REMOVING BARRIERS TO HOUSING DELIVERY

ISSUE 3 BACKGROUND PAPER JUNE 2015

OUTER LONDON COMMISSION ROUND 4 | 2015-16

TOWARDS A REVIEW OF THE LONDON PLAN

REMOVING BARRIERS TO HOUSING DELIVERY

1 INTRODUCTION

1.1 Substantial increases in housing delivery are required in order for London to meet its housing need. Average rates of annual housing completions across the capital need to be doubled and sustained consistently at these levels for the next 20 years to address the capital's overall requirement for 49,000 new homes a year. However, one of the greatest housing supply challenges London faces is to translate the capital's substantial pipeline of 261,000 approved units into completed new homes. Whilst on average over 50,000 housing units are given planning approval in London each year, only around 27,000 units are actually delivered[1]. This raises important questions about what realistic assumptions can be made about London's overall pipeline and how boroughs, the Mayor and the private sector should respond to this challenge.

1.2 Although London as a whole faces a significant challenge to increase housing output, this may be a particular issue in outer London where a large number of boroughs are expected to exhibit shortfalls between housing capacity and anticipated household growth[2].

2 WHAT ARE THE BARRIERS TO HOUSING DELIVERY IN LONDON?

2.1 The Mayor's Barriers to Housing Delivery Report in 2012[3] sought to understand the factors which lie behind slow build out rates and stalled developments on consented large residential schemes (over 20 units). This suggested that a range of factors were potentially impeding housing completions, including:

- the number of approved sites owned by firms that do not actually build houses - nearly half of all consented large housing sites units in London;
- challenges developers faced in obtaining development finance following the recession;
- the capacity of the housebuilding industry; and
- the speed and consistency of the public sector (eg. condition discharge and s106 approvals).

[1] London Development Database – Approvals and completions figures for 2004-2013, including conventional and non-conventional housing (eg accommodation for students and older people). Approvals granted for the same site within the same year are excluded for monitoring purposes, as explained in paragraph 3.18 of the London Plan Annual Monitoring Report 11, 2013-14.

[2] Mayor of London, The London Strategic Land Availability Assessment (SHLAA) 2013, Table 3.19 and paras 3.81 to 3.84 . Note that sub-regions are shown on Map 2.1 of the London Plan

[3] Mayor of London, Barriers to Housing Delivery: What are the market perceived barriers to residential development in London, 2012

2.2 The GLA commissioned a follow-up study in 2014 to examine to what extent these trends had changed. This report presented a more optimistic picture in terms of housing delivery, showing that the number of sites owned by non-housebuilders had reduced substantially – down from nearly half to only a third of all approved large sites in London[4]. This meant that in 2014 around 76% of London's pipeline of approved units was controlled by firms that actually build houses (eg. developers and registered providers). This change is likely to reflect the improved availability of development finance (particularly for schemes with costs under £40m) and the stronger sales values now being achieved.

2.3 However, despite this more optimistic picture, there is a more fundamental concern that even when development commences developer sales practices may mean that few large sites are likely to build out more than 500 private sale units over any 5 year period (eg. 100 units a year)[5]. Even in a buoyant market, there is a tendency for developers to manage the delivery of private sale units in order to maintain sales values and address concerns about 'market absorption'.

2.4 For this reason – and due to the number of large approved schemes in London – consultants suggest that more realistic expectations should be applied to London's planning pipeline[6]. By implication, London will require considerably higher numbers of approved housing schemes and approved units in order to meet its need for 49,000 new homes a year.

2.5 Furthermore, the GLA's 2014 report on private sector housing delivery in London also highlighted additional concerns regarding build costs, access to materials and the availability of construction staff, which may present additional barriers to increasing housing output over the short to medium term[7]. Whilst these are concerns, it is reasonable to assume that – over the longer term – the market could respond to these supply and demand issues. However, the limited number of house builders currently involved in London's housing market means that it will be a real challenge for the sector to double its output over the next 10 years. Consequently, increasing the number of housebuilders operating in London and providing a wider range of development opportunities suitable for small and medium sized firms will be a key objective.

