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WHO WILL FIX LONDON'S HOUSING CRISIS?

HOW THE MAYORAL CANDIDATES' HOUSING POLICIES STACK UP

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SUMMARY

- Affordable housing requirements are necessary in London, but targets should be set at a level that incentivises development of housing. The 50% affordable housing target proposed by Sadiq Khan, for example, would be ineffective and counterproductive by reducing housing development across London.
- Nor are rent caps the solution to high rents in London. These would merely address symptoms of the problem rather than the cause, which is a shortage of new housing. Rent caps would suppress the growth of good quality rental homes in London. In the past, tight planning laws and long development processes have led to a 35-40% increase in rents.
- There is still a shortage of development on publically owned land. Small developers, for example, claim that acquiring public land for development can take between two and four times longer than acquiring private land. The new Mayor will need to campaign for a more efficient use of surplus public land. It is encouraging to see that both Sadiq Khan and Zac Goldsmith have prioritised the use of public land for housing development in London.
- The expansion of London's transport network is important in unlocking more housing development. It is therefore regrettable that Sadiq Khan's proposed unfunded fare freeze will take £1.9bn out of TfL's budget. This could not only hamper the transport network, but could also slow the pace of house building across London.
- 22% of land within London is currently classified as green belt and 60% of this area is within a twelve minute walk of an existing rail or tube station. Local authorities should review green belt sites near transport infrastructure that are of poor environmental or civic value, with a view to opening up for development. But both Sadiq Khan and Zac Goldsmith are committed to no building on any green belt. This will only reduce the prospective supply of homes in the Capital, and therefore continue the pressure on prices.
- The current Mayor of London has identified 20 housing zones across London. These housing zones are ideal for a simplified planning regime to enable developers to bypass many regulations and boost building in designated areas.



1. INTRODUCTION

Housing tops the list of concerns for Londoners. Over half of the population mention housing as one of the most important issues in the capital – an increase of 13 percentage points compared to two years ago, according to Ipsos Mori.¹

Since 2008-09, London's population has grown by an average of around 120,000 a year. During the term of current Mayor, Boris Johnson, London's population has grown 55% faster than under his predecessor Ken Livingstone.² To keep up with this growing demand, it is estimated that 50,000 new homes must be built a year in London – a target that has been consistently missed in this generation.

A rise in overseas purchases is frequently cited as a primary cause of the Capital's housing crisis. However this factor is having a relatively modest impact on London's housing market. Knight Frank estimates that 7 per cent of new builds in outer-London and 20 per cent of inner-London are purchased by overseas buyers.³ That said, this is an issue that needs to be addressed and both Mayoral candidates have proposed measures to tackle it. Sadiq Khan has pledged that Londoners will get "first dibs" on shared ownership schemes⁴ and Zac Goldsmith has pledged to prohibit foreign investors from buying new homes built on public land.⁵

¹ Ipsos Mori: Londoners say housing is now the number one issue facing the capital, October 2015.

² Average annual growth in population from 2000/01 – 2007/08 was 0.96%. Average annual growth in population from 2008/09 – 2013/14 was 1.45%.

³ Centre for Cities: Blaming overseas investors for the London housing crisis is hitting the wrong target, April 2015.

⁴ BBC News: Sadiq Khan – Londoners to get 'first dibs' in proposed shared ownership scheme, February 2016.

⁵ Evening Standard: Zac Goldsmith – I'll ban foreigners from buying new homes on public land, January 2016.

However, the key issue that the next Mayor will need to grasp is how to increase the supply of homes in the Capital. This paper examines the impact of the Mayoral candidates' policies on this goal.

2. AFFORDABLE HOUSING TARGETS

House prices and rents in Greater London are double the national average.⁶ Some form of affordable housing requirement may therefore be desirable, particularly for key workers who would otherwise be forced out of the city.

However, the need for affordable housing targets and development viability must be carefully balanced. Targets should not be set at a level that hampers the supply of homes in the capital. Every affordable home delivered by a developer represents an opportunity cost. So, if the affordable housing requirements for prospective sites are too demanding, they will act as a disincentive for development across the capital. The result of this would be fewer affordable homes and fewer market-priced homes, which would exacerbate the already chronic housing shortage.

Sadiq Khan, Labour's mayoral candidate, has said that the number of homes built is less important than affordability.⁷ He is proposing to implement a target of 50% affordable homes in the London plan. Zac Goldsmith, on the other hand, has not made the same commitment. Instead, Goldsmith has called for development viability assessments to be more transparent.

Evidence suggests that imposing a stringent affordable housing target may be ineffective and counter-productive.

⁶ Lloyds Banking Group: Regional house prices, Q4 2015.

⁷ FT: Next London mayor faces housing challenge, April 2016.



