



Sian Berry AM Chair of the Housing Committee

Sadiq Khan

Mayor of London

(Sent by email)

25 March 2022

Dear Sadiq,

I am writing to you on behalf of the London Assembly Housing Committee, following our recent investigation into non-construction methods for expanding the stock of social housing in London.

We wanted to explore a range of alternative ways to increase the number of homes for social rent, including ways to bring existing homes and buildings into the social rented sector, outside of the construction of new homes. We recognise that delivering newly built social housing is one of your key priorities already, but there remain significant challenges to meeting existing and future demand. We wanted to understand the potential – alongside the construction of new dwellings - for existing homes to play a part in contributing to supply. I want to use this opportunity to share with you our key findings and recommendations.

To support our investigation, we held a meeting on 23 February 2022 with a range of experts to discuss potential mechanisms for increasing social housing stock in London. Guests who attended our meeting included:

- John Hughes, Group Development Director for Notting Hill Genesis,
- Chris Bailey, Campaigns Manager for Action on Empty Homes,
- Councillor Diarmaid Ward, Deputy Leader and Executive Member for Housing and Development, Islington Council,
- Ben Denton, Chief Executive of Legal and General Affordable Homes,

- Peter Matthew, Executive Director of Housing, Planning and Communities, London Borough of Hounslow, and
- Josie Parsons, Chief Executive Officer of Local Space.

There was an engaging and interesting discussion, where the Committee heard details of a range of methods that guests are using to bring existing homes into the social rented sector. Guests were passionate about making the best use of London's existing buildings, from empty homes to former prison officer accommodation, and about the opportunities for purchasing homes from the market as well as former Right to Buy homes.

Ben Denton, Chief Executive of Legal and General (L&G) Affordable Homes, told the Committee that if each local authority was able to purchase just 200 or 250 homes a year for social housing it would make a significant difference to London's stock. For comparison, this theoretical level of acquisition would lead to around 6,000-8,000 additional social rented homes across London, while the Committee's 2021 Affordable Housing Monitor showed that in 2020-21 there were 6,162 new homes started at social or London Affordable Rent and 2,208 new home completions at these tenures.¹

Buying new social rented homes from other tenures

A number of ongoing initiatives in London are aimed at purchasing existing stock for the purpose of transforming it into social housing, including:

Purchase (or leasing) of open market homes – this is the acquisition of 'second hand' properties that may require repairs to bring them up to a good standard to let, or the leasing of existing properties to use as affordable housing, where providers enter into a contract with a building owner for a defined period. John Hughes from Notting Hill Genesis (NHG) told us that NHG has acquired over 500 homes using this method in recent years. With this approach, NHG is able to provide family homes with gardens that are difficult to deliver through new developments. Peter Matthew from the London Borough of Hounslow told us about bulk-buying new but unsold Shared Ownership homes from housing association developers, where they may have a 'glut' of this tenure, to convert to council homes.

Buying back former council homes – the new Right to Buy-back fund you made available from July 2021 also supports and encourages councils to acquire existing homes. The scheme allows ex-council homes and other properties to be purchased for social housing or temporary accommodation. Hounslow and Islington Councils told us about their experiences of the scheme, with Islington noting that, combined with their other buying programmes, they are currently purchasing around four homes a week. Hounslow noted that it does not wholly target the fund towards ex-council homes, preferring to use other sources of funding for this, including Right to Buy receipts. Given the name of the fund, the Committee is concerned that other councils may not realise its flexibility and may so far be missing out on significant opportunities to provide new social housing. This scheme is making a positive contribution to London's supply of social housing; further promotion of the scheme, for example by sharing best practice case studies

¹ [2021 Affordable Housing Monitor](#). London Assembly Housing Committee, Oct 2021

such as Hounslow with other local authorities, could show the innovative ways it is being used. We look forward to more deals being done with boroughs in the coming months.

Private investment – investing in affordable housing can offer long-term returns on investment, and is particularly appealing for investors who are looking for social impact in addition to financial returns. Ben Denton from L&G told the Committee about his work with councils, which involves entering into long-term financing structures to assist them with buying existing homes. L&G Affordable Housing also buys and builds its own affordable housing, which is leased to housing associations.

Bringing empty homes back into use

Empty homes in London have generated much media attention, with suggestions that bringing them back into use could potentially help expand the supply of social housing and offer accommodation solutions for those in need.

The Committee recognises that there are a number of challenges in relation to this approach, which we set out below. However, we want you to be aware that our guests spoke enthusiastically about their desire for greater powers to bring empty homes back into use.

Changes of use and conversions

The Committee wanted to consider whether recent changes to planning law, allowing Permitted Development Rights to convert buildings from other uses, such as offices and shops, to residential uses, might contribute to social housing supply.

