Getting our house in order:

The impact of housing undersupply on London businesses

May 2014

LONDON CHAMBER of COMMERCE AND INDUSTRY

CONTENTS

London Chamber of Commerce and Industry (LCCI)

LCCI represents London businesses' interests to the Mayor and the GLA, national Government, Parliament and other relevant stakeholders. LCCI's research focuses on business-related matters led by the views and experiences of our member companies and is characterised by its independence and solution-focused approach.

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LCCI would like to thank everybody that contributed to this report.

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FOREWORD

The Mayor of London recently described the shortage of affordable housing as the "gravest crisis" that our capital faced. It is certainly true that barely a week passes without a media report on more people being priced out of the London housing market.

The dominant focus, understandably, has been on rising housing prices, but that runs the risk of overlooking two important points; firstly, rising prices are a *symptom* of an underlying problem of a lack of supply. Secondly, London's housing challenge is not just about securing a home to *own*. There are many who have to, or may only want to, *rent* housing. London workers face home ownership and home rental pressures.

The chronic undersupply of housing is giving rise to a host of impacts on both employees and employers. The capital's businesses rely on easy access to a skilled workforce. If greater numbers of workers are priced out of living in London and have to endure lengthy commutes into the capital, then the potential for detrimental impacts – whether related to employee productivity or staff retention – will increase as will the costs for London businesses. There is also a real need to consider how undersupply could affect future London resilience and crisis preparedness.

The scale of tackling the housing challenge is immense. With London forecast to see a significant population increase over the next decade, undersupply impacts may intensify unless action is taken to increase the rate of London housing completions.

There is no one single policy lever to pull; rather building more homes, more quickly, lies in a series of difficult decisions to liberate *more land* to develop and to empower *more builders* to increase capacity to deliver.

Launching his '2020 Vision' last year, Mayor Johnson said his goal was to lengthen London's lead as the greatest city on earth. London Chamber applauds and supports that aim. However, for London to continue to be a leading global city, housing has to be seen and accepted as the critical infrastructure upon which to build for the future.

Finally I would like to note **our thanks to LCCI President Mr Tony Pidgley CBE, for facilitating this chamber initiative on housing.**

Colin Stanbridge, Chief Executive, London Chamber of Commerce and Industry

1. EXECUTIVE SUMMARY

For decades, London has suffered from a chronic undersupply of homes resulting in house price rises vastly outstripping average wage increases and so increasingly making living in London unaffordable for many, affecting both employees and employers.

Unless action is taken now to significantly increase the rate of housing completions in London, the situation is set to become more acute, as the capital's population is forecast to grow by the equivalent of the entire population of Birmingham over the next ten years.

In this report, London Chamber of Commerce and Industry (LCCI) explores the impact of the undersupply of housing on London businesses and the capital's overall competitiveness and proposes measures to alleviate the housing crisis. LCCI concludes the way to overcome the current barriers to house building is to secure ***more land*** for development and ***more builders*** with the capacity to deliver homes in London.

The following findings and conclusions are based on a survey of members, interviews and roundtable discussions with London businesses of all sizes and sectors.

i) Rising housing costs are a threat to London's economic competitiveness and economic resilience

Housing undersupply negatively affects London businesses in four principal ways: Remuneration; Recruitment and Retention; Punctuality and Productivity; and Resilience.

Access to skilled labour is one of the main factors that attract companies to London and, as a greater number of employees struggle to afford to live in the capital, economic competitiveness may be severely undermined. Longer commutes by essential workers in both the public and private sectors may also impact on the ability to deliver essential services and respond to crisis situations, diminishing London's economic resilience.

Recommendation 1: The Mayor of London should assess the impact of housing-related pressures when renewing the potential scenarios for the London Resilience Risk Register.

ii) Businesses require more affordable homes built *within* London

Many areas of London are increasingly polarised between subsidised homes for those on low incomes and housing that only high-paid workers can afford. Although demand is highest for affordable and mid-market housing for London households with an annual income of less than £50,000, housing for this section of the market is severely undersupplied.

Initiatives to deliver new "garden cities" in the South East are admirable but must not become a substitute for building new homes *within* London. Attention must be focused on the swathes of undeveloped land within Greater London where relatively small infrastructure improvements can unlock significant housing potential.

Recommendation 2: The Mayor of London should set a separate annual target for mid-mainstream homes (under £700 per square foot) in the Housing Strategy.

Recommendation 3: Government and the Mayor of London should prioritise transport infrastructure investments that will support the delivery of more housing in the capital.

iii) Land availability is the top barrier to house building in London

There is no shortage of brownfield sites within London that are suitable for housing but to increase the rate of housing completions, such land must be in the hands of developers who are willing and able to build. Where land is owned privately, the Mayor should provide appropriate assistance to commence development and, only after such attempts have been exhausted, the land should be subject to a compulsory purchase order by the relevant local authority and sold to firms with the capacity and intention to build.

Where land is owned by public bodies, they should commit to producing a development proposal for the site or sell it on to private developers with the capacity and intention to build through the London Development Panel.

It is crucial that existing developed land in London is used as efficiently as possible. This should be achieved through reviewing height or density restrictions for sites in the immediate vicinity of transport hubs, as well as re-evaluating the designations of commercial, industrial and poor quality greenbelt land that could be reclassified for mixed residential use.

Recommendation 4: The Mayor of London should maintain a register of all brownfield land in London and set a trigger mechanism whereby ownership of long-term undeveloped brownfield land is transferred to private firms or public bodies able and willing to develop them into housing.

Recommendation 5: The Mayor of London should work with local authorities to increase density around transport hubs, reclassify empty retail and industrial space for mixed residential use, and review the status of poor quality greenbelt land with the Greater London area.

iv) Government-imposed restrictions prevent London's local authorities and housing associations from delivering more homes

To substantially increase housing supply and widen the range of accommodation available, the capacity of all types of house builders need to be increased, including the public sector. In the 1970s, the vast majority of homes were delivered by local authorities. However, social housing completions plummeted in the 1980s as a result of funding reductions and restrictions. While housing associations have been able to increase completions over time, they have been unable to make up the gap left by local authorities.

Both local authorities and housing associations have limited borrowing capacity to fund more house building due to artificial central government restrictions. Local authorities face strict limits on any borrowing against rental income accrued from social housing, while housing associations are obliged to value their stock for loan security purposes at a fraction of its market value, thus reducing the amount of homes they are able to build.

Recommendation 6: Government should remove artificial borrowing caps on local authorities' Housing Revenue Accounts, while ensuring that borrowing remains within prudential borrowing guidelines.

Recommendation 7: Housing associations should be allowed to value stock at market value subject to tenancy for borrowing purposes and be given greater flexibility over rent setting and allocations.

v) Smaller developers should be supported to grow

Large developers cannot be expected to dramatically increase the rate of housing delivery for understandable commercial reasons. To achieve the increase in supply necessary to cater for London's growing population, new firms should be encouraged to enter the market and existing smaller developers must be supported to grow.

There are, however, many costs and uncertainties associated with the development process that exclude smaller firms. To encourage them to grow, there must be targeted support for smaller developers to access land, smoother capital requirements over the course of the development cycle and an increase in the availability of development finance.

Recommendation 8: The Greater London Authority should actively recruit smaller developers to the London Development Panel and consider deferring payment for land acquired from public ownership until after the homes have gone to market.

Recommendation 9: Local authorities should allow developers of sites under 50 units to defer payment of the Community Infrastructure Levy until the homes have gone to market.

Recommendation 10: The Chancellor and the Mayor of London should launch a *Help to Build* risk-sharing loan guarantee scheme for smaller developers.