- When stringent affordable housing targets were previously introduced in the London Plan 2004, they were unsuccessful in achieving their aim. Then Mayor, Ken Livingstone, attempted to implement a 50% affordable target, but only achieved an average of 34% across his mayoralty.⁸ Furthermore, the majority of London Boroughs were unable to meet his affordable housing target.
- The building industry has warned that such a severe target may exacerbate an already chronic shortage of housing. The Home Builders Federation, for example, has said:⁹ “Affordable housing limits thus have to be realistic. Imposing unrealistic targets will make developments unviable, so preventing sites coming forward and reduce the supply of housing – including affordable ones – still further.”
- Property developers in London are already being burdened with the cost of the Community Infrastructure Levy (CIL). Although housing delivery has increased in areas with a CIL, a study suggests that affordable housing delivery in these areas has fallen by 14.5%

since the introduction of the charge.¹⁰ This suggests that developers are paying the costs of the CIL by reducing their affordable housing development. A stringent affordable housing target accompanied with CIL payments would therefore act as a disincentive for development. This highlights the need for a more flexible approach on affordable housing requirements and CIL payments.

There could also be undesirable distortionary consequences from a 50% affordable housing target. For example, under Ken Livingstone’s mayoralty, more intermediate homes (those above social rent, but below market rent) were being produced than required despite the fact that the need for social-rented homes was increasing.¹¹ Moreover, a 50% affordable housing target could also distort the private sector housing market by encouraging high-cost homes at the expense of more modest ones. A site in Camden – which included 50% affordable housing – has been paid for by the construction of two bedroom flats costing an average of around £800,000.¹² A rollout of sites such as this could deprive the private market of more reasonably priced homes.

⁸ BDOonline: [Boris Johnson’s London Plan](#), August 2008.

⁹ International Business Times: [London Mayoral election 2016: Builders attack Sadiq Khan’s ‘unrealistic’ affordable housing target](#), February 2016.

¹⁰ JLL: [CIL hits affordable housing delivery](#), July 2015.

¹¹ London Tenants Federation: [The Affordable Housing Con](#), 2011.

¹² Savills: [XY Apartments, King’s Cross NW1](#).

Table 1: Affordable Housing Construction (2007-08)

Borough	Total net conventional completions	Percentage that were affordable
North Sub-Region	3000	42
North East Sub-Region	1857	30
South East Sub-region	1432	37
South West Sub-Region	1940	34
West Sub Region	2002	39
London	10231	36

Source: *London Plan – Annual Monitoring 2011* [link](#)



For these reasons, the imposition of a 50% affordable homes target is the wrong solution. It will likely reduce the new supply of housing, exacerbating London's housing crisis. On the other hand, Goldsmith's proposal of making development viability assessments more transparent may help increase affordable housing without damaging the new supply of homes in the capital.

3. RENT CAPS

Sadiq Khan has advocated rent caps across London, while Zac Goldsmith has rejected the idea. Although such a proposal would not be within the remit of the Mayor, Khan has pledged to campaign for them.

While rent caps may appear to be a popular solution to the capital's high rental costs, the policy represents a treatment of the symptom rather than the causes of the housing shortage. London's high rents are caused by a lack of supply. Academic studies suggest that a combination of tight planning laws and long development processes have raised rental and housing costs between 35% and 40%.¹³ It is these causes that the Mayor now needs to tackle urgently to address the Capital's housing crisis.

Rent caps would likely also have an adverse impact on the supply of good quality rental homes in London. Evidence from the London Assembly suggests that rent caps would result in modest reductions in the rate of growth in the capital's private rented sector.¹⁴ Moreover, a substantial proportion of the landlords questioned said they would immediately sell all or some of their properties or set out a plan to

reduce the number of properties they owned over future years.

4. PUBLIC SECTOR LAND

There are various public sector institutions that hold land in London – some of which are under the Mayor's control and some that are outside the Mayor's control. The Greater London Authority and Transport for London are under the control of the Mayor, but public sector land owners including Government departments, London boroughs, and the NHS are not.

It is estimated that the public sector collectively owns around 40% of brownfield sites in London,¹⁵ which highlights the potential for public land to help alleviate housing strains in London. Major progress has been made in identifying public sector sites for development. The London Land Commission – set up in 2015 – has identified public sector sites that could deliver 130,000 homes.¹⁶

However, a number of issues remain. Development on public sector sites in London is sluggish compared to private sites. The London Chambers of Commerce reports that some small developers find that acquiring public land for development can take anywhere between two to four times as long as private land, which – incidentally – includes developments of affordable housing.¹⁷

There are a number of issues that the new Mayor will need to contend with. For example, the various public landowners in London have different priorities and there is currently no single body responsible for examining the

¹³ The Londonist: [We don't need rent control](#), February 2015.

¹⁴ Landlord Zone: [London rent control would bring mixed-blessing](#), October 2015.

¹⁵ London Chambers of Commerce: [Unlocking London's housing potential](#), May 2015.

¹⁶ Business Insider: [130,000 houses could be built in London on land owned by NHS, councils and government](#), January 2016.

¹⁷ London Chambers of Commerce: [Unlocking London's housing potential](#), May 2015.



underutilisation of public land and assets.¹⁸ The new Mayor will therefore need to work closely with central government on this issue.