2.6 Other broader challenges affecting housing delivery in particular locations can include:

---

[4] Mayor of London, Barriers to Housing Delivery Update: Private sector housing development on large sites in London, 2014

[5] Mayor of London, Barriers to Housing Delivery Update: Private sector housing development on large sites in London, 2014, p16

[6] Mayor of London, Barriers to Housing Delivery: What are the market perceived barriers to residential development in London, 2012, p9, p21

[7] Mayor of London, Barriers to Housing Delivery Update: Private sector housing development on large sites in London, 2014, p19

- the cost of delivering new physical infrastructure necessary to support new development (eg. tube, rail, road and utilities) and the associated phasing requirements for development;
- residential land values in comparison to industrial or office land values in certain areas of London;
- residential densities which can be achieved in certain locations due to low existing transport accessibility levels (PTALs);
- viability constraints restricting residential densities in particular opportunity areas in London due to the combination of low residential values and relatively low PTALs (eg. London Riverside, Barking & Dagenham); and
- constraints inhibiting the potential to optimise densities in particular town centres due to heritage designations and the surrounding suburban residential densities.

3 ANALYSING LONDON'S PIPELINE OF APPROVED HOMES

3.1 More than two thirds of London's net pipeline of approved units is in inner London (168,000 units), compared to around 93,000 approved units in outer London. Further analysis of London's gross pipeline of approved conventional housing units shows that half of this is comprised within just 124 very large schemes with over 500 units (see Figure A). As a comparison, 57% of inner London's gross conventional pipeline and 46% of outer London's gross conventional pipeline is contained in schemes over 500 units. In addition, whilst substantial numbers of approved units are found in East London, over 60% of this gross pipeline of approved units is found in very large schemes (see Figure B). Clearly, all of these units are not going to be delivered over short to medium term.

Figure A Pipeline of approved conventional homes (gross) at 31 March 2014: by inner/outer London

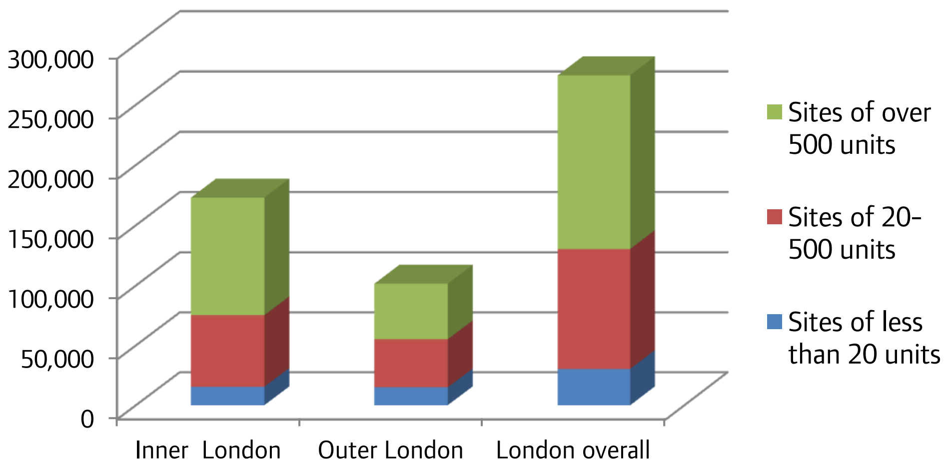
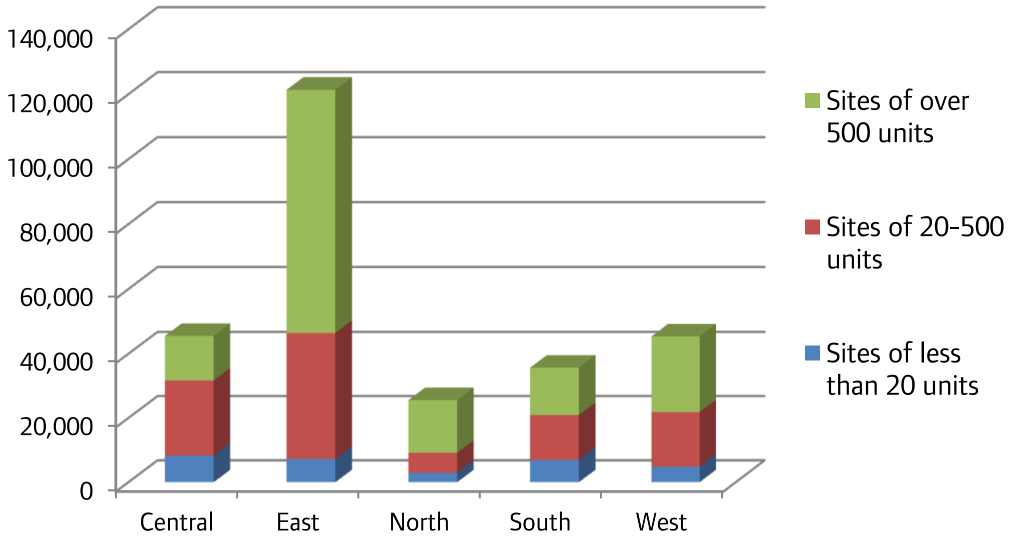