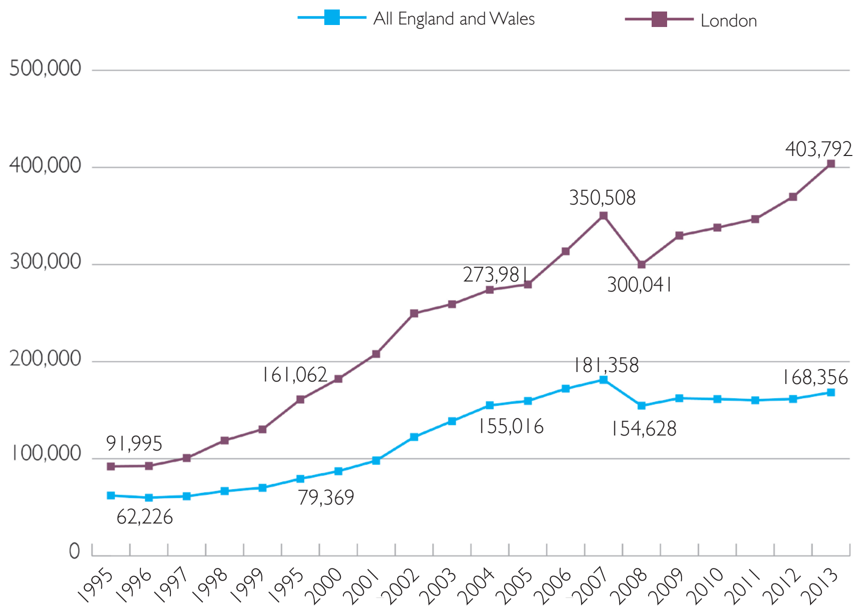
2. ECONOMIC IMPACTS OF HOUSING UNDERSUPPLY

> *"I want Londoners to be able to live near where they work and to raise their families in our boroughs. Doubling house building must be of benefit to everyone in our city who contributes to our economy."*
>
> Boris Johnson, Mayor of London[1]

Over the last decade London's population grew by around a million, a faster growth rate than at any other time previously, to reach 8.4 million in 2013. It is projected to grow to nine million by 2020 and ten million by 2030.[2] However, not enough homes have been built to cope with this increase, with only around 20,000 new homes a year being built in London over the last 10 years.[3] Only 16,800 homes were completed in 2013 (in comparison to 21,370 in 2012), and 24 of the 33 London boroughs saw a decrease in house-building levels compared to the previous year.[4]

As a result of the short supply, average property prices in London increased by 13.8% in the 12 months to February 2014, compared to 5.3% nationally.[5] Average London house prices have increased fourfold in real terms since the late 1960s and are now more than twice the national average (see Figure 1), growing at a much faster rate than wages.[6] Rising house prices have fed through to increases in rents, with average monthly rents in London now at levels that are twice the national average, even though median salaries in London are just 27% higher than the median national average.[7]

Figure 1: Average house prices, January 1995 - January 2014 (Source: Land Registry, House price index)



The social impact of increased housing costs relative to income has been well documented and on its own provides sufficient reason to deliver bold reforms to increase housing supply. However, the impact on businesses and the wider London economy of rising housing costs

[1] Mayor of London: *Mayor tells developers at MIPIM 'Sign new deal to sell homes to Londoners first'*, Press Release, 11 March 2014

[2] Greater London Authority (GLA) (2012): *Housing in London: The evidence base for the London Housing Strategy*, p. 8

[3] GLA (2012), op. cit., p. 32

[4] Department for Communities and Local Government (DCLG) (2014): *Live tables on house building, Table 253a: permanent dwellings started and completed, by tenure and district (quarterly)*, at https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building

[5] Land Registry (2014): *February Market Trend Data from Land Registry*

[6] Average house prices in the capital increased by 54% from around £ 259,186 in January 2004 to over £403,792 in January 2014. Average annual earnings increased by 26%, from £24,160 in 2003 to £30,479 in 2013. Land Registry (2014): *House price index*, at http://www.landregistry.gov.uk/public/house-prices-and-sales; and Office of National Statistics (ONS) (2013): *Annual Survey of Hours and Earnings*, at http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/index.html

[7] Average monthly rent on a two-bedroom property is £1,387 in London, compared to £575 in England. GLA (2013): *London Housing Market Report*, at http://data.london.gov.uk/housingmarket; ONS (2013), op. cit.

is less well understood. LCCI's survey of London businesses suggests that the impact high housing costs are having on London's economic competitiveness is an equally powerful reason to boldly address the barriers that are holding back increased supply.

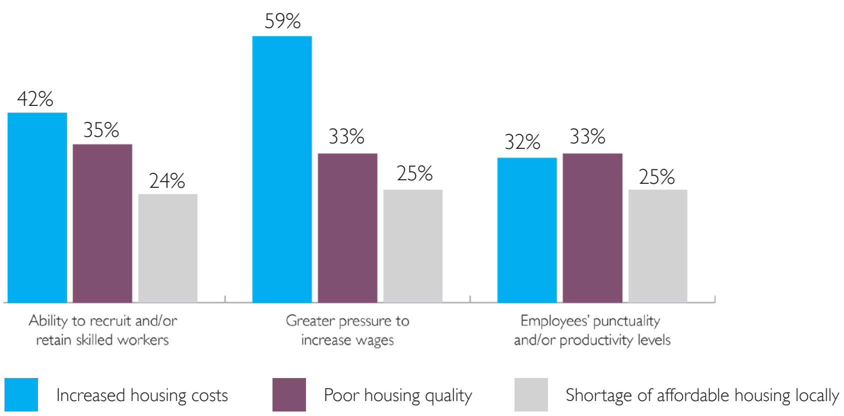
LCCI has identified four principal ways in which London businesses are, or could be, negatively affected by rising housing costs: remuneration; recruitment and retention; punctuality and productivity; and resilience.

> *"Businesses need a continuous and stable workforce to grow and, in a skills short market, housing costs in London can be prohibitive to hiring more people and keeping the good people that you have got. In this sense, shortage of housing can hold back economic growth."*
>
> Large recruitment company

Remuneration

London is fast becoming unaffordable for a large number of the capital's workforce, with many effectively 'priced out' of living in London. An average house in the capital is now 9.11 times Londoners' average earnings in comparison to 3.98 times in 1997, while monthly rents typically take up 55% of Londoners' average gross earnings.[8] Interviewees noted that the cost of living, of which rents or mortgages form a major part, is a common reason for employees requesting pay rises or higher salaries when they join. **LCCI's survey of London businesses shows that increased housing costs have led to a greater pressure to increase wages for three in five employers (59%)** (see Figure 2).[9]

Figure 2: The impacts of increased housing costs, shortage of housing locally and poor quality housing on London businesses



Recruitment and retention

Rising housing costs can also diminish businesses' ability to recruit new or retain existing employees if they are unable to afford requests for wage increases. Our survey showed that **42% of London businesses felt their ability to recruit and retain skilled workers was negatively affected as a result of increased housing costs** (see Figure 2).

> *"At least two of our staff have made the decision to move out of London in the last 18 months because they have not been able to get on the property ladder here. Luckily for us, we have been able to hold on to them by moving them to our offices in the north of England but for most SMEs based in the capital, this simply is not an option."*
>
> Director, SME Consultancy

[8] GLA (2014): *Ratio of House Prices to Earnings, Borough*, London Datastore, at http://data.london.gov.uk/datastore/package/ratio-house-prices-earnings-borough. In 2012, average monthly rent on a two-bedroom property was £1,387, while average annual earnings were £30,460. Ibid.
[9] LCCI March 2014 survey of 123 London businesses

Businesses we interviewed highlighted that it was younger employees in particular who struggled to meet housing costs in London. A London-based architectural practice, for example, found it difficult to recruit trainee architects able to afford to live within a reasonable commutable distance of their offices, leading the practice to purchase a London property to provide accommodation for them.

