

# The London Housing Challenge

## A London Councils Discussion Paper



*Housing in London is no longer meeting the aspirations and needs of Londoners, or the needs of business and the capital's economy.*

In 2012 the Confederation of British Industry, for the first time, cited housing as a bigger barrier to growth in the capital than transport. Home ownership has fallen below 50 per cent for the first time since records began. Since 1983 house prices in London have increased in real terms by 389 per cent, but average household incomes have increased in the same period by only 159 per cent. In 2013, the average rent for a three bedroom flat is £1,833 per month, consuming typically 59 per cent of a London family's income. Londoners now experience the highest levels of overcrowding in the country and the capital has more than 41,250 homeless households in temporary accommodation, record levels.

Finding a place to live in the world's greatest city is becoming increasingly tough - restricting the opportunities and aspirations of its people and threatening the growth of the city and its economy.

London Councils, which represents London's 32 boroughs and the City of London, has argued forcefully that the housing crisis in the capital is a long term issue of supply. For the past 30 years London's housing supply has failed to match household growth with the city's population rising by 1.5 million people in this time.

The need to increase supply is accepted by government and there have been welcome initiatives by the Mayor and central government to tackle the problem. Yet housing has been a Cinderella area of policy making for so long that policy responses remain essentially short-term fixes and fail to recognise the scale of the problem and its long term, deep rooted nature.

To fix supply we need finance, land and capacity. We need enough builders with enough land and money to build enough homes fast enough to meet the London Housing Challenge.

A new analysis by London Councils of figures from the Department for Communities and Local Government and the Greater London Authority shows that between 2011 and 2021, 526,000 new homes will need to be built in London just to keep pace with London's booming population. A further 283,000 homes will need to be built to meet the unmet backlog of housing. On current projections only 250,000 homes will be built, and London will be faced with a 559,000 deficit of homes by 2021. Even on a conservative definition of housing need (excluding for example overcrowding criteria) the deficit remains 329,000 homes.

No one solution, from any particular perspective, can address the scale of the challenge facing London. Therefore London Councils is outlining a range of policy propositions from different perspectives which we believe, taken together, could result in boost of at least **134,000** compared to current projections and transform the supply side of the housing equation in London. These are not the only ideas on offer, but they cover what we consider to be the three essential areas of finance, land and the capacity of the building industry – cash, consent, capacity – which must be addressed if we are to begin to tackle London's Housing Challenge.

London's schools are now the best performing in the country. We delivered one of the best Olympics in living memory. We can deliver enough homes to meet the needs of Londoners and the capital's economy.

*But we need to think differently, think fast, and think big.*

# Ten ideas to meet the London Housing Challenge

## One: Bringing small scale builders back into the market by increasing flexibility

Less than 20 years ago over two thirds of homes were built by companies employing fewer than 500 people. By 2012, just 27 companies were responsible for 70 per cent of housing starts in London. Small house-builder contribution to overall housing supply could be increased if there was more flexibility in small builders payment of the Community Infrastructure Levy, for example, by it being paid on completion of a development or within six months of a property sale.

## Two: Provide greater financial stability for large scale builders

Currently more than 75 per cent of contracts to build new homes are for 18 months or less. Short term contracts increase the risks of expanding the business and so businesses keep building capacity low to stay in profit. London has delivered on average fewer than 17,000 homes a year since 1981. Long term contracts based on building more homes make it safe for builders to expand and they have indicated to London Councils that this would lead to significant investment in developing their delivery capacity.

## Three: End land banking

In July 2013 there were 124,247 homes that had agreed planning permission in London but which had not been built. In July 2010 London had land with planning permission valued at approximately £12 billion. If an undeveloped land tax, as argued for by the Mayor of London, was levied on land where planning permission had been agreed for housing and just 5 per cent of these homes were started each year, this could lead to an additional 26,825 homes being built over a five year period.

If the Montague recommendations applying covenants to keep new build for rent over a 10-20 year period were applied this would deter speculative land purchases that can raise the price of land by 50 per cent. Ending speculation and land banking will make more sites viable for home building.

## Four: Speeding up the system - full cost recovery

On the basis of research carried out by London Councils, if planning fees for large scale housing regeneration projects were charged on a full cost recovery system enabling councils to meet all 13 week planning targets, this would save developers up to £486 million per year in delayed development costs, while adding only £65 million in planning fees. Full cost charging could be used to fund the kind of pro-active multi-borough teams that supported the work of the Olympic Development Authority.

## Five: Speeding up the system - statutory timeframes

We could streamline non-planning consents, ensuring they run concurrently and introduce a duty for statutory consultees to respond within fixed timeframes on issues such as conservation and environmental impacts assessment and licensing. This would reduce time taken in planning enabling councils to meet their planning targets and reducing development costs. Presently these costs are estimated to amount to £3 billion nationally.