Figure B Pipeline of approved conventional homes (gross) at 31 March 2014: by London sub-region



3.2 So, whilst these 124 very large schemes with over 500 units together establish a gross pipeline of some 144,000 homes, even if these developments were all immediately commenced (which is not expected), we can still only realistically assume that they will have a collective output of around 12,400 units a year (based on a general rule of thumb of 100 units pa). Following this assumption, we could expect these sites to deliver around 62,000 homes over any 5 year period. However, even achieving this rate of output would require every scheme being progressed simultaneously, with no delay. In reality, there may be numerous reasons why development is either stalled or delayed following planning approval, for example: scheme costs; financing and cash flow issues; land ownership or remediation constraints; infrastructure delivery constraints; or ongoing planning issues (eg condition discharge and s106 agreements).

4 POTENTIAL ISSUES TO CONSIDER

Large sites

4.1 To reduce their reliance on a limited number of very large approvals or allocations, boroughs might wish to maximise the pool of identified large sites in their Local Plans and housing trajectories. Are there particular challenges facing outer London boroughs in identifying and approving a greater number of housing sites in terms of existing planning designations (eg, sensitivities and planning policy restrictions on bringing forward surplus industrial land or underused or undervalued green belt and metropolitan open land for housing)? To what extent would this approach impact negatively on outer London's industrial and office capacity or other essential land uses (eg. social and green infrastructure)?

Small sites

4.2 Similarly, boroughs might also wish to take a more positive approach to identifying and enabling opportunities for housing intensification on smaller-scale/infill sites in order to boost incrementally overall housing output and support small and medium sized developers. What are the local challenges boroughs would face in following this approach? Would assistance on planning help small builders and custom build – eg Local Development Orders or more tailored policy and guidance?

Development management

4.3 What scope is there to improve the speed and certainty of development management decision making in particular areas of London – for example, in terms of the timeliness and consistency in processing outline and reserved matters applications, condition discharge, and concluding s106 negotiations? Is there scope to provide a clearer and more certain policy framework for developers of small and large scale schemes and local authority planning officers? To what extent does the culture of some planning authorities in London need to change in order to provide a more collaborative and proactive approach, working in partnership with the private sector to deliver housing? Would this attitude change help to speed up housing provision and encourage additional inward investment in certain areas of London?