Punctuality and productivity

The shortage of affordable local housing, particularly in Central London, has led to longer commutes, with many businesses reporting that their employees commute from as far away as Brighton, Portsmouth and Cambridge. This leaves them exposed to transport problems, which in turn may result in numerous late starts – collectively equating to thousands of hours of lost productivity. Indeed, **one third (33%) of London firms believed the lack of affordable housing to rent or own local to their place of work was affecting employee productivity and punctuality** (see Figure 2). Employees that regularly endure travel fatigue are unlikely to be as productive and as motivated as they could be, as long commutes have been found to make workers less happy and more anxious.[10]

Maintaining resilience

While the previous three areas highlight the current impacts of a housing undersupply on the capital's businesses, **there is a pressing need to assess the potential future consequences for London if current housing pressures are not adequately addressed.**

Housing is critical infrastructure for a global city like London. However, while the resilience of the capital's transport and energy networks is regularly assessed for risk, housing does not appear to figure prominently in the various resilience management and business continuity strategies that are regularly exercised by governmental agencies.

Rising housing costs have led to a greater proportion of workers (in both the public and private sectors) who are essential to the basic functioning of the London economy, either struggling to remain in London or have already moved out and become regional daily commuters into the capital. For example, around half of the Metropolitan Police officers live outside London.[11]

More of the capital's essential workers living outside London will pose potential challenges to future resilience management, particularly on matters of a prolonged duration. Power network failures, industrial action, health pandemics or adverse weather each have potential to quickly disrupt London businesses and curtail economic productivity. For example, a prolonged major power failure would place the London economy in a crisis situation with significant pressure on those professions whose workers perform 'essential functions' such as police, fire brigade and ambulance workers. The 'blue light' services are largely shift-based and, in a major power failure scenario, renewing shift cover may be difficult if large numbers of emergency service workers are living outside the capital and unable to use public transport.

Responsibility for London resilience was devolved in 2010 to the Office of the Mayor of London. This included oversight of the London Resilience Strategy and maintenance of the London Risk Register. There are no indications that housing related impacts, both current and emerging, have been a consideration in future risk assessments or resilience exercises. To ensure that London is fully prepared for all potential challenges, this situation should be reviewed on a regular basis taking into account the ability of employees performing essential functions, particularly within the Category One Responders cohort, to provide adequate levels of service in 'worst-case' crisis scenarios.

> Recommendation 1: **Housing should be regarded as "critical infrastructure" and the Mayor of London should include consideration of housing-related pressures when renewing the potential scenarios for the London Risk Register.**

[10] ONS (2014): *Commuting and Personal Well-being, 2014*

[11] Official figures reveal that just 15,319 of the Met's 30,462 officers live in the capital. BBC: *Half the Met's police officers live outside of London,* 2 October 2013

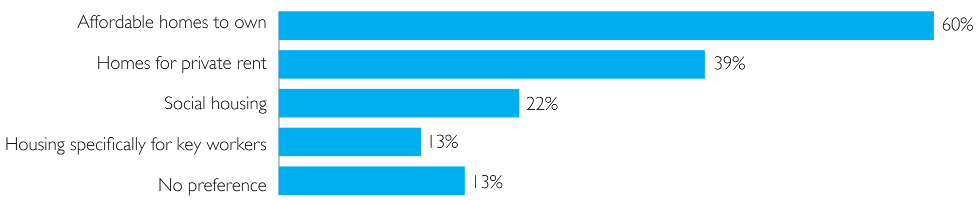
3. AFFORDABLE HOMES FOR LONDONERS *IN LONDON*

While it is accepted that London needs more homes, there is less consensus as to where these homes should be built and what tenures and sections of the market those homes should cater for. Although it may be the case that building any type of housing at any level of the market will be an improvement on not building any new homes at all, there are indications that the lack of housing in the lower- to mid-market is damaging London's competitiveness the most. Moreover, businesses are clear that those homes need to be provided *within* London, not outside.

Affordability matters

Housing tenures have changed dramatically over time. Following a boom in the 1980s and 90s, homeownership levels declined from 57% of London households in 2001 to around half currently.[12] One effect of this is that increasing numbers of younger people have been unable to afford to buy a home, with less than 10% of Britain's 14 million home owners aged below 34.[13] When asked about the type of tenure that would best serve their employees' needs, **the largest proportion of London businesses (60%) expressed a preference for more affordable homes to own** (See Figure 3).[14] This reflects the understandable desire of employers to want stability for their employees, including over the location and costs of their housing.

Figure 3: Employers' preference on the types of new housing needed in London – more than one option could be selected



In contrast to the decline in home ownership, the private rented sector in London has grown from 14% of all dwellings in 2001 to a quarter of all dwellings today and is expected to increase to 34% by 2021.[15] This brings London closer to other global cities, where the proportion of households renting is typically much higher: compared with 50% in London, the total rental property share (private and social) is 89% in Berlin and 69% in New York City.[16] The UK has traditionally placed more emphasis on home ownership than on the continent, but while the trend towards renting may be at odds with some people's personal aspirations, many others may have consciously chosen to rent.

Given rising house prices in London, **the trend of a growing private rental sector is likely to continue,** with the greatest demand coming from young professionals whose wages preclude them from social housing options but who cannot afford the deposits for their first home.[17] London businesses recognise this gap, as two in five (39%) would like to see more homes for private rent built, particularly with long-term tenancies providing security for workers.

LCCI welcomes the measures outlined in the Mayor of London's Housing Strategy to address the decline in home ownership through the *First Steps* programme and to provide more good quality homes to rent, as well as the Draft Further Alterations to the London Plan

[12] GLA (2012), op. cit., p. 10
[13] The Telegraph: *Rise of Generation Rent as home ownership hits 25-year low,* 26 February 2014
[14] LCCI survey, op. cit.
[15] Savills Research (2013): *Spotlight: London demand,* p. 5
[16] BCC News Magazine: *How do you prepare for a lifetime of renting?,* 19 June 2013
[17] The average annual household income of those who access affordable homes for rent is just £12,000 p.a., Mayor of London (2014): *Homes for London: London Housing Strategy 2014,* p. 15. It is estimated that first time buyers in London require £70,000 in cash to purchase a house in London, including £50,000 for a deposit and stamp duty worth £8,400, The Telegraph: *First-time buyers in London need a cash pile of £70,000,* 21 April 2014

to require that local authorities plan specifically for build to rent in their local plans.[18] The Mayor's Office has also deliberately targeted institutional investors, such as pension funds and insurance companies, for the construction of long-term rental developments at sites including Barking Riverside and Elephant and Castle.[19] Harnessing the finance available through institutional investors, and the fact that homes built specifically for rent do not compete with the traditional developer business model of selling homes to buy, mean there is a significant opportunity to increase the number of homes created in London.