While these rights are not currently being used for this purpose to any guest's knowledge, there was a discussion around how, if used extremely carefully, this mechanism might create more social rented homes. It is important to note that opinion on this was very mixed, and guests emphasised that quality and space standards should not be compromised.

Barriers to implementing non-construction methods

Despite their current activities and ambitions, guests at our meeting voiced their concerns over a number of barriers preventing them from more effectively utilising non-construction methods to create new social housing supply. These are outlined below.

Legislation - currently, the main tool available to councils to discourage homes being left empty is the council tax premium, which is limited to 200 per cent. It was suggested at our meeting that this tool was largely ineffective and that inadequate legislation leaves councils with too few powers to take more effective action on this issue. Additionally, homes currently have to be empty for two years before an Empty Dwelling Management Order can be applied for and while the Government's Levelling Up White Paper proposed reducing this to one year, it was previously six months before being changed by the then Government in 2012.

Ben Denton noted that as a for-profit organisation, L&G faces additional costs in terms of acquiring homes, such as Stamp Duty Land Tax and Residential Property Development Tax. He

raised concerns that this makes the returns on investment from purchasing existing homes lower, and therefore a less attractive prospect for investors.

New Government guidance says that, from April 2022, a new cap will be placed on the acquisition of existing properties using Right to Buy receipts, in order to ensure that retained receipts are being used to increase housing supply. At our meeting, we heard concerns from guests that these changes may be challenging for councils that are currently purchasing former council properties, as these often represent some of the lowest cost homes on the market.

This change in policy could also be a new barrier for housing associations who work in partnership with local authorities, if their funding models are reliant on the use of retained receipts. Josie Parsons from Local Space told the Committee these changes could directly impact the availability of grant support for her organisation to acquire and refurbish existing homes.

Funding - while there are some grants available, the Committee heard that there is a need for greater subsidy for purchasing and converting existing housing to social rented homes.

Ben Denton told us: “For housing to be converted from one tenure to another, there needs to be subsidy and that subsidy is lacking. We have some forward-thinking local authorities that are going out and borrowing their own money and Islington is a great example and I know other local authorities are doing it, Hounslow as well. But ultimately the borrowing that they bring forward has to be funded from somewhere.”

Grant conditions - we heard from some guests that they had faced trouble obtaining grants from the GLA due to conditions on space standards within the terms and conditions of the Affordable Housing Capital Funding Guide,² which were not often met by older properties.

Josie Parsons from Local Space, said: “The barrier in obtaining grant for us is that the space standard that the Mayor requires as part of the GLA terms and conditions is often not met by some of those older properties [...] The GLA, when they are awarding grant, they have some flexibility around that, but it is not infinite by any means. That is definitely a potential barrier, certainly for us in the way that we do business.”

Financial - guests told the Committee about complexities in assessing the value for money of these alternative methods. John Hughes from NHG explained that, after repairs and legal costs, the cost of acquisition and conversion is around 120 per cent of the value of the home, making the investments run “slightly at a loss.” However, it allows housing providers to deliver properties at a speed that is otherwise not possible and, along with the addition of larger homes with gardens, for example, does have significant social value which is factored into NHG’s decisions.

Other financial challenges include the varying costs of housing across London. Josie Parsons said that some areas are totally inaccessible to Local Space’s model of acquisition because property

² [Affordable Housing Capital Funding Guide](#), GLA

costs are so high. She also mentioned that Local Space is now selling properties in high value boroughs, such as Hackney, to enable more or larger homes to be bought elsewhere.

Recommendations

We make the following recommendations from our initial investigation into this issue, and would also like to hear whether you are considering any other ideas for supporting the creation of new social housing in London, outside of your programmes to support new construction.

We also want to stress that the Housing Committee strongly believes and advocates for the construction and development of new social housing units, and that the models outlined here would always be intended to complement this work and provide alternative routes to take place alongside new construction.

1) Your officers should make an official assessment of these models to determine the potential contribution each could make to expanding the supply of social housing in London.

2) Work on your next housing funding bid to Government should include an investigation into the potential costs and value for money of non-construction methods of creating social housing as a complement to subsidy for new construction. Within these assessments, the social benefits should be quantified as extensively as possible.

3) You should also review the application of the current conditions for acquisitions in your capital funding guidance to examine whether there could be more flexibility applied to standards, particularly when good quality former council homes are being brought back into the social housing stock.

We know that social housing is a priority for you as Mayor and we can see that more new council homes have been both started and completed in recent years.³ However, there is still more that can be done to deliver the increase in supply of social housing that Londoners need. The models outlined in this letter cannot solve the housing crisis alone, but they could offer additional options to pursue that could alleviate housing pressures in London. We look forward to receiving your response and any further ideas from you.

I would be grateful for a response to this letter by 6 May 2022.

Yours,



Sian Berry AM
Chair of the Housing Committee

³ [2021 Affordable Housing Monitor](#). Housing Committee, Oct 2021