

# **GLA Response to the Planning Reform Working Paper:**

## **Speeding Up Build Out**

### **Introduction**

The Mayor of London and the Greater London Authority (GLA) welcomes the opportunity to feed into the Planning Reform Working Paper on speeding up build out and on options the government could pursue to ensure the right incentives exist in the housing market to encourage homes to be built out more quickly.

The Mayor shares the government's ambition to build 1.5m new homes by the end of this Parliament and is working in partnership with Ministers, London Boroughs and other relevant agencies to play his part in helping to deliver this. To meet this ambition the Mayor has demonstrated that he is prepared to take bold decisions such as exploring release of some green belt for housing as part of the development of his next London Plan.

However, bringing forward the next London Plan will take time. In the short to medium term, the Mayor is serious about kick-starting delivery in London by using his planning powers to address barriers and support development. The Mayor wants to ensure that local planning becomes more flexible and focused on rapidly increasing the rate of building in every boroughs and on keeping to the spirit in which the current Plan was originally written when applying existing London Plan policies in assessing planning applications. Where this does not happen and development is blocked, the Mayor has demonstrated that he will be increasingly active in calling-in schemes. And in recognition of the challenges that are holding back housing delivery in London in the short term, the Mayor published his Accelerating Housing Delivery Planning and Housing Practice Note last December. The Practice Note sets out a range of planning and funding flexibilities to support overall delivery, address housing need and diversify supply under the framework of the current London Plan.

The case for action is clear. Housebuilding has been contracting across the country. In London, the challenges are particularly acute as the higher cost of building and buying homes means higher interest rates have a magnified effect. For councils and housing associations, London's large existing stock means the imperative to invest in existing homes to make them safe and energy efficient weighs more heavily on organisations' balance sheets, reducing capacity for new building.

The previous Government did not act to address these issues – housebuilding was not a priority for new funding, existing funding was not used innovatively, the set-up of the Building Safety Regulator, while well intentioned, has led to unnecessary delays, and sensible planning reforms were ruled out.

Action is needed now to both deliver a short-term boost to housebuilding and reduce the risk of a longer-term loss of capacity in the construction sector. At present, development teams are being laid off, development programmes mothballed, and contractor insolvencies in the construction sector are now at their highest level since the financial crisis, which will have a long-lasting effect on our ability to build if allowed to continue.

Public sector leadership in master-planning, focused use of public subsidy on strategic sites to support higher levels of affordable housing, increasing competition by enabling a greater

proportion of SME developers to be active in the market, new delivery models and increasing the number of tenure diverse developments are considered to represent positive measures for helping to promote faster build out rates. Further detail on each of these measures is provided in this response.

While well-designed incentives that penalise developers for slow build-out may increase delivery in the short run, there are notable risks around unintended consequences from the 'Delayed Homes Penalty' and we strongly caution against using this as a primary measure to speed up build out.

### **Answers to the questions posed in the Working Paper**

#### **a. Do you agree with the evidence base and theory we have set out on build out rates?**

A. It is important to note that London has the highest house prices in the UK and whilst demand for new housing is very high, due to affordability issues the actual demand available to buy new-build market housing is much more limited. London's housing market is also more exposed and dependent on a strong and consistent rate of selling new housing units without a reduction in sales price (i.e. the absorption rate). This results in the pace of the delivery and therefore build out of new housing being heavily influenced by the market absorption rates. In addition, new-build development in London mainly takes place on brownfield land and the typical physical form of development is higher density housing comprising of flats. As a result of this, the pace of new housing delivery in London is much more dependent on strong and consistent market absorption rates. In addition development on brownfield sites can become costly and complex requiring processes like remediation and site clearance which can increase the development window for brownfield sites.

This contrasts with other parts of the country where development may take place on greenfield sites, which generally involves a more flexible, cheaper development approach and is characterised by semi-detached and detached housing in locations where new-build market housing is comparatively more affordable thus enabling a faster built out of new housing.

We agree that the immediate cause for slow buildout is developers managing prices by controlling the release of new homes into local markets. A key factor enabling this behaviour is a result of an uncompetitive market which is too reliant on a few large builders in a given location. We also agree that a high level of affordable housing drives faster build out – see response to (b) – Mixed tenure – for further detail.

There is also some evidence to suggest that in certain areas of London where the potential exists for significant future growth in sales values, for example within areas witnessing large-scale regeneration or at sites benefiting from waterfront views. In these circumstances, developers may adjust their construction phasing sequence so that they can optimally capture sales value growth over the life time of the construction period.