A new model for delivering homes for private rent has been pioneered by property management and development company Places for People, which recently secured a £252 million investment from pension fund managers Legal & General to help build 7,000 new homes over the next seven years.[20] The innovative deal includes a covenant whereby the homes will be leased back to Places for People, to rent out and manage, for a 50 year period, while deriving a steady investment income for Legal & General. After this time, the homes will be transferred to Places for People for a nominal amount. The model provides steady returns for investors and stability for tenants, while allowing developers to deliver large numbers of affordable homes to rent without affecting the absorption rates of developers releasing new homes to own.[21]

As well as a variety of tenures, it is essential to deliver homes suitable for those across the income spectrum. With rents or mortgages taking up ever greater proportions of household income, all London local authorities have now been found to be unaffordable for families on low incomes.[22] There is also a shortage of affordable homes for middle-income households: a search on a major property website reveals that there are just 115 two-bedroom properties valued at £200,000 or less within ten miles of Westminster to buy (out of a total of 22,671 properties) and just 2,752 two-bedroom properties for £1,250 a month or less to rent (out of a total of 38,417).[23]

The greatest demand for housing in London comes from the 70% of all households that have a combined gross income of less than £50,000 p.a.[24] It has been estimated there is demand for 28,000 new homes a year in the affordable and lower mainstream markets (with prices under £450 psf), and current levels of supply leave a shortfall of 15,000 homes a year. There is also a 3,500 a year shortfall of mid-mainstream homes (priced under £700psf).[25]

The Mayor's Housing Strategy states that 42,000 new homes must be built per year, of which 17,000 will be "affordable" and 25,000 will be at "market" prices.[26] Given the severe undersupply in the lower and middle mainstreams of the market (£700 psf and below), the Mayor should publish a breakdown of the homes to be built at "market" rate to differentiate between those built for the mainstream market and those built for the "prime" market (£1,000 psf and above).

Recommendation 2: To meet demand for affordable and mid-market housing, the Mayor of London should set a separate target in the Housing Strategy for homes to be built in London for the mid-mainstream market (below £700 psf).

[18] Mayor of London (2014): *Homes for London: London Housing Strategy 2014,* pp. 16-17; Mayor of London (2014): *Draft Further Alterations to the London Plan*, Policy 3.8, p. 98
[19] Mayor of London: *Mayor launches new drive to release land for hundreds more homes to rent,* Press Release, 12 March 2014
[20] Places for People: *£252 million investment to help build new homes,* Press Release, 18 March 2014
[21] Absorption rates refer to the speed of delivering new homes needing to take into account the speed at which homes can be sold, as well as the availability of the various trades required to build and furnish a home.
[22] All London local authorities have been found to be "unaffordable" for a couple with a child requiring a two-bedroom property on a household income of £22,000 a year, if affordable is defined as a rent that is no more than 35% of net household income. Resolution Foundation (2013): *Home Truths: How affordable is housing for Britain's ordinary working families?*
[23] Based on a search on www.zoopla.co.uk £200,000 is the house price households with a combined gross income of £50,000 may afford, assuming they can put the sum of their annual income as a deposit and borrow three times that amount, although this may not always be the case. £1,163 is the rent level deemed "affordable", defined at no more than 35% of net household income, for a household with two earners with annual incomes of £25,000 each.
[24] Savills Research (2013), pp. 4-5
[25] Per square foot. Ibid.
[26] Half of all affordable homes will be at a lower "capped" rent *"for those in the greatest need and those in low income employment"*, but the specific cap level is not defined. Mayor of London (2014): *London Housing Strategy 2014,* pp. 16-19

Housing for Londoners, in London

Some have indicated that the response to the housing shortage in London should be to build homes outside London through a series of new towns or "garden cities".[27] While this could have some impact in providing housing for people working in London who prefer to live on the fringes or outside the city, it is a suboptimal outcome for those that want to live in London.

Indeed, interviews with **London businesses suggest they would prefer it if their employees were able to live nearer to the office** rather than having to commute in to work from great distances. Firms base themselves in London because it attracts skilled workers from across the UK, the EU and from around the world because of its rich cultural and social offering. If their employees can no longer afford to live in the capital, employers will either have to increase salaries or will struggle to recruit and retain them. In each case, the business case for locating in the capital is undermined.

This is reflected by our interviews with large multinational businesses. A global law firm based in Holborn told us that *"young professionals do not mind if they rent or own but want to be able to live in, or near, Central London, and to walk or cycle to work"*. More developments that cater specifically for the needs of young professionals – inexpensive, within easy reach of public transport and within a lively community – are needed, such as those pioneered by Fizzy Living in Canning Town and Poplar in East London.[28]

There is significant land available within Greater London whose housing potential can be unlocked with relatively small upgrades to existing transport infrastructure.

The Mayor has rightly identified Opportunity Areas in London where development and densification can take place in the capital, and in many cases, development has been achieved, or is in progress, due to transport investment. For example, the development of Crossrail has helped attract construction investment and is transforming areas like Woolwich, while the forthcoming Northern Line extension to Nine Elms and Battersea is spurring the construction of 16,000 homes. Most recently, the Chancellor's commitment of £150 million to extend the Barking to Gospel Oak Overground rail link to Barking Riverside is likely to unlock the construction of up to 11,000 new homes.[29]

LCCI also welcomes the Mayor's proposals to establish ten "Housing Zones" in London where residential development will be made easier through potential changes to planning rules.[30] Key to the success of these zones will be establishing the transport infrastructure deficit in these areas that holds back house building.

Despite London's world-class public transport network, there remain significant areas in the capital that are islands of isolation. Although much attention has rightly been focussed on Crossrail Two and the impact it could have on residential development in South West London and the Upper Lea Valley, there are other, far smaller, infrastructure projects that can potentially be funded with comparatively little support from central government.

Potential infrastructure investments include the four-tracking of the West Anglia Mainline between Copper Mill Junction and Broxbourne, providing a more frequent service to potential developments in the Upper Lea Valley (supporting 20,000 new homes) and a new road river crossing at Gallions Reach connecting Beckton and Thamesmead (supporting 80,000 new homes).

Recommendation 3: New "garden cities" should not be a substitute for the building of homes to buy and rent in London. The Government and the Mayor of London should prioritise transport infrastructure investments that will support the delivery of more housing in the capital.

[27] A review led by Lord Adonis, for example, called for the acceleration of a new town at Ebbsfleet in Kent. Adonis, S., Rogers, B. and Sims, S. (2014): *Go east: Unlocking the potential of the Thames Estuary*, Centre for London

[28] Fizzy Living is a subsidiary of Thames Valley Housing association. See http://www.fizzyliving.com/

[29] Nine Elms Vauxhall Partnership: *The Northern Line Extension*, at http://www.nineelmslondon.com/northern-line-extension; HM Treasury (2014): *Budget 2014*, p. 40

[30] The locations of the zones are yet to be decided. Mayor of London (2014): *London Housing Strategy 2014*, p. 53

4. LIBERATING THE LAND TO BUILD

The Mayor's Housing Strategy identifies the need for 42,000 new homes per year to meet new and existing demand.[31] This prompts a question as to whether there are enough sites to deliver the Mayor of London's housing completion target.

Not only is identifying enough land crucial to meeting long-term housing needs, but the amount of land available at any single moment affects the rate at which homes can be completed. From a commercial point of view, it makes more sense for a developer to deliver 40 units from five separate sites in one year than to deliver 200 from a single site due to concerns over the absorption rates at each site. The more land there is available for house building, the greater the capacity to increase the rate of housing completions.

However, LCCI's survey of London companies in the property and construction sector ranked land availability as the top barrier to house building (see Figure 4), as almost three quarters (74%) of firms said there was insufficient amount of serviceable land available for development.[32]

Figure 4: Ranking of the barriers to house building by London companies in the property and construction sector.

Breaking up the land bank

To increase the rate of housing completions in the capital, it is vital that all previously developed but currently unused ("brownfield") land is brought forward for development as soon as possible. It is estimated that **there is 3,730 ha of brownfield land within the Greater London area** (see Figure 5);[33] and as many as 210,000 possible homes with unimplemented planning permissions.[34] This has prompted accusations that developers are engaged in "landbanking" – acquiring planning permission for land with no intention to ever build, waiting for the value of the land to rise instead.