Private sector delivery

4.4 Outside London, large-scale urban extensions are typically parcelled up and optioned out to a number of different developers. Would similar approaches to land parcelling work in London and help to boost output and increase the numbers of housebuilders involved in schemes? Could minimum levels of housing output on sites be conditioned (say over a 5 year period) without adding to the risks and challenges developers currently face in delivering housing? Within the scope of existing national policy and legislation, what is the potential of applying so-called 'use it or lose it' powers in London to address land banking and slow build out rates?

Purpose built private rented sector (PRS) housing

4.6 GLA evidence suggests there is substantial demand in London for purpose built PRS and highlights its potential to meet distinct 'mid-market' housing need (for example, households who are priced out of home ownership but who may not be eligible for affordable or social rent). Significantly, there is widespread acknowledgement of the untapped potential for PRS to unlock large-scale institutional investment in the London housing market. Developers of purpose built PRS may be less likely to manage the supply of new units in ways that maximise sales values and may instead be incentivised to build out approvals faster in order to secure a rental income steam on their investment.

4.7 In general, for purpose built PRS to compete effectively for sites with proposals for market sale units (which are typically higher value), it may be necessary to take into account the distinct economics of PRS when considering viability appraisals, affordable housing provision and unit size mix (see draft Interim Housing SPG, page

97-99). What are the challenges in outer London in bringing forward PRS in this way and providing a more flexible and bespoke approach to viability appraisals and, where appropriate, affordable housing provision? Moreover, is there any evidence that purpose built PRS would accelerate housing delivery or provide additional housing units overall?

Wider application of the Housing Zones model

4.8 Are there emerging lessons from the Mayor's Housing Zones in terms how boroughs, the GLA and other public sector stakeholders work more proactively and flexibly with the private sector in order to unlock and accelerate development? Can a similar focused, area-based approach to addressing infrastructure, ownership, funding and planning barriers to delivery be applied to large scale development opportunities across the capital in order to address housing need?

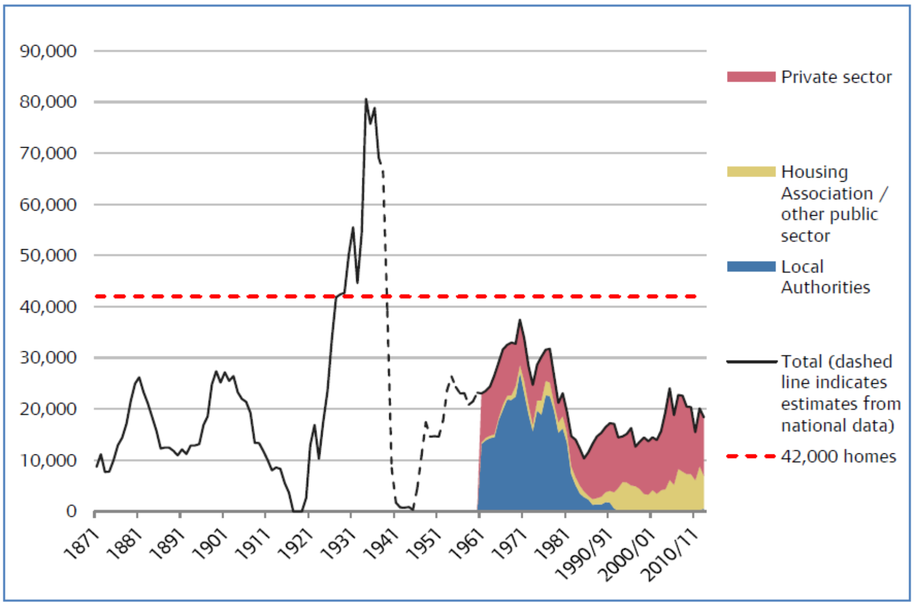
Estate renewal schemes

4.9 Given the relatively low densities in many of London's existing council housing estates, is there potential capacity for these areas accommodate additional housing delivery through comprehensive estate renewal at higher residential densities? This may also provide opportunities to modernise and improve the quality of housing provision and public realm. This might also help to broaden the range of housing tenures provided in an area, whilst substantially increasing housing capacity.

