

## Submission to the London Housing Commission

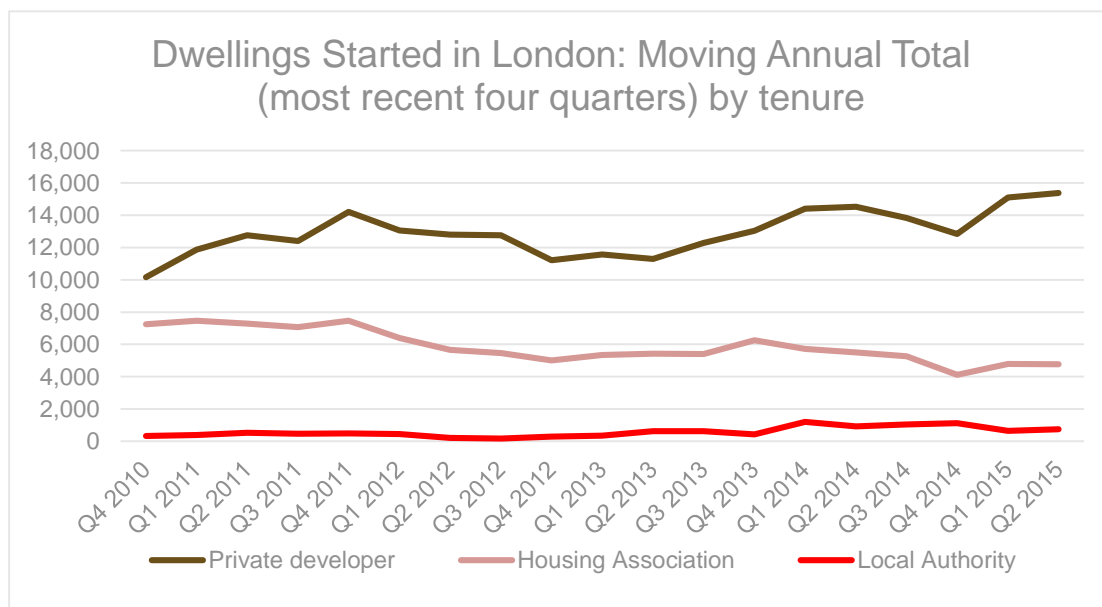
October 2015

*The Home Builders Federation is the principal trade association for private sector home builders in England and Wales and our members produce about 80% of the new homes built each year.*

### Introduction and context

The HBF and its members strongly welcome the establishment by IPPR. We are all, by now, aware of the severe shortage of housing that the entire country is now dealing with but in London the crisis is most acute. The astronomical average house price to income ratios that prevail in many boroughs risks a long-term hollowing out of the capital's communities. London is, however, a heterogeneous entity with housing markets and house building conditions varying from area to area or borough to borough. Outer London, for instance, can be very different to Inner London in these respects, and likewise, areas of Central London will vary from the high profile 'prime' locations to other parts of Zones 1 and 2.

While house building levels have increased gradually in recent years, estimates of the number of homes needed vary from around 40,000 per year to 60,000 plus. Whilst the incremental progress is welcome, current activity represents – at best – half of the output that is required.<sup>1</sup> Housing starts by private house builders have increased exponentially since 2010, rising from just over 10,000 starts in the year to Q4 2010 to 15,370 starts in the year to Q2 2015, a rise of 51% in less than five years, and an increase of 36% in the two years between mid-2013 and mid-2015.<sup>2</sup> Meanwhile,



<sup>1</sup> 20,520 total housing starts in 2014/15 (DCLG Live Table 253)

<sup>2</sup> DCLG Live Table 253a

HBF's quarterly pipeline survey of planning permissions is recording an average annual 'run rate' of 30,000 to 40,000 permissions.<sup>3</sup>

The shortfall in housing delivery means that London communities are missing out on the wealth of social and economic benefits that come as a by-product of the new homes and communities that house builders create. A report by economic consultants, Nathaniel Lichfield and Partners for HBF published in March 2015 estimates that each new home built supports the employment of around 4 people.<sup>4</sup> Our failure to meet the city's housing need – even at the lower end of estimates – means that London is missing out on more than 80,000 jobs, as well as tens of millions in additional payments for leisure facilities, at least £30m for education and £25m in new Council Tax revenue.

Cities are complex ecosystems in which communities live, work and play and should grow and contract according to the factors important in their success. This dynamism is critical to the long-term health of a city. Whilst house building rates have increased incrementally in recent years, we are not building anywhere near enough homes. Output today is broadly similar to that seen prior to the 1990s London was a struggling city with a declining population. This failure to bridge the gap between demand and supply of homes in the capital now threatens the continued economic success of the capital.