Long-term landbanking rarely makes commercial sense, which is why the practice is not an end in itself for developers. Once land has been purchased, significant capital is tied up in the development, so it is in the developer's interest to build out this land as soon as possible to realise its value. Residential developers we interviewed clarified that they *"cannot afford to sit on land, as share prices depend on return on capital that is invested"*.

[31] Mayor of London (2014): *London Housing Strategy 2014*, pp. 15-16. It estimates 62,000 home are needed per year if the anticipated and pent up demand are to be addressed in ten years.
[32] Low availability of serviceable land' had average ranking of 3.67/5, 'cumbersome and uncertain planning process' ranked 3.59/5, and 'shortage of appropriate finance and funding' ranked 3.57/5. LCCI survey, op. cit.
[33] Homes and Communities Agency: *Results from the 2009 National Land Use Database of Previously-Developed Land in England*, at http://www.homesandcommunities.co.uk/sites/default/files/our-work/tables1-5-nlud-pdl-2009.xls
[34] Molior London for the GLA (2012): *Barriers to Housing Delivery: What are the Market-Perceived Barriers to Residential Development in London?*, p. 20

The reasons why development does not begin immediately after planning permission has been granted is typically because of the planning system, which requires developers to meet a number of pre-commencement conditions after full planning permission has been granted, and the need to negotiate and secure sufficient development finance. To account for these delays, it is not uncommon nor unreasonable for a developer to have at least three years' worth of land availability to ensure continuity of business. By extension, the faster developers build out and sell homes, land banks will increase – not decrease – to maintain their business output. Similarly, many larger developments are built in phases: some sites may well have thousands of planned homes associated with them but the developer responsible will have the capacity to deliver only a fraction of those each year.

There are some concerns that a proportion of land with planning permission for housing is owned by non-builders. The owners of an estimated 45% of all land with unimplemented planning permissions within the Greater London area neither have the capacity nor intention to build on those sites.[35] While some of these might be institutional investors, other plots might have been passed on to creditors from developers who faced financial distress during the recession. However, since the economic recovery in the construction sector has taken hold, it is now largely in land owners' commercial interests to either begin development, if they have the capacity, or to sell it on to someone that does.

Accusations of "landbanking" are more appropriately levelled at the public sector, which is estimated to own as much as 40% of all brownfield land in London. Over 653 ha are owned by the Greater London Authority (GLA) alone, while a further 29.4 ha are owned by the London Fire Brigade, 45.9 ha by the London Legacy Development Corporation and 103.3 hectares by the Metropolitan Police Service.[36] Other public bodies like the NHS, local authorities and government departments also hold land in London but do not publish this data centrally.

In an era of constrained public finances, there ought to be a significant incentive for public authorities to sell this land to developers, yet the process of disposing of excess public sector land can be fragmented and protracted. In May 2013, the Mayor of London established the London Development Panel (LDP) to release excess GLA land to developers without having to go through lengthy and expensive procurement procedures like OJEU.[37] LCCI welcomes the leadership the Mayor has shown; however, the LDP has the potential to become the standard tool for all public sector bodies, including local and central government and agencies, to dispose of excess land in the capital.

To expedite development of brownfield sites, the Mayor of London should create a public register of all brownfield land in London, regardless of whether it is owned by the public or the private sector, and set a time limit to "putting a spade in the ground".

Where land is owned privately, the owner should have four years from entry on the register to begin development. During this time, and where appropriate, the Mayor should investigate what assistance he can provide to commence development, including using the London Housing Bank to provide finance guarantees or calling in the planning permission if necessary. After the four years have elapsed, and all reasonable attempts at assistance have been exhausted, the relevant local authority should acquire the land by initiating compulsory purchase order (CPO) procedures. The land should then immediately be disposed of through the LDP.

Where land is owned by the public sector, whether local authorities, central government departments or arm's length bodies, they should have two years from entry on the register to begin development. After this time, they should commit to producing a development proposal for the site or sell it on to private developers with the capacity and intention to build housing through the LDP.

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[35] Ibid.
[36] Savills Research (2013), p. 14
[37] The Official Journal of the European Union (OJEU) is the central database for European public sector tender notices where any public tenders above defined thresholds must be published.

<u>Recommendation 4:</u> The office of the Mayor of London should create and maintain a publically available register of all brownfield land in London and set a trigger mechanism, scrutinised by the London Assembly, whereby ownership of long-term undeveloped brownfield land is transferred to private firms or public bodies able and willing to develop them into housing, unless development starts within a set number of years.

Using London's land effectively

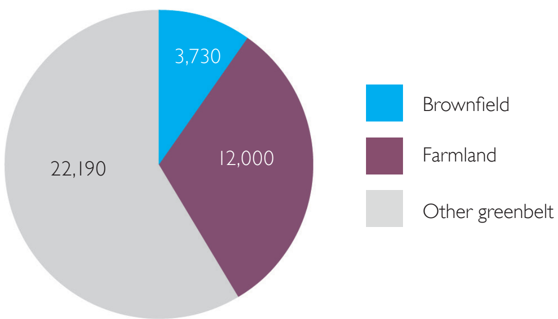
As well as bringing brownfield land into development, we need to ensure that developed land is used as efficiently as possible. This should be achieved through increased densification and the reclassification of land for residential use.

Existing and future transport hubs increase surrounding sites' accessibility and land values, making them the best candidates for densification. Although there are examples of where densification is taking hold, the potential for residential developments above or near transport nodes has not been fully utilised. Transport for London should evaluate the viability of housing above London Underground stations, which would not only deliver much-needed homes in London but could also fund additional transport infrastructure investment elsewhere. Likewise, local authorities should review any height and density restrictions within a reasonable distance of future and existing transport nodes.

High streets are prime candidates for use reclassification. Due to the economic recession and growth of internet shopping among other factors, London's traditional high street shops have experienced decline in recent years. There were approximately 960,000 million sq.m. of vacant floorspace in London's town centres in 2012, a rate of 8.8% (compared to 7.4% in 2007). This varied across London, and 14 town centres (including Croydon, Streatham, Wandsworth and Woolwich) had vacancy rates of over 20%.[38]

The Government has introduced some changes to planning regimes to allow shops, warehouses and light industry buildings to be converted into homes.[39] Between 2008 and 2012, there were an average of 3,080 net housing completions within London's town centres per year.[40] However, **if more empty retail units were reconfigured to include residential use, this could increase the potential customer base,** giving remaining retail units a better chance of survival, and improve the quality of the public realm by replacing vacant shop fronts.

Figure 5: Available land within the Greater London area, ha



[38] GLA (2014): 2013 *London Town Centre Health Check Analysis Report*, p. 38
[39] DCLG (2014): *Greater flexibilities for change of use: report on responses to the consultation;* and HM Treasury (2014): *Budget 2014*, p. 40
[40] GLA (2014): 2013 *London Town Centre Health Check Analysis Report*, p. 56

Reclassifying land for housing development may also be needed to meet housing demand over the coming decades. LCCI agrees with the *"brownfield first"* guidelines of the National Planning Policy Framework,[41] and supports the Mayor's proposals for relaxation of planning requirements and tax incentives within *"areas with a particularly high development potential"* that are to be designated as "Housing Zones" (yet to be identified).[42] However, with the severe housing shortages and the projected population increases in London, such approaches will eventually become insufficient and more radical options may need to be considered.