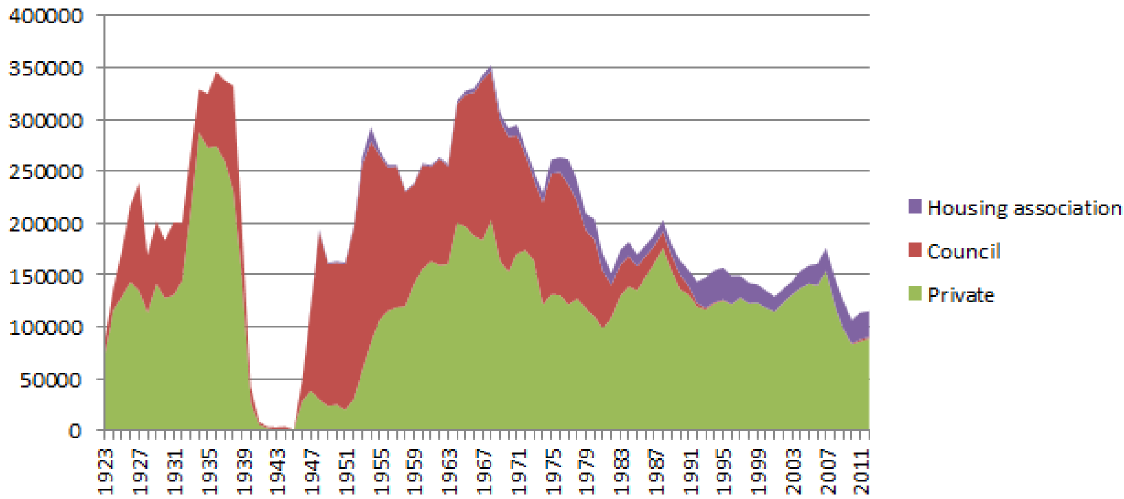
4.10 Four London estates have been awarded funding through the Government's £150m Estate Regeneration programme, which will help unlock regeneration schemes and potentially double the amount of housing provision provided on these sites. However, the scale of investment required to deliver comprehensive housing renewal is substantial. What are the barriers to delivering estate renewal schemes across London and what policy and funding measures would help address these issues?

Local authority housebuilding

4.11 Even achieving 42,000 new homes a year to meet London Plan minimum targets, let alone delivering the 49,000 pa needed to meet London's overall housing requirement , will require substantial increases in housing output. Average rates of housebuilding in the capital will need to be doubled and consistently maintained at this level for the next 20 years. This level of housing output has not been achieved in London since the 1930s. Whilst higher levels of housing output was achieved in London between 1960 and 1980, this involved a significant contribution from local authorities building houses themselves, which has almost entirely disappeared as a source of housing supply in London. What role could local authorities play in terms of building houses, especially on surplus public sector owned land? Are there financial or regulatory pressures or barriers which prevent local authorities from taking a more active role in housebuilding?



4.12 Analysis of housing supply in London prior to the Second World War shows that the private sector has been capable of increasing housing supply, especially during the 1930s when . What useful lessons can be derived from this period in terms of increasing housebuilding in London, for example, in relation to the availability of substantial amounts of land supply, the potential for 'greenfield' development in outer London and the coordination of transport infrastructure delivery and housing.



Town centres

4.13 To what extent is potential housing output in town centres constrained by land ownership constraints, existing commercial land uses and heritage constraints? Is it realistic to assume large volumes of housing can be delivered in centres across London by 2025? What about the other potential planning barriers to delivering higher residential densities in these and other accessible locations, eg the application of daylight/sunlight standards and guidance to higher density redevelopment?