The housing crisis is already affecting the lives of Londoners but there are now signs too that it is beginning to have an impact on the economic competitiveness of the region. In a recent business survey conducted by the CBI, housing provision was cited by 59% of respondents as being the suggested top priority for London Mayoral election candidates in 2016. Approximately the same number of businesses report that housing costs and availability as having a negative effect on the recruitment of staff.<sup>5</sup> Similar research in 2014 by London First found that 'three-quarters of businesses surveyed warned that the lack of new homes and rising housing costs are "a significant risk to the capital's economic growth"'.

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<sup>3</sup> HBF/Glenigan Housing Pipeline Survey Q2 2015 published in August 2015

<sup>4</sup> *Economic Benefits of House Building in the UK*, HBF website [here](#)

<sup>5</sup> *CBI/CBRE London Business Survey*, September 2015

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*Questions 1a – 1h*

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*1. How can we double the delivery of homes in London every year, and maintain high levels of housing delivery in the long-term?*

*a. What are the core barriers to high development rates?*

*b. What are the key planning powers needed to ensure that targets are met? And should these instruments be held by the government, the London mayor, London boroughs, or some other body?*

*c. How can the land market be reformed to increase output? What role should public land, greenfield, brownfield, new towns, garden cities and estate regeneration play in providing enough land for target levels of housebuilding?*

*d. What changes to the development and construction industries are needed to increase the speed and scale of supply?*

*e. How are the current range of demand-side measures (such as Help to Buy) performing in the capital?*

*f. How are the current range of supply-side policies performing in the capital? What changes need to be made in order to build the required number of homes?*

*g. How can the tax system support more housing development?*

*h. What policy changes would drive greater social sector housebuilding?*

We welcome the ambition of the Commission to take on the challenge, as set down in the IPPR report on 'City Villages', to double the annual delivery of homes in the capital. To achieve this we must consider new approaches and measures to boost supply amongst all sectors and tenures. Just as London requires more affordable housing, it is also desperately short of private homes for sale and rent. The different sectors are mutually beneficial and it is certainly true that a healthy affordable housing sector is beneficial for private house builders.

Whilst the goal articulated by the Commission is rightly clear and ambitious, the myriad of issues to consider is altogether more complex. The temptation to reach for a 'silver bullet' can be difficult to resist. This often centres on the role of overseas buyers of new homes, brownfield, green belt or "landbanking". Some previous efforts to initiate a wholesale review of the factors holding back house building have alighted on one 'solution' and missed the opportunity to promote a broader debate.

Nationally the Help to Buy Equity Loan scheme introduced in April 2013 has invigorated the market for new build homes, creating the conditions for an increase in house builders' investment in land, labour and materials while halting the decline in home ownership levels. The scheme's success is demonstrated by the sharpest increase in housing output for more than a generation being recorded in the 18-24 months since its introduction. However, its impact in the capital has been limited with no London borough featuring in the list of top 30 local authority areas for Help to Buy

Equity Loan completions and only Havering making the top 50.<sup>6</sup> To some extent this may be explained by the insularity of the London housing market which has increasingly diverged from national, and even South Eastern trends. Even within this context it is impossible to realistically evaluate the London housing market without contemplating its relationship to the greater South East. For instance, the adoption of a significant programme of building new towns, and expanding existing towns with fast and reliable transport links to the capital would greatly alleviate the housing burden on London and support continued economic growth.

To reduce workloads for overstretched planning departments, consideration could be given to giving all housing allocations in local plans de facto outline planning permission. Not only would this help free up capacity for boroughs, it would also speed up the development process and bring more new homes to completion more quickly.

The Government and the Mayor of London's focus on brownfield incentives is welcome and entirely understandable but brownfield land alone is unlikely to meet the long-term housing needs of the capital. To maximise production from brownfield sites, we believe that the Government should consider introducing a presumption in favour of brownfield development. The Mayor's London Land Commission and its database of surplus public land has the potential to help identify significant volumes of brownfield land for development but it is unlikely to provide enough sites for sustained high levels of supply over many years. The decision to take a more strategic overview of where to develop, taking advantage of opportunities that would otherwise not be presented by merely perusing a list of surplus sites is an encouraging development and we look forward to commenting on its work.

The more consolidated approach run by City Hall in recent years in relation to surplus sites has led to the successful disposal of more sites owned by the GLA Family. While this new attitude pervades at City Hall, the boroughs have adopted different approaches. Some local authorities in London have taken a progressive stance but there may be a role for the Mayor in supporting boroughs to release their own land for development. Overall, however, there remains a sluggishness with which public land comes to market and is progressed thereafter.

