

BRIEFING



London Mayor's Housing Strategy: 20 November 2008

25 Nov 2008

Overview

Boris Johnson's first Housing Strategy continues many of the policies begun by his predecessor, namely the continued protection given to the Green Belt, higher environmental, design and space standards and the target of 50,000 affordable homes by 2011. Where he departs significantly from Ken Livingstone, however, is in his intention to increase the proportion of intermediate homes to those for social rent. This policy reflects a more traditional Tory interest in extending owner-occupation, but it also reflects an anxiety to reverse the trend for middle-income households to move-out of London to meet their housing needs. But there is also a social policy dimension to this: the intention to help dilute the concentration of disadvantage in certain more deprived boroughs: a policy which echoes the Government's recent announcement of its intention to move away from the principle of council housing tenure for life.

The other significant change is the proposal to abandon the affordable housing target (although some boroughs, such as Greenwich, Tower Hamlets, Newham, Barnet are left with very high numerical targets which could raise questions of tenure delivery priorities) as well as the supply of more subsidy and public sector land to ensure delivery.

As promised in his election manifesto, Boris Johnson is still suggesting a policy preventing back-garden development, but unlike his pre-election statements, his draft policy 2.2c suggests that he might adopt a slightly less absolutist line on this question, by recognising there might be 'strategic' instances when it might be necessary to build-out back-gardens. Clearly this is an issue of concern for members, since back-gardens provide an important source of land supply within the capital. As the strategy notes, in 2006 alone, 1,113 new homes were built on garden land.

Until adopted, borough policies will continue to be assessed against the London Plan policies. Thus a note of caution: even if the 50% affordable housing target is eventually dropped, boroughs will still be required to seek to capture the maximum reasonable amount of affordable housing from a development. Boroughs will also need to take into account the policies of the Housing Strategy which will be a material consideration once it is finalised. The draft Strategy is draft until the London Assembly and the public have been separately consulted. Adoption is anticipated no sooner than the Summer/Autumn of 2009. In the meantime, adopted London Plan policies still apply.

Key features

1. The housing target remains at 30,500 net additions per annum to 2016 (a total of 305,000). The Strategy suggests that up to one third of these (100,000) can be provided in the Thames Gateway. Clearly the Mayor, like his predecessor, favours this as a solution rather than intensifying some outer suburban boroughs, given the unpopularity of this politically. Over half of London's housing pipeline is concentrated on just 200 large sites, many in the Gateway. However, on page 82, the Mayor acknowledges that developers may be reluctant to acquire the far more speculative sites in the Thames Gateway.
2. London's population is expected to grow by a further million people by this date, with household formation growing at a faster rate, reflecting the success of the south eastern economy. Work is underway through the London-wide SHMA and SHLAA to develop fresh housing targets for up to 2026.
3. The Strategy acknowledges the desperate need for more homes in London to improve affordability and retain more families and middle income households in the capital.
4. The strategy reiterates the Mayor's electoral promise to abolish the 50% affordable housing target. The Mayor has already renegotiated borough affordable housing targets. Instead, a more flexible approach is encouraged with LPAs "encouraging rather than restraining residential development, taking into account the individual circumstances of the site" (page 21).

The Mayor has carried forward his predecessor's target and aims to achieve 50,000 affordable homes by 2011. However, actual delivery is favoured above rigidly pursued percentage based targets. But what quite comprises this figure of 50,000 affordable homes is very hard to establish. The HBF has been told by the GLA that it expects three quarters of these 50,000 homes to be net new builds. The *non new build* element (very roughly 12,500 homes) will include not just intermediate market purchase homes but also, and somewhat confusingly, a significant number of acquisitions of existing properties for social rent including unsalable market stock (i.e. new builds, but not ones commissioned by RSLs). It becomes apparent then that the GLA expects the number of net market additions to fall over the next three years, and that more subsidy could be used to buy-up unsalable market stock. It also follows from this that the Mayor's affordable homes target is becoming increasingly disconnected from the London Plan target to delivering 30,500 net additions per annum. Net additions in the capital *will fall overall*, with more market stock acquired to boost the affordable housing provision to ensure the 2011 target is achieved.

Expressed crudely, the new build element of the target (three quarters of 50,000 = 37,500) approximates to a 40% target out of a total target supply of 91,500 net additions by 2011 (i.e. $30,500 \times 3 = 91,500$).

But without an affordable housing percentage target anymore, it begs the question how the 50k target be enforced and delivered by the boroughs? Or is it the aim, through the First Steps programme (see below), to bring forward delivery by using a combination of increased subsidy and public sector land, thereby decoupling affordable housing provision from market delivery?

5. The Mayor, however, acknowledges the new economic context and the difficulties of delivering affordable housing through the old section 106 model (see page 84) thus more funding from the £3,976 million in the Regional Housing Pot budget will need to be made available to subsidise the delivery of affordable housing (totalling £3,205 million from the Homes and Communities Agency's Affordable Housing Programme). The total HCA London budget is £5 billion; its London Board is chaired by the Mayor (page 9).