Our response to (b) sets out the measures we have taken to support build out rates in London.

### Other issues affecting build out

It is important to note that current macro-economic conditions and new regulatory changes have created significant delivery challenges in London and are affecting build out rates in London. The Mayor will never compromise on the need for all Londoners to live in safe buildings. However, the development industry is increasingly vocal about delays due to BSR processes affecting the pace of buildout. The new building fire safety requirements which affect buildings over 18 metres (approximately 6 storeys) in height has a larger impact in London as a significant amount of new housing is high rise development.

The reduction in registered providers (RPs) capacity to acquire new S106 affordable housing stock has also impacted housing delivery in London. See response to (b) – Mixed tenure – for further detail.

The lack of supporting transport infrastructure is also a constraint on build out. See response to (i) for further detail.

### **b. How could we go further to support models of housebuilding which build faster, such as small sites, strategically master-planned and mixed tenure?**

#### *A. Strategic master-planning & public sector involvement*

Proactive public sector leadership in master planning has been successful in London. Some of the best outcomes have come from the redevelopment of public sector sites where public sector land ownership has been retained allowing for a long-term public sector stewardship.

For example, the GLA has drawn up development agreements which stipulate clear delivery milestones and supported higher levels of affordable housing through a focused use of public subsidy. It has also adopted the approach of procuring venture partnerships to unlock the delivery of developments – these are typically RP led with a private sector developing acting as a construction contractor. Examples of these successful initiatives include the comprehensive redevelopment of the Holloway Prison site in the London Borough of Islington and the comprehensive redevelopment of the St Anne's Hospital site in the London Borough of Haringey which is each being delivered by a RP and private developer joint venture and providing 60% affordable housing.

However, it is important to note that public sector leadership in strategic master planning is resource intensive and greater funding and resourcing would need to be made available to Local Planning Authorities to support such an approach.

#### *Mixed tenure*

Greater tenure diversity can generate faster build out by providing an institutional investor like a pension fund the opportunity to buy component parts of a development, thereby increasing the absorption capacity of the local market. Where an institutional investor is involved in a mixed tenure development, they may agree to 'Forward fund' the development by providing funding in tranches across the construction period, obtaining ownership of the Build to Rent or specialist housing units upon completion. Alternatively, they may sign up to a 'forward commit' deal where they agree to buy the completed housing upon completion of construction. This serves to reduce development risk, as in this instance the developers of mixed tenure schemes

act in a construction contractor capacity to deliver the component parts of a development for RPs, institutional investors and their appointed operators.

In general, for developers, mixed tenure developments represent a different business model from the typical build for sale model. Mixed tenure development works best on well-connected urban sites, although it may also be appropriate for some urban extensions (with the right level of supporting infrastructure) and could be integral to supporting the earlier phases of New Town development.

Developers in London are bringing forward mixed tenure developments incorporating affordable housing alongside Build to Rent, Purpose-built Student Accommodation and Large-Scale Purpose-Built Shared living. However, the variety and mixture of tenures is market driven and dependent upon site specific characteristics and local demand dynamics. It is considered that planning policies for mixed tenure developments should allow for malleability to accommodate market dynamics, whilst potentially setting broad maximum and minimum guidelines for certain types of development.

Our internal GLA analysis indicates that the best build out rate outcomes result from strong public sector intervention including master-planning, use of public sector land and retained ownership of this, supporting public subsidy, procurement of a joint venture between a developer (acting as the construction contractor) and an RP, and a public sector produced development agreement that sets out delivery milestones. That is one reason why we are setting up a City Hall Developer, with the support of central Government, to deliver large, mixed-tenure sites.

Our review of nine case studies of schemes which followed the London Plan's Fast Track Routes illustrated how higher proportions of affordable housing supported by public sector interventions such as public land held in public ownership and grant funding enabled a faster build out of housing on strategic sites. The case studies comprised six schemes where construction had commenced and three schemes which have a planning consent but have not yet commenced. The development phasing programmes for the case study schemes were reviewed and formed the basis for an assumed housing delivery trajectory. For schemes where construction had commenced these were amended to reflect the current stage of construction. For schemes which had a planning consent, but had not yet commenced, a one-year lead in period to start on site was assumed.

The six case study schemes where construction had commencement included Paddington Green Police Station, Beam Park, Dagenham Green, Former Nestle Factory, Holloway Prison Site and St Ann's Hospital. For these schemes, totalling 11,759 residential units with an average 50% affordable housing by unit across the sites, an average projected buildout rate of 202.8 units per year was identified, with Holloway Prison being delivered the fastest at a rate of 262.7 units per year.

