

Submission, to the public Consultation on the new London Plan, from Ed Randall* reflecting the work of the Coalition for Economic Justice's Working Group on the future of the OPDC and its report *Let's Supercharge the OPDC and bring 'Singapore' to Thames side*

1. This submission has been written by Ed Randall*, who recently served as a member of the Coalition for Economic Justice Working Group (CEJWG) on the future of the Old Oak and Park Royal Development Corporation (OPDC). The submission is a response to the invitation to respond to the publication of the new London Plan.
2. The Coalition for Economic Justice (CEJ) comprises political groups, pressure groups and charities that came together in 2008 in response to the economic crisis of that year and who have continued to work together for the establishment of justice in economic affairs. The Coalition proposes the introduction of an annual Location Value Tax (LVT) (also known as a Land Value Tax) to reduce existing taxes on enterprise and labour in order to rebalance the economy and prevent future economic crises. In March 2009, the Coalition convened a seminar in the House of Commons to promote LVT as a means of raising public revenues. In March 2016, exactly seven years on, a second seminar was convened by the CEJ in the House of Commons.
3. The WG on the future of the OPDC was asked by the CEJ to prepare a response to the OPDC's revised draft local plan, published at the end of June 2017, and then to go on and develop a proposal, for publication, reflecting its evaluation of the revised draft local plan and to make recommendations for enhancing the OPDC's ability to capture the uplift in land/location values in such a way as to enable it to achieve valued social objectives, including increasing the availability of affordable new homes in London.
4. The WG was also asked to set out an approach, which it believed was relevant to managing the OPDC so that the mayoral corporation was well fitted to make the most, for London and Londoners as a whole, of:
 - (i) public investment in transport infrastructure;
 - (ii) commercial developments above, in and around a major new transport hub;
 - (iii) opportunities to build a substantial volume of new dwellings across a major urban site in public ownership; and,
 - (iv) the opportunities, offered by its remit, to promote and facilitate new employment, especially in the western/Park Royal section of the OPDC area.

The WG came to the conclusion that what could be made to work for London could serve other major metropolitan areas in the UK and intends to contribute to the work of the recently formed All Party Parliamentary Group on Land Value Capture.

5. The WG set out to make recommendations aimed at maximising the local and London wide benefits of the OPDC's stewardship of the area, for which it had been given responsibility. The OPDC's stewardship of Old Oak and Park Royal is expected to be exercised over a period of thirty or forty years. The author of this submission believes that the construction of at least 25,000 new homes, with at least 50% being affordable, is well within the Corporation's compass if it makes intelligent use of the Singapore Housing & Development Board model to build new homes in Old Oak, which Londoners, with modest incomes, could afford to rent, lease or buy.
6. It is fair to say that the WG's analysis and recommendations, including those concerned with the construction of new homes close to a major new transport hub serving the whole of the UK, were powerfully influenced by the most inspiring and successful international examples of urban development, design and finance. The WG is firmly of the view that it would be irresponsible not to make the most of the OPDC's very special position as a planning authority AND a development and regeneration agency for a locality where more than 90 hectares of the land, which make up the core development site of 134 hectares, is in public ownership. The WG also looks upon the approach that the Mayor and his team take to the future of the OPDC as something a trailblazer for the implementation and pursuit of the admirable plans set out in the new London Plan.
7. In what follows, the WG's analysis and recommendations are summarised and presented in a way is highly relevant to the work of the Mayor of London, the OPDC, TfL and the Build Out Review called into being at the time of the Autumn budget.
8. The *Build Out Review* was asked to consider and report on:
 - a. the significant gap between housing completions and the amount of land allocated or 'permissioned' in areas of high housing demand;
 - b. ways of reducing or closing that gap; and
 - c. identifying the principal causes of the gap and practical steps that could be taken to increase the speed of build out.
9. The *Build Out Review* was also invited to:
 - a. recommend measures it concluded could be taken to increase housing supply; and
 - b. propose policies that were consistent with (i) a stable housing market in the short term and (ii) a moderation in the rate of house price increases in the longer term, such that housing costs begin to rise more slowly than earnings.
10. The view expressed, in the CEJ WG report on the OPDC - *Let's Supercharge the OPDC and bring 'Singapore' to Thames side* [available as a pdf at <https://tinyurl.com/yd8yyg97>] -

address each of the issues that the *Build Out Review* was invited to consider. It is clear that those issues are germane to the way in London can pursue and achieve its goal of creating a fairer, more prosperous and environmentally responsible city.

