

Response to Consultation on Mayor of London Housebuilding LPG

Highbury Group on Housing Delivery

Introduction

The current collapse in housebuilding in London is a consequence of a series of policy failures by government and the Mayor of London, which have been enhanced by external economic factors.

The fundamental problem is that development costs in the market sector in London have risen faster than effective demand in the form of the ability of purchasers to pay sales prices sufficient to generate the required investor return for developers. This fall off in developer viability has also reduced the ability of market led development to support the funding of sub-market homes including social rented homes.

We have continuously argued that a strategy of relying on a volatile private market to support sub-market housing provision is mistaken, and that social rented housing should be provided by local authorities, housing associations and other social housing providers, supported by government grant, which was the basis of funding social housing until the late 1990's.

It is not surprising that the push to maximise unit output through densification has led to much new development in London being at very high unit construction cost and in built forms such as high rise development, which is not only unsuitable for social rented homes for family households, but which are also proving difficult to sell in the current market, given prices, service charge costs and concerns over fire and construction safety.

The focus on higher density development has in fact inflated land costs, and consequently increased total construction costs. There have also been a series of additional costs imposed on development, including the requirement for second staircases (which has led to schemes being redesigned), the Community Infrastructure Levy, requirements of the Building Safety Regulator and the landfill levy. Housebuilders, developers and investors will in many cases have paid too much for land, not fully taking into account these costs, to discover that given stagnation (and in some cases falls) in projected sale prices, their projects are no longer sufficiently profitable. Moreover the failure of local planning authorities to insist on their policy requirements for sub-market housing on specific sites have meant that some developers have assumed that such requirements can be negotiated away. Clear zoning of housing sites with clear requirements for proportions of sub-market homes, and specifically social rented homes, should have depressed land costs, but this does not appear to have happened.

It is arguable that stagnation in (and falls) in sales prices should be welcomed, as it increases housing affordability. However a fall in house prices in London of approx. 5% (or even 10-15% in real terms if compared with incomes) does not significantly help affordability except on the margins of prospective house buyers. There is as yet no significant trickle-down effect in terms of housing affordability for lower or middle income households. The most effective way of providing social rented housing remains direct grant funded development by local authorities and housing associations, a programme which requires total grant at four to five times the current level in total, with significantly more grant per new home than is currently available.

It is also important to focus development , in both market and sub-market sectors on housing types where the unit development cost is lower – this means lower and medium rise housing, including houses as well as flats, on lower cost land. This will be predominantly on suburban sites, both within London and in adjacent local authority areas, This requires a rethink of existing planning policy both within London and within the wider South east. Such a policy needs to be supported by increased powers and resources for local authorities to acquire suitable land for residential development, including stronger powers to compulsorily acquire land at existing use value. A new longer term housing strategy is required, and we are concerned that the short term measures proposed by the Government and the mayor will not have a significant positive impact on the current collapse in housebuilding output, but will also jeopardise the development of the required long-term strategy. It should be noted that given the representation of different interests within the Highbury group membership, there were differences of view as to the balance between focusing on short term interventions and their potential positive and negative impact and the need to develop a long-term strategy for a more sustainable approach to housing development in London. It should be recognized that this response is specific to the current London context and the proposals put forward by the Mayor. It is recognized that the context is very different in other parts of England, and that the balance between costs, value and subsidy requirement varies widely between schemes and locations.

Response to specific questions

Question 1: Are the proposed changes to the cycle parking standards, in conjunction with the wider package proposed by this consultation, likely to make a material difference to the viability of residential schemes while still providing sufficient cycle parking to enable sustainable growth in London and mode shift?

Response: We support the proposed changes to cycling parking standards, as there is some evidence that the existing standards were excessive and had a negative impact on scheme viability, affordability for occupants and aspects of design quality which were more important. These proposed changes should be implemented on a permanent basis to have impact in the longer term . Time limited requirements are problematic as they mean schemes will be continuous redesigned as design requirements are changed. The London Plan design requirements need to be consistent with national design standards.

Question 2: Do you consider that the guidance on flexibility and quality in sections 2.3 and 2.4 of the guidance will address development viability and cycle parking quality challenges?

Response: No Comment

Question 3: The GLA welcomes views on the proposed changes to the housing design standards.

Response: We acknowledge that the introduction of a requirement for two staircases for dwellings above a certain height, which we welcome, makes the achievement of standards in relation to dual aspect and the number of dwellings accessed from a core more difficult to achieve. Consequently we support the proposed changes and consider that these should be permanent rather than temporary as proposed. We are however concerned that the proposal is mainly intended to facilitate the development of higher density and especially higher rise residential developments. Access to daylight/ sunlight must be protected. It is important that residential developments are in a built form which meets a range of housing requirements for different types of households and it is critical that development includes lower and medium rise dwellings and the built form and density is appropriate to both the location of development as well as the requirements of the households who are the intended occupiers.