The Mayor's Housing Zones are an exciting development. Many of the areas earmarked as Housing Zones demonstrate huge potential for significant delivery over the next decade or so. They could be crucial to ensuring that the capital gets closer to meeting its housing need over the next decade or more. However, as one may expect with a tailored undertaking like the one being pursued with Housing Zones, experience has been variable with little discernible improvement to the planning, regulatory or financial prospects for development in some cases meaning that by fair the predominant beneficiaries are landowners able to achieve higher returns once sites are zoned for residential use.

Reviewing London's green belt boundaries is one option for medium to long-term land supply and has been written about and discussed at great length in many recent publications by diverse organisations, for example, London First<sup>7</sup> and the London Society<sup>8</sup>. Reviews have taken place at borough-level but the long-term prospects of the capital may be best served by a more strategic-level review. A philosophical opposition to considering a release of land from London's Green Belt means that there should undoubtedly be more meaningful cooperation between the Mayor and the local authorities of the South East. The mechanism for this is in place in the form of the Duty to Co-operate within the National Planning Policy Framework (NPPF) but the ambiguity of its application for London has neutered the effectiveness of the measure.

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<sup>6</sup> Help to Buy Equity Loan statistics <https://www.gov.uk/government/collections/help-to-buy-equity-loan-and-newbuy-statistics>

<sup>7</sup> *The Green Belt: A place for Londoners?* (London First), 2015

<sup>8</sup> *Green Sprawl: Our current affection for a preservation myth?* (London Society), 2014

The regeneration and, where possible, the densification of London's housing estates represents an opportunity to provide more homes for Londoners. The benefits of a concerted strategy to make better use of existing estates was very effectively outlined in Part 1 of the IPPR's *City Villages* publication.<sup>9</sup>

Considerable media coverage has centred in recent years on the role of overseas buyers of properties in London. This has often fed into public perceptions and political attention. It is important to remember that the new homes market makes up a relatively small proportion of overall market sales. For a variety of reasons, in prime central London areas, overseas buyers are more prevalent in the new build market. Amongst new build, the scale of foreign acquisition is often overstated with focus on a handful of extremely high profile developments in prime residential neighbourhoods. Knight Frank estimates that 85-90% of new build homes purchased in Greater London were bought by UK residents.<sup>10</sup> It is also true that in areas with higher levels of overseas purchases of new build properties, the proportions often reflect existing. Indeed the proportion of homes in prime Central London purchased by overseas buyers is comparable with data available for transactions in the 1980s.<sup>11</sup>

It should also be noted that the occupancy rate for such properties with ownership held overseas is in accordance with equivalent tenures in the area.

Another pre-occupation has been accusations of "land banking" on the part of house builders in London. Misreporting of statistics is often the cause for widespread misunderstanding of the realities. A Local Government Association report in 2013 claimed that there were 323,000 unimplemented private sector planning permissions in England. Detailed analysis of the data, however, showed that almost 170,000 were on sites already under construction with a further 137,000 on sites that had been consented within the last 12 months and were likely working their way towards starts on site.<sup>12</sup>

Molior London's research into consented sites first conducted in 2012 and followed up in 2014 shows that land held with planning permission that was not being developed was largely held by non-developers. The typical house builder business model relies on buying land, securing planning consent, building and selling homes at a sustainable rate.

National policies, supported by the London Plan, to promote student accommodation through, for example, placing it within a C2 Use Class, not requiring developers of student accommodation to make affordable housing contributions and counting student units as a contribution to housing targets, has allowed this tenure to out-compete private house builders in important London housing markets. Some boroughs have sought to introduce local policies to prevent 'exacerbation of the lack of affordable rented accommodation' and additional pressure on local services and infrastructure.<sup>13</sup> A review of student accommodation Use Class and a specific strategy to accommodate London's student population could go some way to ensuring that developers building homes for private rent or owner occupation are able to compete on a more level playing field.

In summary, short term barriers include:

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<sup>9</sup> IPPR, 2015

<sup>10</sup> *International Buyers in London*, Knight Frank, October 2013

<sup>11</sup> Savills data quoted in *The Prime Residential Market in London*, a report by Ramidus for Westminster City Council [http://transact.westminster.gov.uk/docstores/publications\\_store/news/prime\\_residential\\_research\\_report\\_140722.pdf](http://transact.westminster.gov.uk/docstores/publications_store/news/prime_residential_research_report_140722.pdf)

<sup>12</sup> *Permissions to Land: Busting the myths about house builders and "land banking"*, Home Builders Federation, May 2014 <http://www.hbf.co.uk/media-centre/news/view/land-banking-anti-development-lobby-myth/>

