LONDONASSEMBLY
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Mayor of London
(Sent via email)

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Dear Mayor,

The challenge of providing affordable homes for rent in London

I am writing to inform you about the recent work of the London Assembly Housing Committee which looked at how London government can better support the building of new affordable homes for rent in London. I hope this will be helpful to the GLA in the run-up to a possible future review of the Housing Strategy. This letter reflects the view of a majority of the Committee with the dissent of the GLA Conservatives.[1]

With high house prices and housebuilding lagging behind demand, London's affordable housing stock is at a premium. London's private rental prices are also increasingly unaffordable, rising 6.2 per cent in the year to January 2016,[2] compared to a 1.4 per cent rise in average weekly pay in the year to December 2015.[3] This is leaving those unable to access social housing yet on low-to-middle-incomes struggling to survive in the capital.

We urgently need to build more high quality new homes that Londoners can afford to live in, both for rent and to buy. Yet the focus of government policy is increasingly on developing homes for ownership. While we acknowledge that many Londoners aspire to own their own homes, this is not likely to be a viable option for all. There are therefore real concerns that we may not be developing enough rented homes which are genuinely affordable to those who need them. For this reason, the Assembly's Housing Committee has devoted three of its recent sessions to look at issues arising from the current policy on affordable rented homes and innovation in their development.

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[1] The following London Assembly Groups are in agreement with this letter: Labour, the Green Party and the Liberal Democrats. The GLA Conservatives are in dissent with this letter.
[2] HomeLet, 2016, *HomeLet Rental Index: January 2016 Edition*
[3] ONS, 2016, 'LMSB SA AWE total pay WE'

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We looked at challenges facing housing associations on delivering the Affordable Rent (AR) model in November 2015, before undertaking a site visit to Barking and Dagenham in December to look at the innovative models being used in the borough to develop new affordable homes for rent. Finally, we discussed innovative investment and development models for affordable homes for rent in London in January 2016.

The challenge of building new AR homes

The Affordable Rent (AR) model, first introduced in 2011, was intended to give housing providers greater flexibility in the range of product they develop, as well as delivering homes which would be affordable to social housing tenants. However, with declining levels of grant, changes to welfare and the introduction of new government policies, housing associations have found that delivering the AR model is becoming increasingly challenging.

Capital grant is still important for many providers
As the level of capital grant has declined, housing associations have had to increase their borrowing and build market homes for cross-subsidy so that they can continue to provide some AR homes. Octavia told us that capital grant is hugely important to housing associations, as "even at these reduced levels – [it] allows us to do more than we would otherwise be able to do". Without this subsidy, Genesis told us that if it kept all of its stock at social or AR levels, its "ability to borrow is going to evaporate very quickly".

Cross-subsidy can provide a financial boost but this is not without risk
Providers are therefore now beginning to cross-subsidise AR homes by building homes for market rent as well as for sale. Home Group told us about its innovative 'flexible rents' model where a variable mixture of affordable and market rent homes is provided. The proportion of each type of home will change according to changes in the rental market, so that the site continues to generate a fixed-income return while also providing an average rent at around 65 per cent of market rates. This innovation is not just limited to housing associations – Barking and Dagenham set up a private company to work with partners to build new AR homes, cross-subsidised by units for private sale. However, Family Mosaic warned that, combined with increased borrowing to cover costs, building market homes leaves housing associations at risk "if the market goes through a crash… [then] most of us will have to rethink where we stand [on cross-subsidy]".