The Green Belt around London was established in 1947 to keep urban sprawl in check. Separate from the 484,173 ha of Green Belt surrounding London, however, there are 35,190 ha of greenbelt land within the Greater London area and a further 74,810 ha outside of London but within the confines of the M25 (see Figure 5).[43] This land is not always unspoilt green space open to all members of the public. Rather it is more likely to be either private golf courses or arable farmland (which accounts for over 12,000 ha within the GLA area).[44]

The reclassification of some private greenbelt land within the GLA area, particularly where it is already close to existing transport infrastructure, could significantly increase the amount of land available to accommodate London's growing population. This would not affect existing public greenbelt land – including Metropolitan Open Spaces – and local plans may then insist that any former private greenbelt land must contain a high quotient of public green space which can be enjoyed by all members of the public. Although this will no doubt stir strong emotions amongst residents local to affected sites, the creation of truly "garden" suburbs in a handful of formerly private greenbelt areas could secure the delivery of the homes that London needs for generations to come.

Recommendation 5: Local authorities should review height or density restrictions for sites in the immediate vicinity of current and future transport hubs, and move to reclassify use designations from retail, commercial and industrial space to mixed residential use where appropriate. The Mayor of London should work with local authorities to evaluate the potential to reclassify a proportion of poor quality greenbelt land within the Greater London area for housing.

[41] DCLG (2012): *National Planning Policy Framework*, p. 26
[42] Mayor of London (2014): *London Housing Strategy 2014*, p. 53
[43] Campaign to Protect Rural England and Natural England (2010): *Green Belts in England: Key facts*, p. 4, at http://www.cpre.org.uk/resources/housing-and-planning/green-belts/item/download/466; GLA (2014): *Area of Designated Green Belt Land*, at http://data.london.gov.uk/datafiles/environment/designated-green-belt-land-borough.xls. This includes: Bromley 7,730 ha; Havering 6,010 ha; Hillingdon 4,970 ha; Enfield 3,060 ha; Barnet 2,380 ha; Croydon 2,310 ha; Redbridge 2,060 ha; Hounslow 1,220 ha; Bexley 1,120 ha; Harrow 1,090 ha.
[44] Mayor of London (2002): *Connecting with London's nature: The Mayor's Biodiversity Strategy*, p. 12

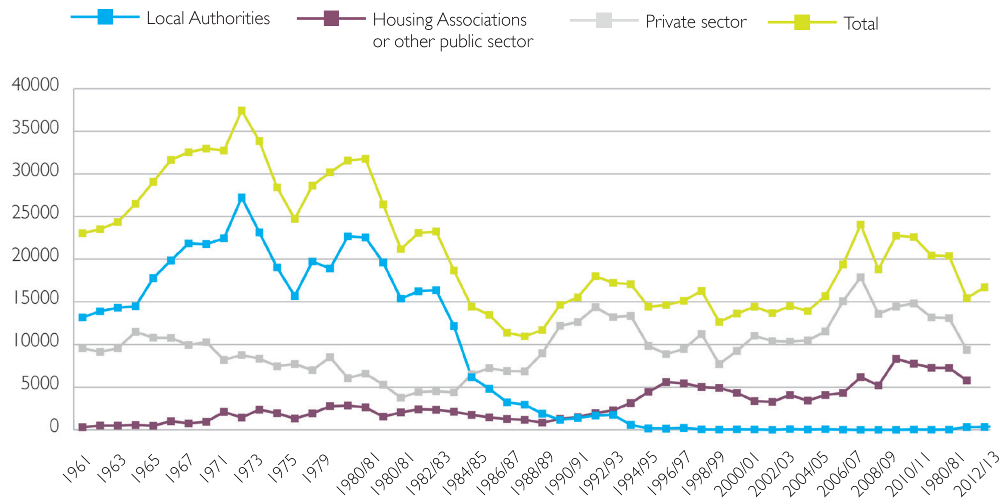
5. BUILDING CAPACITY

The rate of house building in London has to dramatically increase, in order to cater for the forecast economic and demographic growth, to levels far greater than currently being completed or any rate achieved in the post-war period. Achieving such levels of supply will require building up the capacity of both the public and private sectors to deliver a greater number of housing completions per annum.

Empowering the public sector to act

The previous house building peak in the capital during the post war period came in the early 1970s when the vast majority of completions were made by local authorities. However, as a result of the drive to sell council housing (through *Right to Buy*) and a significant reduction of public funding to local authorities for housing delivery in the 1980s, the number of units completed by local authorities has fallen dramatically since then (see Figure 6).[45]

Figure 6: London Housing completions, 1961-2013 (Source: GLA, DCLG)



Since 2012, central subsidies have been replaced by "self-financing", in effect, local authorities have been able to retain rental income accrued from social housing to fund the renewal of existing housing stock and new house building. Local authorities are able to make investment decisions and borrow against these funds, but only within strict limits imposed by HM Treasury. If the limits on local authorities borrowing from Housing Revenue Accounts were lifted, but remained within prudential borrowing guidelines that the Treasury applies to other public sector bodies, councils in London could access additional finance to invest in new housing or engage in estate renewal. It has been estimated that, without the caps, councils would be able to borrow £7 billion over five years, building up to 12,000 extra homes a year.[46]

Recommendation 6: **To allow local authorities to invest greater sums in new housing stock and estate regeneration, the Government should remove artificial borrowing caps on Housing Revenue Accounts, while ensuring that borrowing remains within prudential borrowing guidelines.**

[45] Data provided by the GLA, including Annual Abstracts of Greater London Statistics (1961-69), data provided to GLA by DCLG (1970-80), and DCLG house building statistics: *Live tables on house building, Table 253: permanent dwellings started and completed, by tenure and district* (1980/81-2012/13)

[46] National Federation of ALMOs (2012): *Let's get building: The case for local authority investment in rented homes to help drive economic growth*, A report by the NFA jointly with Association of Retained Council Housing, Chartered Institute of Housing, Local Government Association and in association with Councils with ALMOs Group, p. 7

London's 368 housing associations own and manage over 430,000 properties, but also deliver the bulk of government-supported housing completions.[47] Yet, housing associations' ability to deliver new homes has been hampered by reductions in the level of government capital investment in affordable housing. This has resulted in housing associations needing to independently fund a greater part of development through reserves or borrowing.

However, restrictions on the ways stock can be valued can reduce their borrowing capacity significantly. Housing associations who own stock transferred from a local authority have to value those properties for loan security purposes at 'Existing Use Value – Social Housing', which is equal to 30-45% of market value. Allowing housing association to value their stock at 'Market Value Subject to Tenancy', which equates to around 60% of market value, would release additional borrowing capacity for the development of new homes.[48]

In addition, rents form the largest part of housing associations income. Yet, they have little control over it, as rent levels are centrally set, while allocations are primarily directed by local authorities. Giving housing associations more flexibility over rent setting and allocations would allow them to deliver a greater range of housing products to suit local needs, including lower rent levels in parts of London where the need is greatest and more homes at intermediate and market rents.[49]

Recommendation 7: To enable housing associations to increase borrowing, they should be allowed to value stock at market value subject to tenancy for borrowing purposes, while greater flexibility over rent setting and allocations would allow them to deliver a greater range of housing products to suit Londoners' diverse needs.

Lower barriers to growth for smaller developers

The private sector delivers the vast majority of new housing in London, as Figure 6 shows. Yet, house building in London is an expensive and unpredictable venture. This means that the residential development sector in London is more concentrated than it has ever been. Less than twenty years ago, over two thirds of homes were built by small and medium-sized building firms. Today, the largest 23 house builders (those producing more than 500 units a year) account for around 70% of total house building in Britain.[50]

These large developers cannot be expected to dramatically increase on their own the rate of housing delivery to the extent required by the Mayor's Housing Strategy. A sudden surge in building makes little commercial sense as it would increase unit costs (due to skills and material shortages) and a sudden increase in sales on a particular site has the potential to lower returns on each unit. Moreover, the priority for many of these firms after the recession is to improve profit margins and reduce indebtedness, not to grow volume output.[51]

> *"House builders will increase their volumes over the next few years but in an incremental, sensible business managed way. But if you want to double supply, you need more players in the marketplace."*
>
> Managing Director of a large residential development company

This means that, **to increase the rate of house building in the sector, new entrants must be incentivised to build in London and existing, smaller developers must be supported to grow.** To achieve this, there must be targeted support to overcome the costs and uncertainties associated with the development process.