11. In relation to the huge gap that now exists between housing completions and the amount of land allocated or 'permissioned' for house construction - in areas of high housing demand - it is clear that conventional markets have failed and will continue to fail. It is vital that public policy makers – and London's leaders and planners in particular - understand and act on the reasons for what is undoubtedly a severe and persistent market failure.
- (i) Most public policies promoted as good ways of surmounting supply constraints in the housing system cannot succeed. Simply calling for more homes to be built, putting more purchasing power into the hands of home buyers, or reforming the planning system, so that it is 'streamlined' or 'simplified', will not reduce the rate at which the monetary value of urban locations, in high demand areas, increases. That increase in the value of well situated locations is not amenable to interventions that ignore critical land and location monopolies. New and existing homes will remain too expensive unless something else is done.
 - (ii) If the supply of land, in high demand locations, were to be responsive to increases in buyer spending power that would suggest that the additional land needed for the construction of new homes in those areas – just like electronic goods in a high demand consumer electronics sectors – could be manufactured with ease. If there were makers of land, who could simply give customers what they wanted - by way of producing more land in high demand areas - the market for homes would function much like the market for mobile phones. However, the production of urban sites suitable for new home construction is – as most people now recognise – largely unresponsive to consumers' willingness to pay more. Buyers for homes in locations in high demand cannot work together to call forth an increased supply as a result of sending a clear market signal, relying on their purchasing power in the aggregate. The market in land/locations does not work like that. Would be home purchasers are in fact competing with one another for access to the existing supply of homes (most particularly the land on which they stand or can be built). The supply of new homes increases very slowly by comparison with most other commodities.
 - (iii) Purchasers of homes are mostly rivals. Indeed it is the ability of some to pay more than others that ultimately settles which – of the many rivals - succeeds in getting what they want for themselves and their families. Landowners and developers of urban land in high demand, appear to understand, to paraphrase Mark Twain, that 'if you own something almost everybody wants more of and that nobody is able to make more of you're on to a winner'.
 - (iv) With so many bidders, for a scarce commodity in such high demand, the owners of urban sites – in prosperous cities, which are suitable for/already have permission for residential development, have a licence to make money that is barely distinguishable from a licence to print money. Indeed the institutions that are

authorised and empowered to make and offer credit have aligned their lending activities more and more with the sale and purchase of housing and residential land. The provision of credit for land and house purchase is highly profitable and is generally perceived as low risk by financial institutions, which have increasingly focused on lending that treats land and property ownership as the most highly prized form of collateral.

- (v) In the CEJ WG report – on the future of the OPDC – it was reported that: “The Blue Book, which accompanied the November 2017 budget statement, had stated (see page 27 of the Blue Book) that: ‘Land value increased from £0.7 trillion to £3.9 trillion between 1996 and 2016 (or by 479%), while the value of dwellings grew by less than half that rate - by 203% (increasing from £0.5 to £1.5 trillion over the same period).’” The data, from the ONS, underscored the extent to which, in analysing the financial assets and liabilities of UK households, the value of land has come to account for the largest share, more than 70%, of the value of residential property. In a period of just twenty years the value of dwellings and land, which had made up more or less equal proportions of the value of residential property, tipped decisively in favour of the underlying value of the land - on which Britain’s residential properties are built. It is hard to think of official data that could more strongly support the points made above.
 - (vi) What is more, the recent publication of Daniel Bentley’s *The Land Question: Fixing the Dysfunction at the Root of the Housing Crisis* [accessible at <https://tinyurl.com/y7nka9nr>] has supplied an accessible and exceptionally well documented (and carefully reasoned) account of the ways in which the land and house building economy in England operates to *dribble* new homes into the new home sale market and frustrate the efforts of public policy makers to help would be new entrants to the housing market make home purchases.
12. What the CEJ WG recommends (see below) - even if mirrored in the actions and policy decisions of other major metropolitan authorities across England - could not (on its own) correct imbalances and deficiencies in the UK housing system that have built up over decades; but, it could help to begin the process of closing the ‘gap’ referred to in the *Build Out Review’s* terms of reference and begin to meet the ambitions of London’s elected leader, its Mayor - Sadiq Khan.
 13. If public policy makers want to play a constructive part in closing the gap then, it is necessary for them to begin an effort to break a vicious cycle that is a consequence of land and location monopolies, which are fuelled by credit markets favouring land owners and their agents; monopolies that empower some especially advantaged urban land owners at the same time as they disempower huge numbers of would be home purchasers - most especially those with limited means.
 14. Temporary measures, designed to boost the purchasing power of renters, leasers and home purchasers, are not good strategy for the public authorities; assuming that they want to reduce the deeply entrenched economic power that comes from the ownership and control