Constant change is difficult and costly
Housing associations also face the challenge of recent changes to social rents and welfare benefits, which will affect their ability to build new AR homes. We were told that as a result of the one per cent reduction in social rents over the next four years, Family Mosaic would have to save £14 million per year while Genesis would have to save a total of £50 million by the fourth year to make up for lost income. Octavia told us that welfare reforms such as the introduction of the lower benefit cap could have a significant impact on its business model. Most of all, housing associations were concerned about the instability caused by these changes. Home Group noted that "the change in the welfare system… has impacted on our rental income stability", while Family Mosaic urged the government to "tell us the rules". Dolphin Living suggested that the Mayor could give greater certainty to housing associations if he were to take "back the regulation of RPs [Registered Providers] from the HCA [Homes

and Communities Agency] and introduce a regulatory regime that is appropriate for London". **A future Housing Strategy should set out the pros and cons of such a move.**

Diversity is alive and well and should be supported

Housing associations are not the only providers of AR homes, and the Mayoralty is in an excellent position to nurture greater diversity in the sector. Private investors could be a big part of this- we heard how Cheyne Capital and QSH are using long-term, socially-responsible investment funds to build new affordable homes for rent. Shamez Alibhai from Cheyne Capital argued that this is possible as "investors like the idea of investing in housing because it is a stable asset class… [and they] want to have a socially responsible mandate". Paul Hardisty from QSH argued that the advantage of this model is that it is "not covered by the rent reductions, the Right to Buy or anything like that. If you want long-term affordable rented housing, you can have that because our models are not covered by HCA guidance". **A future Housing Strategy should look at ways to encourage boroughs to work with private investors who want to invest in affordable rented housing, subject to the same conditions as would be afforded to a housing association or charity.**

The challenge of affordability

How affordable is affordable?

As the definition of affordability becomes increasingly complex, stretching from social rents through to Starter Homes, the Mayoralty must ensure that the term is still meaningful to people who are struggling with the high costs of living in London. Denise Brown from the William Street Quarter Tenants' Association (WSQTA) outlined the problems this can raise as people on housing waiting lists "are working but they still cannot afford to live in the houses that we have on our estate because they do not earn enough money". This could have the biggest impact on mixed and balanced communities in central London, since, as Dolphin Living points out, for example, "eighty per cent of Westminster rents [do] not look terribly affordable". We heard from David Lunts, Executive Director for Housing and Land at the GLA, about how this confusion led in the past to the introduction of discounted and capped rents under the Mayor's 2015-18 Affordable Homes Programme. **A future Housing Strategy must examine the need for additional guidance to ensure that affordable homes for rent are meeting the needs of tenants with a variety of incomes.**

Using income-based approaches to rent-setting

Affordable housing providers are finding innovative ways to keep their books balanced while ensuring that homes are affordable for new tenants. We heard that this comes from focusing first on tenant needs. For example, on the New Era Estate in Hackney, Dolphin Living operates an income-based "personalised rents" system, having promised residents the introduction of "a rent policy that was 'demonstrably fair'". The 80 per cent of tenants who have opted into this system must pay a fixed 30 per cent of their income on rent, reviewed every three years, with disposable income calculated according to the Joseph Rowntree Foundation minimum income standards statistics. The City of Westminster took a similar approach when developing their 'Fair Share Housing Scheme', looking at people's earnings and the need for homes close to jobs, asking "What do we have to do to make that possible here?" The Scheme will enable two-couples sharing to afford to live in areas such as in central Westminster on the London Living Wage, ensuring that people can continue to live close to their jobs. On our site visit, we heard how Barking and Dagenham are prioritising new housing for people in work who are struggling due to inflated London prices. In support of this aim, they are using prefabrication techniques at William Street Quarter to bring down the cost of construction. **The future Housing Strategy should set out ways to encourage innovative models such as these and assess how far new approaches to affordability, including income-based approaches, would work across London.**

Strengthening the role of Section 106 agreements
Section 106 agreements between local authorities and developers could be used to ensure that new build housing remains affordable into the future. Cheyne Capital outlined that their objective "is to have long-term, perpetual housing that is affordable for our communities", pointing to a scheme in Luton where the S106 agreement ensures that the stock will remain affordable in perpetuity. QSH told us that they were also "comfortable" with the idea of retaining their stock as affordable in perpetuity. However, we heard significant concerns that the role of S106 agreements in developing affordable housing is diminishing in importance, particularly with the introduction of Starter Homes. Genesis argued that Starter Homes form part of a system that allows developers to "run rings around local authorities", suggesting that this is "another ring that [developers] will be able to use to avoid… section 106 schemes". Octavia argued that "if developers get the opportunity to sell properties at £450,000 rather than the price with which we can support affordable rents, why would they not do that?" **With this in mind, Family Mosaic's call for the Mayoralty to bring forward "clearer and more definite" guidance on the level of affordable homes expected in new developments is particularly urgent.**