[47] Mayor of London (2014): *London Housing Strategy 2014,* p. 49
[48] National Housing Federation (2014): *Briefing: Submission to the Lyons Review,* p. 10
[49] The National Housing Federation estimate that a medium-sized housing association with 5,000 properties could provide an additional £50m asset value to borrow against.
[50] Molior London (2012), p. 33
[51] Shelter (2013): *Solutions for the housing shortage: How to build the 250,000 homes we need each year,* p. 17

Access to land is the first hurdle for smaller developers, as the shortage of available sites makes acquiring and assembling sites difficult and expensive. Moreover, the lack of transparency in who owns land and which sites are available for purchase means market intelligence is a significant barrier in itself.[52] Yet, there is a large amount of publicly-owned smaller plots that have limited market value to some of the bigger developers. Indeed, over half of the sites owned by the GLA group are below one hectare.[53]

> *"The public sector is somewhat obsessed with large strategic sites and not doing enough to bring forward small plots of land that small players can build on up more rapidly"*
>
> Executive Director of a professional services company

As the Mayor's preferred method of disposing of excess GLA-owned land, the London Development Panel (LDP) has been a good vehicle for placing land in the hands of credible developers without the time-consuming process of competitive tendering demanded through OJEU. However, only 25 of the largest developers are currently able to bid through the panel, and of the 39 firms and housing associations that started between 99 and 499 units in London last year, just eight are on the panel.[54] Extending access to the Panel to smaller developers would not diminish the LDP's ability to dispose of larger sites to larger developers, and would give smaller developers access to smaller plots and vital market intelligence on the London land market.

The Mayor should also consider how payment (or a part of it) for small sites can be deferred until the value from the site can be accessed at the point of sale. This would lower the capital costs that small developers need to acquire the land, reducing the total amount of finance required to build out.

Recommendation 8: To ensure the efficient exploitation of smaller plots, the GLA should actively recruit smaller developers to the London Development Panel and allow them to defer some or all of the payment to acquire smaller sites from the public sector until after the homes have gone to market.

The second greatest barrier to house building after land availability is planning (see Figure 4). London has 33 separate planning authorities, each with their own plans and policies, as well as different levels of expertise and talent within their planning departments. As a result, 61% of London property and construction firms believed this lack of consistency was obstructive, while 65% cited the inefficiency generated by lengthy planning procedures (see Figure 7).[55]

Figure 7: Planning barriers to housing delivery – more than one option could be selected.

[52] Which is why a publicly available register of all brownfield land in London, as outlined in recommendation 4, would provide crucial market intelligence to smaller firms and new entrants.
[53] GLA Group Land Assets data, at http://data.london.gov.uk/datastore/package/gla-group-land-assets
[54] More details of the LDP's composition available at http://www.london.gov.uk/sites/default/files/List%20of%20London%20Development%20Panel%20Members.pdf
[55] LCCI survey, op. cit.

Recent cuts to local government funding have resulted in fewer resources for planning teams, meaning that decisions can take longer to be made. In addition, final planning decisions are made by planning authorities' councillors, with each authority consisting of councillors with different priorities and differing degrees of respect for the recommendations made by their planning officers. Some sites also require the consent of statutory consultees, such as the Environment Agency that many of our interviewees noted as being unresponsive, adding further delays to achieving permission to begin development.

According to a planning consultant interviewed, the planning process for a typical 50-unit site may cost:

- Planning consultant fees for promotion of an application on brownfield land: £35,000 -70,000
- Specialist technical reports: £7,500 - 72,500
- Site promotion in local development plans: £2,000 - 20,000
- Planning application fee (payable to the local planning authority) for outline permission: £385 per 0.1 ha for sites up to and including 2.5 ha
- Planning application fee for full permission: £19,250

These costs do not include appeals (which could add £10,000-200,000), community engagement (which could add £5,000-20,000), or solicitors' and architects' fees.

Further complications arise as a result of land in London having historic industrial activity associated with it. Many sites are deemed to be contaminated by the very stringent thresholds employed by planning authorities. Even mild contamination can entail large costs to remediate the land and dispose of waste soil, which add to the capital costs a developer faces before they can even secure planning permission. Although an initial contamination risk assessment will be made before purchase, many smaller developers will not speculate on purchasing land that has even a moderate risk of contamination for fear of incurring additional costs they cannot afford.

Even if the majority of the planning process is successfully navigated, full planning permission can only be granted once planning obligations intended to pay for local infrastructure and affordable housing – Section 106 agreements and the Community Infrastructure Levy (CIL) – have been agreed. The uncertainty this generates was cited as a barrier by 44% of London firms (see Figure 7). While the CIL is a fixed amount based on development size, the level of Section 106 payment is unknown and a cause of prolonged negotiation. As well as adding to the opportunity cost of capital tied up in the site, the levels demanded by local authorities can add to overall costs to such an extent that the entire development could become unviable.

The requirement for developers to pay CIL soon after construction commences can severely impact on cashflow. In London, developers are expected to pay two CIL charges: one to the Mayor of London and one to the local authority. The total amount charged is determined by the total floor space of the development, charged at a rate determined by each individual borough, and can amount to a vast sum of money that must be paid before the homes go to market. For example, the total CIL charge for a development in a typical outer London borough for 50 two-bedroom flats (at the minimum floor space outlined by the London Housing Design Guide) is £427,000, all payable within 120 days of the development commencing.[56]

As revenues from the development are tied-up until the point of sale, the level of these planning obligations not only lowers margins, it also creates a financial hurdle to commencing development that only highly-capitalised (and the largest) firms can surmount without difficulty. Some councils already allow developers of some sites to defer CIL payments until

[56] Calculated using the CIL calculator provided by London Borough of Croydon, at http://www.croydon.gov.uk/planningandregeneration/make-application/cil-s106/, based on 50 two-bedroom flats at 61sq.m. floor space each, built outside of the Croydon Metropolitan Area. The floor space is the minimum required by the Mayor of London (2010): *London Housing Design Guide: Interim edition*, p. 93. Dates by which payments must be made are outlined in London Borough of Croydon (2014): *Community Infrastructure Levy in Croydon: A guide*, p.6.

after completion of construction. However, a general direction for councils to defer payment of CILs until a point at which the value from the development can be accessed would lower total capital requirements to begin development, give smaller developers greater financial certainty in advance of applying for planning permission and, once full planning permission has been secured, will allow them to build their sites out sooner.

Recommendation 9: To expedite the time it takes to get on site and aid cashflow, local authorities should allow developers of all sites up to 50 units to defer payment of the Community Infrastructure Levy until the homes have gone to market.

A third challenge for smaller developers is securing finance at a level with which the debt is serviceable. Indeed, 81% of the London-based property and construction companies surveyed had experienced an inability to secure bank funding under favourable terms.[57] Banks will typically only offer a loan equivalent to 60% of the cost of development, meaning the remaining 40% needs to be sourced either through non-bank funding – which is typically more expensive and further reduces margins – or through the firm's balance sheet. As a result, just 29% of developments in London that commenced construction in 2012 used scheme-specific finance through special purpose vehicles,[58] while the remainder used their own balance sheets – an option only available to the most highly-capitalised firms.