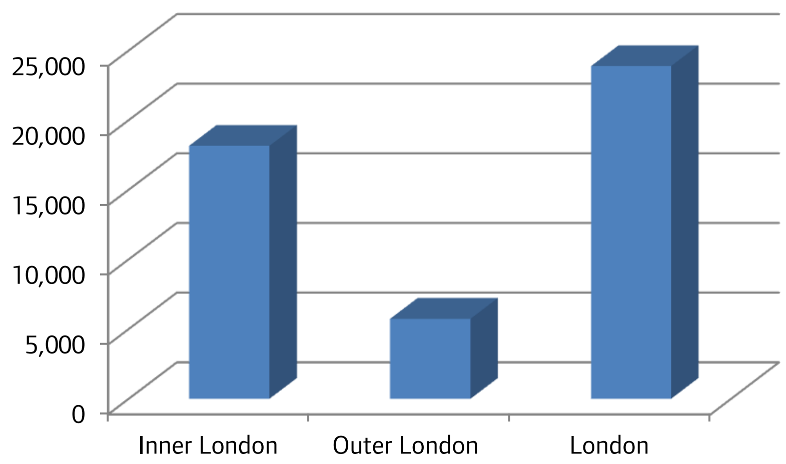
Specialist housing for older people

4.14 Evidence supporting the 2015 London Plan shows there is a considerable need in London for specialist housing for older people over the next 10 years, with particular demand for private sale and intermediate housing products suitable for older people anticipated. Provision in this sector is important to encourage downsizing and can help to free up under-occupied large properties within the existing housing stock. However, recent rates of supply have been very limited across London, particularly in theses tenures. What scope is there for the planning system to do more to encourage such proposals and identify suitable sites or locations that may be suitable for this form of housing provision?

Student housing

4.15 Similarly, the London Plan identifies the need for outer London boroughs to play a more active and positive role in encouraging the dispersal of student housing provision away from central London areas where student housing has been concentrated, especially through higher density provision within town centres and areas with good public transport accessibility. LDD shows that over 75% of London's student housing pipeline is concentrated in inner London, with very limited provision approved in south and north London. What are the challenges to increasing delivery in outer London?

Figure C Pipeline of approved student housing units (gross) at 31 March 2014: by inner/outer London



5 QUESTIONS

5.1 In examining the range of options available to boroughs to increase and accelerate housing delivery in London, the Commission seeks responses to the following questions:

H1 What are the particular barriers holding back delivery of new housing in this sub region?

H2 What is constraining the private sector from translating London's pipeline of approved homes into completions, for example:

- **developer sales practices and private sector concerns about market absorption;**
- **the scale of land banking and the number of approved sites owned by firms that do not actually build houses;**
- **the range and size of housebuilding firms in London and the level of competition within the development sector; and**
- **private sector capacity and skills shortages.**

H3 What potential is there in Outer London for:

- **purpose built long-term, private rented sector housing (PRS)?**
- **specialist housing for students and older Londoners?**
- **housing intensification through estate regeneration schemes?**
- **the delivery of higher density development in town centres, taking into account land ownership constraints and the surrounding suburban context?**

H4 What are there practical measures boroughs can take to boost supply, for example:

- **providing a more certain and speedy development management process for large developments prior to and following outline planning consent (eg s106 negotiations, use of conditions and condition discharge);**
- **greater use of CPO powers;**
- **wider application of the Housing Zones model to address particular local delivery challenges, working closely with the private sector and other stakeholders;**
- **widening the pool of identified and allocated large sites in Local Plans;**
- **providing a more positive and certain policy and development management framework for small scale/infill development in order to support small and medium sized house builders;**
- **requiring large sites to be parcelled up and split between a number of different developers in order to address slow build out rates and potential land banking; and**