However, whether this will be sufficient given the challenges also facing the housing association sector, is a moot question. They too will be competing for a much larger share of this subsidy to keep themselves alive. The RSL business model has increasingly been based upon a mixed tenure model; one relying on sales of intermediate units, but also on significant levels of cross subsidy from s106 obligations. With revenues from these sources falling, together with Housing Corporation grants levels declining, the RSL sector is in significant trouble. The model is broken, and as a GLA discussion paper acknowledges (*Crunch Time for London's Affordable Housing*, GLA, November 2008):

"The market is virtually broken...making the current housing association business model virtually unworkable...cross subsidies from sales has virtually been extinguished."

As this paper describes, housing associations get about 50% grant for social housing (as opposed to 80% in the last housing market recession) and 25% for their intermediate programmes. The balance is borrowed on the market, albeit at a lower rate than lent to the private sector. Housing associations are also more reliant now on income from direct sales than at any time before.

6. The Strategy proposes the development of new investment models and mechanisms to aid supply, including:
 - i) Releasing land in public ownership, especially Transport for London and London Development Agency land – (land from these sources has already identified capacity for 39,000 homes from the First Steps programme);
 - ii) Providing gap funding to allow large developments to proceed and to pay for affordable housing;
 - iii) Acquiring unsalable market homes for affordable provision.

7. The Mayor recognises the aspiration to home ownership. 82% of the public want to be owner occupiers but there are fewer first time buyers in London than 30 years ago. Supports owner-occupation to support social mobility. The Strategy firmly commits to supporting this. Aims to help achieve this through the First Steps housing programme.
8. The First Steps programme will aim to deliver more low-cost intermediate housing. The scheme will offer homes at 20% below the market rate for first-time buyers. The homes will be built on non-essential land released by the GLA estate.
9. The First Steps programme will be delivered in partnership with the Homes and Communities Agency (HCA), which has a budget in London of approximately £5 billion for the period 2008-11. Within that, the GLA has asked the HCA to earmark £130 million for the First Steps scheme. The HCA will then work with the London boroughs, developers and housing associations to bring forward new schemes, including possible First Steps products. Developers are already eligible to become registered investment partners of the Housing Corporation, and the HCA will also be able to fund developer-led projects that meet the relevant policy and value-for-money criteria. If it is successful, the programme will continue and output increased.
10. Households earning between £36k and £72k will be eligible for discounted and low cost homes from the scheme. Potentially the scheme will provide a range of products: discounted market sales, shared ownership, shared equity, and mutual home ownership (see page 29).
11. First Steps will complement not compete with other products. It could act as a 'one stop shop' for other products: to assist access to other low cost home ownership products. The Mayor states that the number of schemes is confusing, leading to a low take-up of products such as Open Market HomeBuy (page 29) and New Build HomeBuy. Products such as My Choice HomeBuy and OwnHome, appear to be more successful, and could be promoted via the First Steps programme, subject to meeting the First Steps programme's quality and value for money criteria.
12. The Mayor identifies 84,000 empty homes in London (we are uncertain whether this includes the margin of 3% needed for vacancies too). More to these are to be returned to use, cutting London's empty homes by 1% by 2011. £60 million will be ear-marked for 2008-2011, aimed at bringing more homes back into use.

However:

13. Emphasis still on regeneration and more mixed tenure developments (page 22) to reverse social polarisation. But also suggestion on page 72 that social housing might need to be increased *outside* of the poorest London wards where social housing has tended to be concentrated, to avoid the concentration of deprivation.

14. More family sized affordable homes to be provided (42% social rent and 16% intermediate having 3 or more bedrooms). This represents a significant challenge for housebuilders, and is only likely to be achieved with increased levels of land supply and subsidy. However, the Mayor does recognise that smaller homes provide an affordable step onto the housing ladder for individuals and couples without children (page 54).
15. There is a significant emphasis on design quality and internal space standards with the demand that internal space increases across all tenures (page 54). The Mayor intends to produce a Housing Design Guide (page 52) to provide guidance and set standards on these questions. The National Housing Federation continues to criticise the quality of private sector product (for example, on the London segment of the *Politics Show*, 23 November) no doubt to try and command for its members a greater share of the affordable housing budget. The Mayor anticipates that the closer relationship forged between RSLs and private developers in the downturn will result in higher standards (page 57).
16. The Strategy continues Livingstone's emphasis on environmental performance although no new targets are proposed in the strategy which is welcome. Interestingly, no specific reference is made to the Merton rule or the London Plan target of 20% energy consumption from renewable sources for each dwelling.
17. The presumption against increasing supply in areas of 'environment and character' (page 18), including the Green Belt, is restated in the strategy. However, while a new form of protection for back-gardens is still mooted (see page 67), we also detect a movement away from a more absolute stance since emerging policy 2.2c states that back-gardens "will be protected as far as *strategically* possible" (page 58). Can we detect in this a subtle movement away from a more definitive policy position?

Next steps

The Mayor will consult with the London Assembly on the strategy between now and Spring 2009, following which the public consultation phase will commence. The final statutory strategy will be published later that year.

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