LCCI welcomes the announcement in the 2014 Budget to provide a £500 million Builders Finance Fund to support smaller developers to implement planning permissions that have stalled due to a lack of funding.[59] This will push through many schemes that are a hangover from the recession when developers purchased land at the height of a boom only to be shut out from accessing finance from banks. However, this fund is analogous to the £570 million Get Britain Building Fund launched in 2011 for developments that have stalled, that has supported the completion of only 715 homes against a target of 16,000 over three years.[60] The Builders Finance Fund will only provide financial assistance for existing unimplemented planning permissions. It is unclear how this scheme will encourage small developers to purchase land or apply for planning permission in the future, as they still undertake a significant risk that they will not be able to access sustainable and sufficient development finance. **A more holistic approach to supporting smaller developers to access sufficient development finance is required.**

The Government's *Help to Buy* equity loan scheme has made a clear impact in allowing demand for home-ownership to be realised. To increase smaller developers' capacity to supply new homes, the Chancellor could replicate the same risk-sharing guarantees that the Treasury undertook with banks to deliver *Help to Buy* to ensure that smaller developers and new entrants have access to greater levels of development finance without having to make use of balance-sheet finance or approach more expensive, non-traditional lenders. It has been estimated that *Help to Build* risk-sharing loan guarantees to small and medium-sized enterprises could lead to 3,000 new homes a year, based on current build rates.[61]

A new *Help to Build* scheme could also be supported by the Mayor of London's new Housing Bank. The first phase of this £200 million fund is aimed at increasing the rate of delivery of homes on larger sites by larger house builders. Future phases of the fund could be used to underwrite loans to scheme-specific projects delivered by smaller developers, helping them access greater amounts of development finance at sustainable rates.[62]

Recommendation 10: To support smaller developers in securing funding, the Chancellor and the Mayor of London should launch a *Help to Build* risk-sharing loan guarantee scheme for smaller developers.

[57] LCCI survey, op. cit.
[58] Molior London (2012), p. 27
[59] HM Treasury (2014): *Budget 2014,* p. 39
[60] The Times: *Plan to get Britain building produces just 715 new homes,* 15 April 2014
[61] Chaloner, J. and Pragnell, M. (2014): *Increasing investment in affordable housing: Towards a level playing field for affordable housing,* A report by Capital Economics for Shelter, p. 68
[62] Mayor of London (2014): *London Housing Strategy 2014,* pp. 48-9

6. CONCLUSION

The greatest demand for housing in London comes from households with an annual income of less than £50,000. Yet, much current housing stock is comprised of either affordable products which many Londoners are not eligible for or "prime" housing that they could not afford. Furthermore, the move to new "garden cities" in the South East should not become a substitute for housing within London. A key reason for businesses locating in London is because the world's most talented people want to live in the capital. If they are unable to do so due to high housing costs, London' economic competitiveness will be undermined.

The key to addressing undersupply in London is twofold: ***more land*** for development and ***more builders*** with the capacity to deliver the homes needed.

The *more land* there is available for development, the more housing that can be built. Public sector owners of brownfield land should commit to either developing their land or selling it to the private firms willing and capable of building homes on it. Private sector owners of brownfield land should be given assistance to begin development and after a reasonable period of time and all options have been exhausted, ownership of the land should, through compulsory purchase orders if necessary, be transferred to someone that is willing and able to develop.

It is crucial that existing developed land in London is used as efficiently as possible. Local authorities should encourage higher densities near transport nodes and mixed use residential developments in failing high streets and industrial areas. The Mayor of London should work with local councils to review the designation of poor quality, private greenbelt land in the capital, which includes 12,000 hectares of farmland (nearly four times as much land as available in brownfield sites).

The *more builders* there are able and willing to build homes in London, the greater the capacity to deliver the number of homes London needs. Outside of the private sector, local authorities and housing associations can be freed up to build new homes and renew existing stock by removing artificial borrowing constraints.

Greater diversity is needed within the private sector too. Because of the high cost and low availability of land, the length and uncertainties of the planning process and the difficulties in accessing development finance, the developer industry in London is dominated by a small number of large firms. These developers will only increase their output in an incremental way so if we want to jump from building 20,000 homes per year to 42,000 or more, we need both new entrants into the house building sector and lower barriers for existing smaller developers to grow.

This can be done by disposing of small plots of surplus public sector land to smaller developers. By allowing developers to defer the payment of land acquired from the public sector and the Community Infrastructure Levy until after the development has gone to market, cashflow over the course of the development cycle can be smoothed over, meaning smaller developers require less capital to build. Finally, the Government should look to provide the same type of finance guarantees to smaller developers as they did to aspiring homeowners through *Help to Buy* to increase the availability of development finance and decrease dependence on using the firms' limited balance sheet to fund what they cannot raise from banks.

There is no silver bullet to solving housing undersupply, but the above measures could help business leaders, policymakers and decision-takers as we all look to put our house in order.

APPENDIX: RESEARCH METHODOLOGY

In February to March 2014 LCCI undertook a survey, to which 126 chamber members responded, and held interviews and discussions with London businesses and relevant stakeholders.

In March 2014 LCCI hosted two roundtable discussions, chaired by LCCI President, Tony Pidgley CBE, Chairman of the Berkeley Group.

The first roundtable, entitled *"What type of housing does London need – and why?"* explored the impact of the shortage of affordable homes on London business and the types of housing that would best serve need their needs. The second roundtable, *"How do we deliver more and better housing?"*, focused on ways to overcome the barriers to delivering more homes in London.

The roundtable discussions involved businesses of all sizes and sectors, as well as stakeholders including local authorities and representative bodies. LCCI also conducted in-depth interviews with businesses and stakeholders.

Roundtable participants and interviewees included:

Adam Firth	Projects Director	Aedas
Russell Pedley	Co-Founder	Assael
Peter Halpenny	Developments Director and Deputy Managing Director	Ballymore Group
Gregor Bamert	Managing Director, Real Estate	Barclays
Richard McCarthy	Executive Director – Property and Infrastructure	Capita Group plc
Anette Simpson	Director of Planning and Development, Earls Court	Capital and Counties
Debansu Das	Head of Product Development	Climate Energy Ltd
Robert Smith	Senior Planner	DLP Planning Consultants
Dick Mortimer	Property Services Director	Family Mosaic
Chris Patel	Director	Hays
Simon Neate	Director	Indigo Planning Limited
Richard Cook	Head of Residential	Lend Lease
Christopher Hill	Director	Linedota Architects
Mark Rusling	Cabinet Member, Economic Development and Corporate Resources	London Borough of Waltham Forest
Jan Taranczuk	Vice Chair	London Regional Board, Chartered Institute of Housing
Asa Plant	Associate	Mayer Brown
Susan Freeman	Partner	Mishcon de Reya
Lizzie Clifford	External Affairs Manager (London)	National Housing Federation
Adam Morton	Policy Leader	National Housing Federation
Martyn Kingsford	Board member	Paragon Housing Group and London Regional Board, CIH
James Moody	Managing Director	Redrow Homes Limited
William Smedley	Managing Director	RG+P London
Megan Dobney	Regional Secretary	Southern and Eastern Region TUC
Patrick Duffy	Technical Director	Temple Group
Matt Bell	Group Head of External Affairs	The Berkeley Group
Steve Perkins	Director	Turner & Townsend
Jeffrey Adams	Group Chairman	United House Group
Rosemarie MacQueen	Strategic Director, Built Environment	Westminster City Council
Neil Young	Chief Executive Officer	Young Group

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