## Six: Free-up housing association equity

If housing associations were given the freedom to decide to reclassify the £14.4 billion social housing grant presently locked up as government 'debt' on their balance sheets, converting it to equity held by government they were able to borrow against, this could generate enough borrowing capacity to fund the construction of over 80,000 homes by 2021.

389%

increase in London house  
prices since 1983

159%

increase in London household  
income since 1983

£1,833

average rent for 3 bed private  
flat in London, pcm

### Seven: Remove the Housing Revenue Account cap

If the artificial cap on councils borrowing against their housing stock were lifted and they were able to borrow up to prudential limits, councils could build more housing themselves. If London boroughs' level of prudential borrowing was at a similar debt to liability ratio as the rest of the country, this would mean an extra £2.5 billion borrowing capacity would be released enabling councils in London to build an extra 13,900 homes by 2021 (this would amount to only 0.24 per cent of the existing national net debt (2011/12), or 0.11 per cent if we include financial interventions, or just over a 10<sup>th</sup> the cost of HS2 [£2.5 billion compared to £32.7 billion cost of HS2]).

### Eight: Promoting sustainable suburban development

If the land around the 11 tube stations and railways stations in London which are in green belt were developed to a 10 hectare area, more than 7,875 new homes could be developed with full existing infrastructure links. The green belt was introduced as a corollary to building 500,000 new homes in new towns and therefore, in areas where green belt has failed as a planning tool, it should not block the sustainable development of much needed new homes.

### Nine: Bringing public sector land on stream for housing

By deferring 25 per cent of payments across the estimated £3.5 billion public sector land receipts in London this could enable developers delaying the payment of £875 million in land receipts. This 'build now pay later' policy on public land in London could lead to an additional 5,000 homes.

### Ten: Increase institutional investment in private rented sector

The scale of institutional investment in the private rented sector remains small compared to our European competitors. The level of institutional investment in the German residential property market was £9.3 billion in 2012. Policy should be geared to increasing the levels of institutional investment - if UK institutional investors invested just half of German levels this could fund the construction of 25,000 additional homes a year.

### And finally: from personal subsidy to bricks and mortar

Over the past 10 years £50 billion has been spent on housing benefit in London, more than three times the £17 billion of capital investment in building new homes and improving existings ones. To break London's long-term supply and demand imbalance that is fuelling increased prices and rents we need to build more homes at social and affordable rent levels. To help achieve this the government could develop an earn-back deal that would give local authorities a share of the savings made from reducing the overall housing benefit bill to be recycled into building more homes at lower rents.

### Next steps

This is a discussion paper. As responses are received we will be working up more in-detailed briefings on specific policy ideas to move the debate forward.

**You can find out more at [www.londoncouncils.gov.uk/londonhousingchallenge](http://www.londoncouncils.gov.uk/londonhousingchallenge)**

**41,250**

number of homeless households  
in TA in London

**283,000**

size of the existing housing  
backlog in London

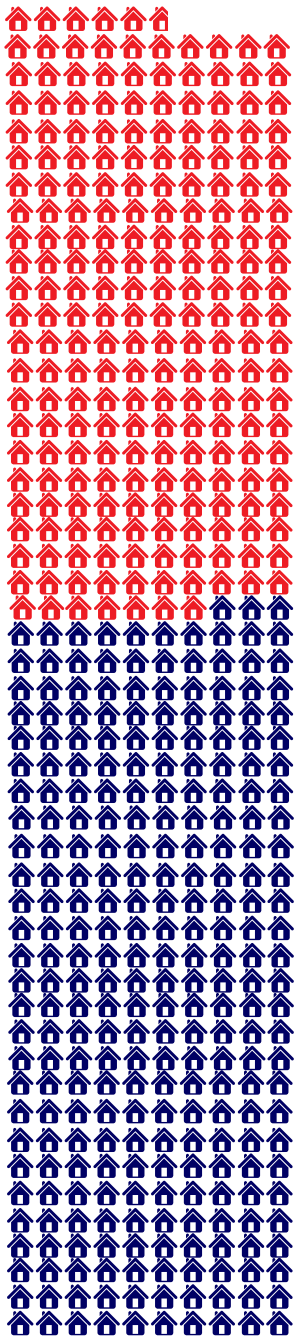
**526,000**

number of new homes london  
needs to match population growth

additional unmet forecast growth

existing unmet backlog

# Projected London Housing Shortfall by 2021 (559,000)



= 1,000 homes

## How these ideas could help boost London's supply of new homes:

Deferring 25% payments on public sector land receipts could add an extra 5,000 new homes:



Promoting sustainable suburban development could add an extra 8,000 new homes:



Removing the HRA borrowing cap could add an extra 14,000 new homes:



Introducing an undeveloped land tax could add an extra 27,000 new homes:



Freeing up housing association equity could add an extra 80,000 new homes:



## London's supply/demand equation:

SUPPLY = CAPACITY (BUILDERS + LAND + FINANCE)

DEMAND = EXISTING BACKLOG + FORECAST GROWTH