The rest of the schemes have planning consent but have not commenced construction included Springfield Village, Pudding Mill Lane and Bridgewater Triangle. A review of these schemes, providing 862 residential units in total and an average 45% affordable housing by unit across the sites, identified an average projected buildout rate of 126.1 units per year.

In addition, actual delivery rates of two practically completed Fast Track Route schemes (Brunel Street Works and Blackhorse View) were reviewed. Brunel Street Works provided 975 units with 35% affordable housing and completed over a 4.5 year programme at a rate of 217 units per year. Similarly, Blackhorse View provided 350 units with 47% affordable housing over a 3.5 year

period, which is a build out rate of 100 units per year. These delivery rates are significantly higher than those projected for build for sale schemes with very low levels of affordable housing.

The promotion of mixed tenure developments can serve to foster a more resilient housing land supply pipeline which is less dependent on market absorption rates for delivery. Local authorities and RPs act to increase the “absorption rate” by guaranteeing the quick sale of newbuild affordable housing units. This means that a crucial ingredient for successful mixed-tenure development is that there is the financial capacity and demand for new affordable homes in the RP sector. This is currently uncertain in London where RP’s take up of S106 affordable homes has significantly decreased. In the same way as RP’s acquiring new S106 affordable homes early in the development process, build to rent housing, Purpose Build Student Accommodation and Purpose Built Shared Living can all be either forward funded or acquired upon practical completion by an operator which serves to increase the absorption rate. In London, the Mayor has promoted mixed tenure development through his London Plan (2021), in particular through the policy on the threshold approach for planning applications. Evidence shows that this has resulted in an increase in build out rates.

#### *Small sites*

Since SME developers serve a much smaller segment of the local market, they are incentivised to build out quickly and sell at the market price (before other developers sell material volumes that drive down the price). As SMEs are numerous, they are also less likely to coordinate to keep prices down. This means that a market with more SME developers will lead to faster delivery, increased supply and lower prices. This illustrates that granting planning permission for a wider variety of sites and developers can speed up build-out.

Due to their size, SMEs cannot absorb high regulatory costs. This is a well-established fact in the economic policy literature, and applies in all sectors of the economy, including construction. Streamlining the planning system, especially for small sites, and reducing the regulatory burden disproportionately benefits SMEs and therefore small sites delivery – that is one reason why we are exploring how to create a more streamlined and simple London Plan. Proposed government measures to streamline the planning system are therefore welcome. Further consideration should be given to the role of national development management policies in encouraging SME entry into the market.

The current London Plan has a particular focus on small sites within 800 metres of a town centre or station, and this source of housing makes up most of these homes (about 12,000 homes a year). The Mayor will be seeking to use his next London Plan to help support small sites delivery and diversify the housebuilding market.

#### **d. For mixed tenure, what would you consider to be an appropriate site size threshold level?**

A. As site circumstances are so variable, it is difficult to set a reasonable threshold at the national level. Regional Plans are well positioned to consider wider spatial areas that may be suitable for mixed tenure development, but the designation of specific sites for mixed tenure development would be best suited to a local level determination through Local Plans and site allocations. The designation of mixed tenure developments would also need to be informed by an area-wide viability study which would support the wider Local Plan.

In the context of London, a site size threshold of circa 500 units and above is considered to be an appropriate starting point for the threshold. Schemes comprising more than 500 units tend to be phased, and therefore a mixed tenure approach above this threshold, complemented by a master-plan approach would help promote a faster build out rate of these sites and help to foster a more resilient housing supply pipeline which is less dependent upon the rate at which new housing units can be sold.

**d. Do you have any views on how the proposed CPO measures would work best in practice?**

A. The GLA supports this proposal to bring forward conditional confirmation of CPOs introduced by the Levelling-up and Regeneration Act 2023 as a way to increase confidence in achieving a positive outcome from a CPO. We agree that the conditional confirmation power will de-risk use of CPOs and has the potential to create a greater appetite for the use of CPO powers to help delivery strategic housing sites.

**e. How should MHCLG guide local authorities and developers towards reasonable build out schedules (noting that ultimately this will be negotiated locally)?**

A. The designation of strategic sites as part of the local plan-making process for mixed tenure development, including affordable housing as required by strategic policies, will help to promote faster build out rates.

