

London's Housing Crisis

The figures

In the GLA mayor's November 2013 draft Housing Strategy for London there is an analysis in Part 1 of the challenge of population growth. It is predicted to rise from 8.4 million in 2013 to nine million by 2020 and ten million by 2030. The strategy states that taking into account the backlog of housing need, this could give rise to a long-term requirement for some 50,000–60,000 homes per annum and that 42,000 homes per annum are the minimum number that is required.

The 42,000 figure is more than a doubling of recent levels of home building and would need to be consistent over a number of economic, public spending and political cycles. Such levels of housing delivery have not been seen since the 1930s and have not been sustained for anything like a 25 year period. The target in the 2011 version of the London Plan was 32,000 new homes each year but in 2012-13 only 18,000 new homes were completed and the average number over the last ten years has been around 20,000, an annual quantity delivered in the 1960s just by the boroughs themselves. Fortunately, the House Builders Federation figures published at the end of January 2014 on new housing starts show 26,230 in 2013 compared with 16,364 in 2012.

The draft Housing Strategy figure of 42,000 more homes to be built annually has been carried forward into the draft Further Alterations to the London Plan (FALP) published in January 2014. In that document, the mayor has changed his intention (paragraph 3.16b) in the current Plan "to address the existing backlog in housing need over ten years" and now states that he will "seek to address the existing backlog in housing need."

The FALP is based on a strategic housing market assessment (SHMA) and strategic housing land availability assessment (SHLAA) carried out by the GLA with the London boroughs. The SHMA indicates London will require between approximately 49,000 (2015-2036) and 62,000 (2015-2026) more homes a year allowing for an anticipated under delivery between 2011 and 2015, as above.

London boroughs have identified more developable land than they did for the 2011 London Plan. As a result, the 2013 SHLAA indicates available land for 42,000 new homes a year (2015-2025).

The revised Plan states (3.16b) "The 2015-2036 figure of 49,000 additional homes a year provides the basis for the detailed housing need figures set out in this Plan. In light of the projected higher need, especially at the start of the plan period, this figure should be regarded as a minimum." However, the altered Plan policy 3.3 sets a target of 42,000 annual **average** net additional homes across London. The draft Housing Strategy sets out some ways the gap could be closed.

It appears that to avoid failure to deliver up to half a million homes over the plan period to 2036 against the objectively assessed housing need, a new plan will be needed soon.

The London Plan must conform to the National Planning Policy Framework which states in its paragraph 47 that every planning authority should "use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area" and "identify and update annually a supply of specific deliverable sites sufficient to provide five years worth of housing against their housing requirements with an additional buffer of 5% (moved forward from later in the plan period) to ensure choice and competition in the market for land. Where there has been a record of persistent under delivery of housing, local planning authorities should increase the buffer to 20% (moved forward from later in the plan period) to provide a realistic prospect of achieving the planned supply" and (para. 50) "plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community" and "identify the size, type, tenure and range of housing that is required in particular locations, reflecting local demand."

The London Plan is based on specific legislation which means that an Inspector cannot reject it, only make recommendations to the Mayor, some of which in the past have been rejected.

The implications

The Duty to Cooperate does not seem to have been carried out to a sufficient degree between the GLA and the surrounding local authorities on housing. If the altered London Plan is implemented in 2015 with the draft housing targets unchanged, those local authorities could be under pressure, including by developers, to deliver the unmet housing need of London.

Planning magazine on 17th January 2014 reported that three development plans undergoing examination over a six week period were declared not sound by Inspectors because they had not adequately addressed accommodating housing need. They were in Aylesbury Vale, Mid Sussex and West Dorset/Weymouth. Brighton and Hove City Council's draft plan was found not to meet the scale of its housing need by an Inspector who stated that cooperation with neighbouring Councils had not led to a positive outcome in that none offered to meet all or part of the objectively assessed housing needs of Brighton and Hove. Aylesbury Vale had not addressed the housing need of Milton Keynes.

Even if homes for Londoner's workers were built outside its boundaries, the draft Housing Strategy indicates that could be bad for the economy. The following two extracts from page 12 are relevant.

"Research suggests that half of all employment growth between 2010 and 2020 in London will comprise professional, senior manager or associated professional and technical jobs, accounting for around eighty per cent of all earnings. Although these earnings are forecast to rise faster than average incomes, it is estimated that there could be a total shortfall of between 50,000 and 90,000 homes for professionals in London over the next ten years. Failure to provide homes for this group could have a disproportionately negative impact on London's economy as many move out of the capital in search of adequate housing. It could weaken London's competitiveness, resulting in a potential loss of economic output of £15 billion to £35 billion over the decade."

"Providing [quality affordable housing] within London enables low paid workers, who often deliver the basic services that support the London economy and make the city liveable, to live close to their jobs. This reduces travel costs and transport congestion. Further, investment in new homes with low rents for those who need them represents better long-term value for tax payers than meeting the high costs of market housing through housing benefit."