Question 4: The GLA welcomes views on the time-limited planning route. Do you agree that this will support the early delivery of housing development whilst also maximising affordable housing provision in the short term? Are there any changes to the approach that would more effectively achieve these objectives?

Response: We do not support and have not in the past supported the introduction of a fast track route for the determination of residential planning applications based on a threshold proportion of 'affordable housing', as the potential to develop affordable housing varies widely on a site by site basis, with the economics of each scheme being different, reflecting site constraints, land and construction costs, built form and design, sales and rental values and critically, whether public subsidy is available for the provision of social rented homes and/or other sub-market homes. Every development proposal therefore needs to be subject to a development specific viability test, irrespective of the level of 'affordable' housing and types of 'affordable' housing provided. Given the definitions of affordability relate to proportion of market sale-prices and rental prices, rather than the household income of potential occupiers, applying a crude proportion of 'affordable' housing is unhelpful in terms of ensuring that the housing which is developed meets the needs of the wide range of households assessed in the Strategic Housing Market Assessment.

S.106 contributions should be subject to a standard 'public interest' based viability assessment, which can pick up variations over time and space in economic conditions affecting viability. The viability assessment should indicate the level of public subsidy required to achieve a policy compliant scheme. The setting of a specific proportion for the threshold in the 2021 London Plan was a mistake in that not only policy did not reflect the different economics of different schemes, but it proved inflexible in terms of changing external economic factors, which is why the Mayor now proposes amending the policy.

It is questionable, in terms of planning legislation, whether the Mayor has the power to amend a policy through revised guidance rather than through a formal amendment to the Plan, which requires a different statutory process including an independent Examination in Public. As the introduction of revised guidance does have the effect of amending the existing London Plan policy, this policy actually stays in place, while the guidance acts as a material consideration until 2028 or a new London Plan is adopted. This is a very confusing situation which will lead to disputes between developers, local planning authorities and the GLA.

While the Mayor's background paper refers to an increase in housing output since the threshold policy was introduced, this does not demonstrate a causal link, as housing output is the consequence of a wide range of factors, not just the Mayoral planning policy and practice. Moreover there is no evidence that the proposed policy change will have the positive impact assumed by the Mayor, given the wide range of other factors involved. In fact the proposals discount that many housing associations will be reluctant to take on the relatively small numbers of social rented units which will be produced by this approach – for example 5 units in a 50 unit scheme, as this is not very cost-effective in management terms.

It has always been our view that while planning gain, in terms of funding from developer profit to support the provision of different forms of sub-market housing on or off-site, can be a useful supplement to the provision of social rented and other sub-market housing, it can never be a substitute for either direct development by local authorities or by housing associations funded primarily through government grant. This is demonstrated by the fact that even in the boom years for developers, the provision of social rented homes through developer led schemes in London, fell well below both targets and the assessed housing needs. It is also clear that when cross-subsidy from development falls, there is a need for increased public sector led development and government subsidy, especially in the current context where construction material costs and labour costs are increasing, and where as yet there has been no significant fall in land costs, while sales values are fairly static and there is a fall-off in market demand. The government's national affordable housing programme is totally inadequate and any sound analysis of housing requirements and development costs shows that an annual investment programme in the range of £15-20 billion is required, depending on where homes are to be located, recognising that unit costs in London and parts of South East England are generally higher than elsewhere in the UK. It is recognised that this is far in excess of the Government's current investment programme.

It follows from the above, that there will not be any significant increase in affordable housing (or output more generally) in London without a significant increase in the total amount of subsidy available or in the amount of subsidy per unit. In our view the funding regime needs to return to the system of grant based on Total Cost Indicators, reflecting the costs of different types of dwellings and the variation in costs between different locations, as well as the revenue from revenue income from affordable rents, which was operated by the Housing Corporation until the late 1990's. This will remove the reliance of social housing developers on cross-subsidy from private developments.

Moreover the setting of a new lower threshold will jeopardise those schemes in higher value areas, notably in central London, where Local authorities have negotiated higher proportions of affordable homes. In fact the new approach will encourage developers to bypass local planning authorities to seek Mayoral or Secretary of State approval for schemes which may maximise market sale or market rent output but with lower output of affordable housing. It will encourage developers to seek lower affordable housing requirements even where the consented scheme is viable. This is also encouraged by the increase in both mayoral and Secretary of State's call in powers.

The relaxation of affordable housing requirements will also have the impact of protecting residential land values, whereas in the current circumstances the retention of existing planning requirements should result in the reduction of residential land values, which would assist affordability in the medium and longer term.