Another reliable long-term way to increase the delivery rate of planning permissions is to increase market competition. If the general competitiveness of the market increases due to a larger presence of SME and public development, large developers can no longer reliably follow their current price-management strategy.

**f. What are the right set of exemptions for external factors that impact build out rates? Should this include economic downturns which reduce sales rates, or does that mean that payments would be too weak to induce the shift toward the partnerships business models we want to see?**

A. As the theory behind the working paper agrees, the behaviour exhibited by developers is tied to their ability to fix prices in a local market. Penalties should only be applied in cases where measures to increase competition by enabling SME developers, mixed tenure etc. have already failed, or where it is otherwise difficult to increase competition.

However, even in these cases we should not expect penalties to incentivise increased delivery in the long run – only to decrease the number of obtained planning permissions until they meet the number of homes developers are willing to build within the agreed timeframe. If the goal of policy is increased total delivery or quicker buildout, then a penalty is unlikely to be helpful, and if anything is likely to act as another burden on developers, running contrary to the objective of unlocking build out.

**g. For the Delayed Homes Penalty, do you agree with the intention to use it to incentivise the shift towards higher build out models of housebuilding?**

A. In short, we welcome principle of the proposed charge to incentivise developers to not land-bank or secure permissions they have no intention of building to inflate land values, but we think there is a risk the current proposal would have unforeseen consequences that would make development harder. We want to work with the Government to develop this proposal into

something that secures the intended policy ambitions, and to prioritise wider reforms to the market including encouraging new entrants.

As a first priority, policies that remove barriers for new entrants to the market and diversify the type and size of sites are preferable to a penalty. We strongly support the principle that in a healthy market the number of planning permissions granted will be closer to the number of homes built out. New homes are not built out as fast as they can be constructed once permission has been granted, but as fast as developers expect to sell them. As set out in (a), the current situation is best understood as a symptom of underlying structural features of the market. We support encouraging master-planning, mixed tenure and smaller sites through planning policy as an alternative approach that directly addresses the structural issues and will naturally lead to the increase of build out rates.

There are also risks of unintended consequences attached to the use of penalties. Over the long run, large developers could rationalise the risk by submitting and obtaining fewer planning applications, for the build out of which they can guarantee. In this way, excessive penalties might keep supply at the same level or lower and not improve market affordability.

We are keen to work with the Government to better identify where a charge may or may not be appropriate, bringing to bear local knowledge of the London housing market.

**h. How should the Penalty be calculated? What are the strengths and weaknesses of using a percentage of house price, or reference to local council tax rates? What information would local authorities require?**

A. If after careful consideration of potential unintended consequences, a penalty is still to be set, then it should be on a sound basis of understanding of developer behaviour. The developer acts as a rational agent and calculates the costs and benefits of building out the marginal unit. If it expects that the penalty would be larger than the loss incurred by accepting a lower achieved sale price through expansion of supply, it might decide to build out. If the penalty is too low, the developer might just absorb the cost with little effect on outcomes; if too high, it might lead to developers committing to fewer units. The right level could only be calculated if the market conditions, including the price elasticity of the local market, are very well known. The difficulty in setting the penalty should be cause for further caution in employing it as a measure for driving build out.

**i. Are there wider options you think worth worthy of consideration that could help speed up build out of housing?**

A. Increasing the diversity of sites and developers is the most important lever we would propose. In London, to meet government's need figure, we need to reach housebuilding levels not seen in a century. This calls for continued ambitious policy thinking in local, regional and national government that matches the scale of the challenge. Public sector leadership on master-planning on strategic sites, the delivery of more mixed tenure developments and the delivery of a streamlined planning system can create an environment where a larger diversity of sites can come forward, and be built out by a greater diversity of developers.

In London, the potential for a new revolving fund to support public sector housing delivery, including a new City Hall Developer investment fund which would provide a flexible revolving fund to both public and private sector partners, would be important in unlocking strategic

housing building opportunities in London, and in the long-term support more public sector-led housing building.

In order to meet London's ambitious new housing targets and unlock additional housing land supply and housing densification potential, there is a critical need for the delivery of new transport infrastructure in the capital. The delivery of new infrastructure is essential for ensure well connected new communities and critical to fostering the market dynamics which support mixed-tenure development and faster build out rates.

The proposed extensions to the Bakerloo Line and the Docklands Light Railway, as well as the delivery of the West London Orbital railway together have the potential to unlock up to 57,000 new homes. The delivery of these key strategic infrastructure projects will bring about market confidence to channel institutional capital to help deliver new large-scale housing developments and making a significant contribution to the government's growth agenda.