The London Tenants Federation reports that in the years 2003 to 2012, 160,450 fewer new and additional social-housing units were delivered than were identified as being required by the average of the 2004 housing needs survey and the 2008 SHMA.

The draft Housing Strategy explains that of the affordable homes to be delivered each year, sixty per cent will be for Affordable Rent. Of those half "will be capped at low affordable rents, and will be prioritised for those in the greatest need and those in low income employment. The remaining half will be at discounted rents, set at the lower of up to eighty per cent of market rent or the local housing allowance."

The FALP identifies (para 3.44) a requirement of 25,600 affordable homes a year. In paragraph 3.64 it is stated that "Affordable housing funding over the full term of this Plan is not known. Based on the funding that was available and the record of delivery of affordable homes over recent years, the housing need requirement and taking into account the housing supply target, an average of 17,000 additional affordable homes per annum has been set as the strategic target for the term of the Plan."

That planned annual shortfall against need of social rented housing will be added to the earlier nine years' shortfall of over 160,000 such homes. There are now fewer social rented homes in London than ten years ago yet the altered London Plan states that "There is significant clear priority need for affordable family homes." and "There is a particular need for social/affordable rented family homes."

According to the draft Housing Strategy, "The average annual household income of those who access affordable homes for rent is £12,000, this rises to £33,000 for low cost home ownership products."

What can be done?

The mayor intends to focus on removing the barriers to delivery that are preventing some of the 200,000 homes in London that have planning permission from being built out. He does not have the powers at present to take the action necessary, it seems. He intends to help developers bring these sites forward and is working with government and boroughs on a package of measures to unblock delivery. In return, developers will be expected to get starts on site. The Mayor will examine, and is likely to be supportive of, any proposals which restrict or reduce the ability of developers to extend the life of existing, unimplemented, planning permissions.

The mayor is seeking several other improvements, as follows.

A long-term financial settlement for housing

Greater stability of funding, together with more flexibility in applying that funding, would deliver a longer term framework for developers and investors to plan and increase their commitments. It is especially important that there is certainty over funding for affordable housing. Fixing London's housing crisis can only be undertaken over a number of years and while recent spending rounds have spanned longer periods, they are still cyclical.

Further borrowing reforms

Boroughs' capacity has been massively reduced by their current investment borrowing caps, preventing sustainable borrowing for new developments based on asset values and income. The mayor would like to see new arrangements for prudential borrowing for new housing considered as a separate capital investment activity which would distinguish it from more mainstream public borrowing, along the lines that apply in much of the rest of Europe and for housing associations.

Devolving property taxes

The London Finance Commission has examined the case for this in detail and has called for the devolution of the full suite of London's property taxation, including Stamp Duty Land Tax (about to be devolved to the Welsh Assembly), council tax, business rates, annual tax on enveloped dwellings and capital gains property disposal tax. A devolved arrangement would include setting the tax rates and decisions over matters such as revaluation, banding and discounts.

Over the last ten years, London has received around £17 billion of capital investment to build new or improve existing homes, while the total housing benefit bill has been £50 billion. In a period when the most pressing problem is a shortage of supply, it is important to find ways to shift more public subsidy towards investment in the bricks and mortar of new affordable homes, which will lead to reductions in the overall housing benefit bill.

A new investment framework

There is a need to make the levels of grant that will become available over the foreseeable future work much harder to deliver value for money, while also delivering the ambitions set out in this strategy. There is likely to be a greater focus on equity investment in future years, where the public sector is able to recover and reinvest its original investment, or towards loan guarantees, which can bring down the cost of borrowing for developers. The mayor has signed a contract with developer Pocket Living which was awarded £21.7 million loan funding for ten years.

Making affordable housing assets work harder

The social housing regulator says that those housing associations with 2,500 homes or fewer hold around 20% of the sector's financial capacity, while contributing only 3% of new development. Rental income now delivers surpluses for those associations. The GLA will work with the G15 and G320 to explore how smaller associations can be supported to 'unlock capacity'. Larger associations will also be expected to utilise more of their own resources to pay for development. The GLA will explore with the social housing regulator how HAs can be incentivised to utilise surpluses (£1.8b in March 2013) to maximise new development. All providers will be expected to provide market housing, for rent and/or sale, alongside their affordable housing offer.

The London Housing Bank

The bank could purchase market homes off-plan or underwrite developments by offering guarantees through a range of sources, including public sector and institutional investors. The mayor will publish a discussion paper on this in 2014.

Bringing forward public sector land

Following the transfer of powers and assets under the Localism Act 2011, the GLA owns a diverse mix of land and property with capacity for 23,000 homes. The mayor will use these land and property assets to drive housing supply and economic growth and has set a target that all the inherited sites should be either under development or have in place a clear exit strategy by 2016.

Estate regeneration

Delays in regenerations have occurred and the GLA is working with London boroughs to review estate regeneration appraisals and aiming to bring forward development. One possible solution would be for the GLA to take an investment position with local delivery partners to jointly cash flow land assembly and infrastructure costs as part of any emerging London Housing Bank model.