It is encouraging to see that both Zac Goldsmith and Sadiq Khan have prioritised the use of public land for housing development in London. Zac Goldsmith's commitment to recruit a team of expert planners to support local councils speed up housing development is also very welcome.

However, Sadiq Khan's land audit of TfL with the view of developing solar and renewable energy is questionable. This could needlessly reduce the availability of land that could otherwise be used for housing development.¹⁹

5. TRANSPORT CONNECTIONS

The expansion of London's transport network should be used as a catalyst to unlock more housing development. The proposed Crossrail 2 route is a prime example of the potential for new transport infrastructure to provide opportunities for housing development in London and beyond.

A case-study from Paris could provide a useful blueprint for such a strategy. In Paris, the planning authorities and the transport authority have developed a long term land-use planning and transport investment strategy, requiring an estimated €200-300 billion of investment by 2025. This plan is expected to deliver around 70,000 housing units per year.²⁰

This highlights the need for investment in London's transport system to help solve London's housing crisis. Sadiq Khan's unfunded fare freeze, which Transport for London

estimates will cost £1.9bn,²¹ will not only hamper the transport network, but could slow the pace of housing delivery across London over the coming years.

6. GREEN BELT REVIEW

Zac Goldsmith and Sadiq Khan are both committed to not building on green belt land. These commitments will reduce the prospective supply of homes in the capital.

The priority for addressing London's housing crisis should be the development of private and public sector brownfield sites. However, this alone is unlikely to solve London's housing shortage, given that 22% of land within London's boundaries is currently classified as green belt.

A number of studies have highlighted the need to consider some parts of London's green belt for development. Around 60% of London's green belt is within 2km of an existing rail or tube station, providing some ideal spaces for housing development. The London Forum has called for a joined-up approach to growth that twins discussion about the green belt with recognition of the need for development.²² Furthermore, the Communities and Local Government Committee has called for councils to review the size and boundaries of their green belts²³ – a view shared by London First.²⁴

¹⁸ London First: Wasted space to living place, March 2015.

¹⁹ Sadiq.London: The Environment, 2016.

²⁰ Mayor of London: Crossrail 2 submission to National Infrastructure Commission, February 2016.

²¹ Evening Standard: Transport chief defends £1.9bn figure on cost of Sadiq Khan's fare freeze, February 2016.

²² The London Society: Green sprawl – our current affection for a preservation myth?, 2014.

²³ House of Commons Communities and Local Government Committee: Operation of the National Planning Policy Framework, December 2014.

²⁴ London First: The Green Belt – A place for Londoners?, February 2015.



Table 2: Breakdown of London's Green Belt

	Hectares	% of London's Green Belt
Buildings	722	2%
Environmentally protected land	4,515	13%
Parks and public access land	4,658	13%
Other*	26,639	76%

* Agriculture, plus other uses such as golf courses, utilities, historic hospitals, etc.

Source: London First

A review of London's green belt is sensible, given that much of the currently designated green belt is far from essential. For example, 2% of London's green belt has buildings on it – equivalent to 722 hectares – and around 7.1% is accounted for by golf courses. It is also important to note that the green belt ring around London would be unaffected by the review.

The new Mayor should therefore encourage local planning authorities to review their respective green belt areas. Areas that are near existing or future transport infrastructure and that are of poor environmental or civic value should be identified for development. This would help free up additional land in desirable areas and alleviate housing strains across London.

7. THE HOUSING ZONES – PINK PLANNING

As part of his housing strategy, Boris Johnson has identified 20 housing zones across London. Building of homes in these areas will be supported by a range of planning and financial measures. Unlike traditional funding programmes, they are area-focused and

bespoke to suit each location to significantly expand the number of homes being built.²⁵

These housing zones are ideal for the Centre for Policy Studies' proposed *Pink Zones*,²⁶ a policy which would introduce simplified local planning, allowing developers to bypass many regulations and boost building. Support for these Pink Zones should be mobilised from landowners, local authorities, residents, employers and builders.

8. CONCLUSION

The priority for the next Mayor will be to increase the supply of housing in London. The measures proposed by Sadiq Khan risk suppressing the number of homes built in the capital, leading to even higher pressures on cost and availability. Calls for stringent affordable housing targets, rent caps and reducing finance available for transport, in particular, are likely to suppress London's housing supply over the next four years. It is also disappointing that both Sadiq Khan and Zac Goldsmith are opposed to a review of the greenbelt within London, which will reduce the prospective supply of homes in the capital.

Increasing the supply of homes can be achieved by: setting reasonable affordable housing targets, not setting rent caps, freeing up public sector land, expanding London's transport system, reviewing the green belt across London boroughs and promoting the CPS' pink planning proposals in the identified London Housing Zones.

²⁵ Mayor of London: [Housing Zones](#), October 2015.

²⁶ Keith Boyfield and Daniel Greenberg: [Pink Planning](#), November 2014.



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