Question 5: Do you agree with the proposed eligibility criteria for the time limited planning route? The GLA welcomes any views on whether this will, and how this better can, help to achieve the objective of increasing housing supply and supporting early delivery whilst also maximising affordable housing provision in the short term.

Response: All developments should be assessed against policy requirements as set out in Local Plans based on the strategic Housing Market Assessments in accordance with pre-existing national planning policy. Financial viability assessments should reflect the economics of individual schemes including the availability of public subsidy. We do not therefore support any mechanism which exempts specific schemes from this process, which should be consistent, fair and transparent. The review proposals are weaker than for the current 'fast track' regime. The proposal for 40% retention of surplus profit is generous and does not incentivise speedy delivery as it encourages developers to delay completion until sales prices increase. Increase in profit relative to initial viability appraisal should also generate increased proportions of social rented homes, whether directly on site or indirectly off-site..

Question 6: Do you agree that the proposed approach to grant will help to achieve the objective of increasing housing supply and supporting early delivery, whilst also maximising affordable housing provision in the short term? To what extent will this help to support the acquisition of affordable homes secured through the planning process by Register Providers?

Response: We do not agree. Some schemes can provide significant affordable housing without grant while others cannot. The setting of a threshold of a minimum of 10% affordable homes before grant is considered fails to reflect the variations between specific schemes.

Question 7: The GLA welcomes views on the approach to reviews under the time limited route, including whether any further criteria should be applied which would a) incentivise early delivery, or b) help to ensure that, if reviews are triggered, additional affordable housing contributions are provided where viability improves over the lifetime of the development.

Question 8: Recognising that the substantial implementation milestone of the first floor set out in 4.6.1 may not be appropriate in all instances, are there any circumstances in which an alternative review milestone to completion of the first floor would be necessary and justified, in a way that continues to incentivise fast build out?

Question 9: An alternative approach for phased schemes would be for boroughs, and the Mayor for referable applications, to have discretion to agree forward dates and milestones for future phases if it would support the faster build out of the scheme, which if met mean that no review is required for that phase.¹⁷ Do you agree with this and what measures would be required to ensure that this resulted in faster build out than may otherwise be the case?

Response: We would support a review of unimplemented planning consents, in terms of no substantive start on site within 12 months of consent being granted. Where it was evident that there was no likelihood of construction proceeding within a fixed timescale, consent should be cancelled and the developer given the option of either bringing forward a deliverable development or being subject to a Compulsory Purchase Order, based on the pre-existing use value of the site, ie: the value assuming no consent had been granted.

All consents should be subject to review periods, including mid-development and completion reviews, which should allow for an increase in affordable housing provision relative to the consented scheme should either a) the scheme economics have significantly improved or b) public subsidy has been made available for the scheme.

Question 10: The GLA welcomes views on any additional measures that would support the delivery of schemes with existing planning consents which provide 35 per cent or more affordable housing. Do you agree that the time limited planning route would support schemes which have been granted planning consent but are currently stalled?

Question 11: Are there any further measures that would help to prevent the level of affordable housing being reduced in consented schemes where this is not needed to enable the development to progress?

Response. As commented above , the increased availability of public subsidy is the most effective means of increasing the output of affordable housing. Increased powers for local authorities to acquire development land, whether or not allocated for housing in a local plan, and whether or not granted planning consent for residential development, at prior existing use value.

Local authorities should use Empty Property Management Powers to take over the management of completed units not occupied within six months of completion. This will include homes developed as affordable homes under s106 agreements, where no social housing provider has taken over the management of units.

The Mayor and London boroughs should review the development potential of all small sites (say below 100 units) identified in Local Plans or in Strategic Land Availability assessments and invite proposals for development of small sites not yet identified which can provide significant proportions of social rented homes, within short timescales. These homes will be primarily low and medium rise..

Local authorities and housing associations should be funded to undertake a significant programme of acquisitions from the market sector, which should focus on homes which are suitable for social renting to family sized households and are in low or medium rise schemes. These should be allocated on a London-wide basis to households in the greatest need.

The focus of all policy should be on ensuring both new and existing housing is used most effectively to meet priority needs rather than on achieving crude unit targets. We also need to shift the focus of London development away from maximising unit output through densification and high rise development, which are expensive to build and therefore expensive to buy or rent to homes which are more appropriate for and affordable by the households in greatest housing need who are unable to afford market prices and market rents.

Note: The Highbury Group on Housing Delivery comprises an independent group of specialists from the public, private and independent sectors with a membership drawn from housing, planning and related professions; it offers advice and makes representations to Government and other agencies on a variety of subjects, with the aim of maintaining and increasing the output of housing, including high quality affordable housing. The views

and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of all individual members or of their employer organisations. The group's core membership and previous statements and research presentations are on the group's website:

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