been discussed in that briefing note.