Twenty first century garden suburbs

The Mayor will lead the regeneration of large parts of London through facilitating the release of vast amounts of vacant public land for housing development and long-term public-private partnerships with the private sector on major sites. This could also involve the delivery of new garden suburbs, including at Barking Riverside, where the GLA is supporting the creation of a new community larger than Windsor, as well as in Beam Park, which has the potential to be an attractive new waterside neighbourhood.

Maximising the value of London's Opportunity Areas

The pace of development must quicken in those areas which could provide nearly 290,000 new homes and capacity for 550,000 new jobs.

Housing Zones

The Mayor is seeking additional support from the government on a small number of the Opportunity Areas to unlock development and optimise delivery through "Housing Zones". This could include measures that focus on a range of targeted tax incentives, in a similar way to Enterprise Zones, lighter touch planning and effective land assembly.

Making better use of existing land opportunities

The mayor is proposing to use higher housing densities "if carefully planned and designed". He is considering whether London Plan policy should be altered to ensure that the process for managing the release of identified surplus industrial land capacity takes into account the potential for bringing forward surplus sites near transport nodes which can support higher density housing development.

Driving supply through private rent

The mayor wants to bring new buyers into the market via a Build to Rent fund backed by the government's debt guarantee. He will encourage development of well-designed, purpose-built homes for rent, with reduced maintenance costs and longer tenancy agreements on the GLA's own landholdings. The first will be the Newington Butts development at the Elephant and Castle (a large professional rental development of 462 units, 188 of which will be affordable).

Towards a London Rental Policy

The Mayor suggests that rent control limits the supply of rented homes, reduces incentives for landlords to let and can result in deterioration of properties, with landlords less willing or able to maintain them where rents are artificially suppressed. Private landlords could consider how greater certainty over rents could be provided to tenants, facilitated by longer term tenancies.

The Mayor wants social landlords to charge market rents for those earning at least £66,000 for smaller households and £80,000 for larger households in London.

Recognising the importance of the private rented sector

The London Rental Standard (LRS), published in July 2013 sets a benchmark for the standards expected for landlords and letting agents. It sets a framework for other accreditation schemes and set a target to achieve 100,000 accredited landlords and agents by 2016. The GLA will develop a 'badge' of accreditation, underpinned by the LRS and will launch a public awareness campaign in early 2014. The offer of incentive discount cards is being explored as part of the LRS.

The Housing Covenant sets out two further ambitions:

(1) Greater protection for tenants and greater transparency about lettings agents fees. The Mayor is keen to see landlords testing new and innovative tenancy agreements as well as using the assured shorthold regime to accommodate longer tenancies and provide more certainties around rent increases. Lettings agents will be encouraged to adopt a means of independent redress for when disputes occur between them and landlords or tenants. The Mayor supports government plans to improve the lettings agent market.

(2) To protect better property standards. 30% of PRS homes fall below the Decent Homes benchmark. A range of legislation is in place giving local authorities powers to enforce minimum standards.

Encouraging more competition in the house building industry

The mayor intends to promote new entrants into the London house building market including contractors working with investors, small and medium sized builders, community-led schemes and self-builders. It is also proposed that this could be encouraged with flexibility around Community Infrastructure Levy, with payment on completion or after a property sale, rather than upfront.

Rethinking affordable housing allocations

The number of lettings of affordable housing is in long-term decline.

There are 319,000 London households on waiting lists.

The Mayor will encourage boroughs to give greater priority for allocations to local working households on low incomes.

Facilitating mobility

The GLA's 'Housing Moves' scheme is designed to facilitate cross-borough mobility for affordable housing tenants who wish to move within London. The scheme prioritises those in employment as worklessness in the affordable housing sector is estimated to cost £63 million per annum.

The Mayor will require that between five and ten per cent of all new rented homes that receive GLA funding will be let on a pan-London basis.

In a survey at <http://bit.ly/1alb4QX> carried out by the Guardian in November 2012, London boroughs said that they were already placing homeless families outside the capital or had secured or were considering temporary accommodation outside London for future use.

In November 2013, Inside Housing at <http://bit.ly/1fSX1UQ> reported that London boroughs had more than doubled the number of homeless families they are placing outside the capital. They said that 789 households had been housed in 69 local authorities outside London as far flung as Manchester, Birmingham, Swansea and Accrington.

The questions are which of those many initiatives are necessary to underpin the inadequate London Plan housing target and which ones could close the gap between that target and the real housing need and if they do not, what more will have to be done?

Those are some of several issues to be considered by all those responding to the mayor's draft London Housing Strategy and his recent Further Alterations to the London Plan. In the absence of a statement by the mayor on which suggested initiatives could deliver what estimates of increased housing deliveries of what type and when, it is a difficult task for communities, developers, RSLs and Government Inspectors to consider the Plan.