<sup>13</sup> *Islington Core Strategy – Topic Paper: Student Accommodation*, June 2010

- Availability of skilled workers – industry initiatives, short-term reliance on employment of overseas workers
- Local authority planning resources – in light of austerity measures boroughs have understandably cut planning departments' budgets in order to protect statutory services at a time when we are hoping to see major increases in workloads
- Speed of public sector land release

Longer term barriers include:

- Failure on the part of many boroughs to adequately plan for the housing needs of their communities - as well as meeting the local objectively assessed need, boroughs should be encouraged to plan for a 10% non-implementation allowance, or "buffer".
- Lack of meaningful cooperation between London (both the Mayor and boroughs) and the local authorities of the wider South East.
- Inability for developers building market sale homes to compete on a level playing field with specialist student housing

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*Questions 2a – 2g*

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*2. How can we reconnect the costs of home ownership and renting to incomes in London?*

*a. What are the key factors driving up house prices in the capital, and what measures are needed to counter them?*

*b. Are there new models of affordable housing that could work in London?*

*c. How can the mayor maximise the impact of London's share of Homes and Communities Agency (HCA) funding, and should this be linked to a rental model other than 'affordable rent'?*

*d. What role should the mortgage market play in constraining accommodation costs?*

*e. How can the boroughs maximise affordable housing supply under s106 planning obligation agreements?*

*f. Beyond supply responses, how can we address the issue of rising rents?*

*g. What can be done to ensure that housing benefit continues to support people to live in every borough of London?*

Very simply the huge disparity between supply and demand which has been in evidence for several decades is the most important factor in driving up house prices in the capital. As noted above, for a complex, interlinked set of reasons, since the reversal of the capital's fortunes a generation ago, London's growth in economic and social vibrancy has not been matched by an appropriate increase in homes in what is now undoubtedly one of the most attractive places in the world in which to live and work.

Reconnecting house prices to incomes is extremely important but as well as house prices, it is important to consider related conditions such as the lending criteria. The Help to Buy Equity Loan scheme and Help to Buy Mortgage Guarantee have opened up the prospect of home ownership to those who because of deposit requirements would otherwise not have been able to consider it realistic. London is, and will likely remain an expensive city in which to live meaning that even for households with incomes well above the national average, saving the requisite deposit can take an overwhelming length of time

We believe that the Government's Starter Home initiative has the potential both to support the home ownership aspirations of young households in the capital and boost the overall number of homes built. Starter Homes could be a very attractive product in the capital if included on some general housing sites as an alternative to traditional affordable housing products. This could improve viability for marginal sites and increase the proportion of affordable housing on sites as the subsidy per unit is reduced. A catalyst could be provided by altering the requirement for affordable housing to remain as such in perpetuity thus releasing latent demand for homes particularly amongst young Londoners.

Greater flexibility in the approach to affordable housing would unlock a considerable number of potential new affordable homes. Central Government's proposals to broaden the definition of

affordable housing to encompass discounted homes ownership properties no in-perpetuity requirement. The reforms would allow more young Londoners to take the first steps on the housing ladder while also making more marginal development opportunities viable in the medium-term. Greater flexibility could also come in the form of more innovative uses for London's share of Homes and Communities Agency funding to include shared ownership options.

As discussed above the recovery in house building nationally has clearly correlated with the improvement in the mortgage market but the unique financial challenges for buyers in the capital require specific consideration. A key constraint for house builders in London is the lengthy capital lock-up period that is inherent in the development process. Because of time limits on mortgage offers domestic purchasers can often be disadvantaged, especially on schemes for which the developer requires the release of cash to support future phases of development. We would welcome discussions between lenders and developers to come together with the Mayor and explore opportunities for guarantee arrangements to address these constraints. Initially this could be available for households employed in important local sectors to slow down the exodus of working households from the capital to purchase a home and begin families.

A robust and thriving private rented sector is important to the success of London's economy. In a global city it is vital for a fully functioning housing market to offer the flexibility that a strong PRS provides. The necessary business environment will not appear overnight and an educational exercise is required to ensure that politicians and officials at all levels understand the financial realities and available returns on PRS schemes when extracting planning gain obligations from developers. This therefore involves tough decisions around how far boroughs and the Mayor are willing to promote an environment in which a new generation of professional rental accommodation can be provided.

Any introduction of rent controls could act as a strong disincentive for further investment in the London market thus hampering attempts to boost supply. Soft measures such as the introduction of a quality mark for landlords endorsed by the Mayor could help promote a professionalised PRS without over-burdening the sector with unnecessary red tape. A further consideration could involve tax incentives for investment in PRS.

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