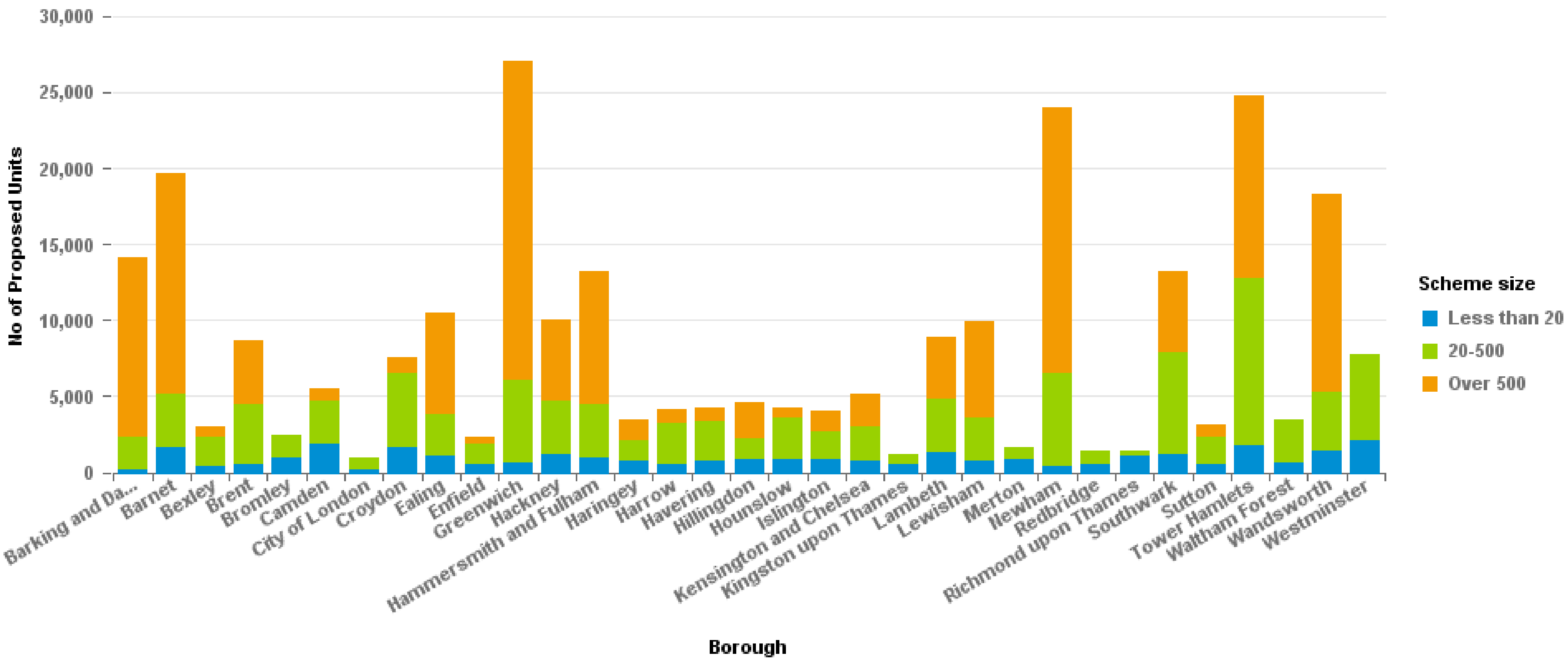
- **conditioning minimum levels of housing output on large sites over a fixed short to medium term horizon.**
- **exploring the potential scope for 'use it or lose it' powers.**

H5 What potential role could local authorities play in building houses, especially on surplus public sector owned land? What are the financial and regulatory obstacles that need to be overcome to enable local authorities to contribute more directly to house building in London?

H6 Is there an issue about skills and capacity within local authorities in delivering planning consents for large scale developments?

H7 What role could modern methods of construction play in boosting private sector build out rates?

Figure E Pipeline of approved conventional housing units (gross) at 31 March 2014: by London borough



Source: London Development Database 2015