The challenge of land-use

Challenging high land costs in central London
The high cost of land is one of the biggest challenges facing affordable housing providers and City Hall will need to be proactive in managing this problem. The City of Westminster told us that their experience is that capital is easy to come across but "it is the cost of land and how you… value that land for the use of affordable housing" which is the problem. Competition is escalating the cost of land, as Cheyne Capital told us, meaning that affordable housing providers "cannot compete with somebody who is going to sell it overseas for £2,500 a square metre when you are charging £120 a week in rent". Genesis argued that even where land is acquired, the cost can make up almost a third of the total spending on a new development. This problem is particularly acute in central London. Genesis told us that buying land in Zones 1 and 2 for affordable housing schemes is "nigh well impossible", leading it to look to outer London and even outside of London to find cheaper land. As was recommended by the Planning Committee, [4] the new Housing Supplementary Planning Guidance encourages land valuation based on its existing use, with a small premium attached to incentivise a landowner to sell.[5] However, in order to sustain mixed and balanced communities, more action may be needed to ensure that affordable housing providers are able to access land in central London.

[4] Planning Committee, February 2016, 'The need for Supplementary Planning Guidance on Viability Assessments'
[5] Greater London Authority, 2016, *Housing Supplementary Planning Guidance*

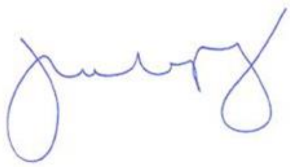
Opening up small pockets of land
Resolving the dilemma of how to quickly develop affordable homes requires innovative ideas. YMCA London South West told us about their pioneering Y:Cube scheme in Mitcham, which consists of 36 fast-to-build modular homes costing "around £52,000 per cube, built, delivered on-site, and… affordable, therefore, also for people to rent". These units could be built on small brownfield sites as temporary housing for up to five years while the site itself passes through the planning process. We heard some concern about the small size of the Y:Cube, at just $26m^2$, with Denise Brown (from the WSQTA) and the City of Westminster warning that building fast and cheap should not come at the expense of space standards. The Committee agrees with this view, but we support the YMCA's call for better access to small pockets of land to continue to deliver affordable temporary housing.

Innovation on the sale of publicly-owned land
New thinking is also needed on the best use of publicly-owned land in London, particularly on how land should be used to provide new affordable homes for rent. Dolphin Living emphasised that the issue of public land allocation is "fundamental", and along with the City of Westminster, urged a move away from freehold sale to leasehold sale. On our site visit, the Committee saw how Barking and Dagenham Reside Ltd. has ensured that the privately delivered affordable housing at William Street Quarter will eventually revert to the council along with the leasehold. As an alternative, Cheyne Capital argued that the public sector could allocate land directly to affordable housing providers, outside of a S106 agreement, so that they can avoid being "tied to the developer's delivery timetable… and [therefore this] would allow for much faster delivery". **A future Housing Strategy should set out a number of different options to make best long-term use of publicly-owned land.**

I am copying David Lunts into this letter in the hope that he finds the observations and expert views presented here useful in preparation for a future Housing Strategy. The full transcripts from the Committee's meetings and a note of the site visit are available using the links below:

- 19 November 2015- http://tinyurl.com/hk9nxjl
- 19 January 2016- http://tinyurl.com/jgp5ukq
- Site Visit to Barking and Dagenham, 15 December 2015- http://tinyurl.com/h5uj9uv

Yours sincerely,



Tom Copley AM
Chair of the London Assembly Housing Committee

Cc: David Lunts, Executive Director Housing and Land, GLA