of increasingly valuable urban sites. Such measures would simply add fuel to an asymmetric market, in which access to land – as tenant, lessee or purchaser – is contingent on satisfying those who hold the whip hand in setting the terms and managing the rate of build out; economic interests that are clearly and very powerfully financially motivated to manage build out in ways that serve their own interests and that contribute to them achieving the highest return possible on their key asset: land with planning permission for residential development in the most lucrative high demand locations.

15. Where public authorities are the owners of land that is suitable for development they need to take the lead in bringing that land into use and they should do so on terms that assist all those whose needs and interests would otherwise be marginalised. To that end the CEJ WG proposes, in a pamphlet it hopes to publish later this Spring year, the following:
 - a. Establishing an irrevocable [OPDC] Trust to oversee the delivery and management of decent and affordable housing for thousands of Londoners. The Trust would need to meet high standards for governance and transparency, and pursue agreed and clearly established objectives that enjoy strong public support. It should then be left to get on with the job.
 - b. Ensuring that effective partnerships are established with competent development partners, such as the publicly owned London & Continental Railways and Hong Kong's MTR Corporation, in order to deliver major infrastructure and building projects to high standards, on cost and on time.
 - c. Obtaining funding on the most favourable terms possible from the Public Works Loan Board, so that the OPDC - its agents and its partners – are enabled to recruit and retain capable and committed staff. It is essential to be able to give the assurance that the Mayor and OPDC's regeneration and development schemes will be well administered and managed in the best interests of all of London, rather than of a small number of landowners and/or shareholders.
 - d. Ensuring that OPDC's property leases and rental agreements, for commercial premises and industrial land, maximise the OPDC's long term income streams. The aim being to ensure that the OPDC can continue to fund vital investments and pay for maintenance and repairs - without having to raid funds built up to pay for longer term projects (such as boosting the proportion of decent and affordable new homes built in the capital).
 - e. Guaranteeing a sufficient income stream from OPDC investments, housing developments and the sale of non-renewable housing leases, to meet the Mayor's objective of including at least 50% of affordable housing in all new housing construction; and, in doing so, take full account of robust calculations of housing affordability for lower income households in the capital when setting rents.
 - f. Supplying new housing on responsible and sustainable terms, including the requirement to pay ground rents - adjusted in line with changing land values. That's

so that leaseholders will contribute to meeting the costs of new homes and do this in ways that help to enhance access to decent and affordable housing across London for the long term.

16. So serious has the position in Britain's housing system become that it is hard to conceive of circumstances in which new construction could be accelerated to the point where the market in new homes – or in residential property generally - would be destabilised by increasing the rates at which extant planning permissions are put to use. The shortfall, in terms of meeting existing demand, is so great and the difficulties of gearing up the construction industry for greater production so substantial that any anxieties about jeopardising 'a stable housing market in the short term', referred to in the Review's terms of reference, should be put to one side.

*Ed Randall is a retired academic who has written extensively on public policy and political ideas. His published works include: *Deptford health challenge evaluation report* (1997); *The European Union and health policy* (2001); *The plan for a European Food Authority and the politics of risk in the union* (2001); *A union for health: strengthening the European Union's role in health* (2002); *Food, risk and politics : scare, scandal and crisis : insights into the risk politics of food safety* (2009); *How and how not to face the future - a response to the Liberal Democrats: facing the future* (2011). He was the joint editor of the *Dictionary of liberal thought* (2007).

Ed Randall would like to record his thanks and appreciation to his CEJ OPDC WG colleagues, for their work in analysing the dynamics of land value uplift in London and around the world and for their efforts in exploring measures to ensure that such uplift serves the interests of the many not the few. Ed wishes to acknowledge that his colleagues, Andrew Purves and John Lipetz, brought their expertise and enthusiasm to the work of the CEJ WG and that its deliberation and final report benefited greatly as a result.

Andrew Purves is the author of *No Debt, High Growth, Low Tax: Hong Kong's Economic Miracle Explained* published by Shephard Walwyn in November 2015. John Lipetz is an ardent campaigner for social justice and fair taxation and a member of the Labour Land Campaign.

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