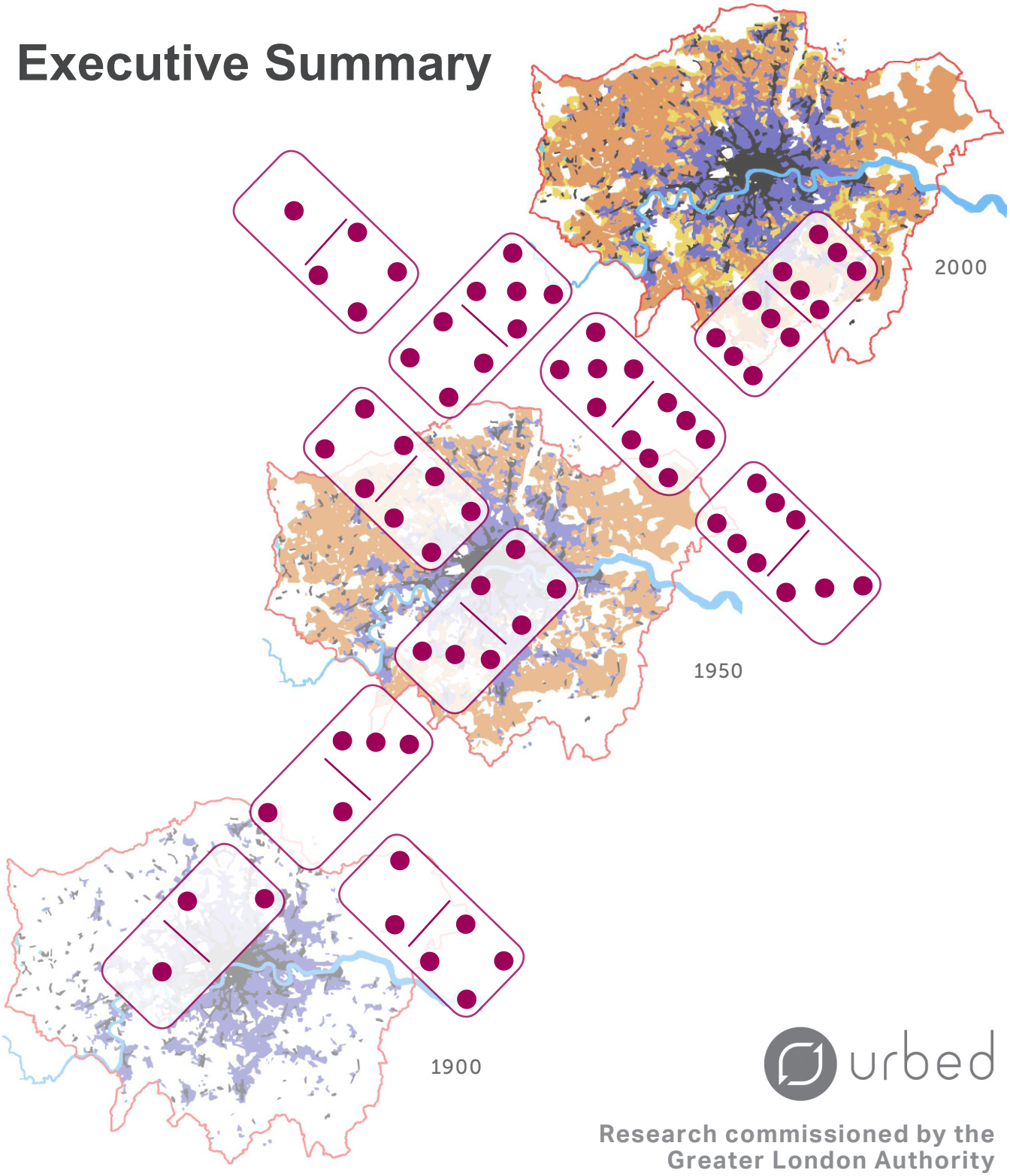
CAPITAL GAINS:

A BETTER LAND ASSEMBLY MODEL FOR LONDON

Executive Summary



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Research commissioned by the Greater London Authority

EXECUTIVE SUMMARY

CAPITAL GAINS: A BETTER LAND ASSEMBLY MODEL FOR LONDON

INTRODUCTION

This report brings together the evidence and makes recommendations for changing the way land is assembled in London. It responds to the commission from the GLA to address the following basic research questions over a period of four months:

- With reference to international examples, what conditions would best support land assembly for house-building in London?
- Which specific statutory land assembly models could enable an increase in and acceleration of the delivery of homes in London?
- How could these specific statutory land assembly models be implemented in London?

The report outlines a range of models, drawing on both international good practice and London's own past, and proposes improvements that could be made in the short term, as well as those requiring changes to statutory framework. It is entitled *Capital Gains* because it deals with the particular challenges facing the nation's capital, and because it is aimed at harnessing land values for the city's benefit.

The research team has been led by Dr Nicholas Falk from URBED, supported by legal experts at Dentons and surveyors at Gerald Eve with particular experience of compulsory purchase, the network of metropolitan regions and areas, plus inputs from Pete Redman at Housing Futures Ltd.

METHODOLOGY

The research team identified an initial range of challenges in its submission which provided the focus for selecting and analysing relevant case studies, including:

- Allocating suitable land for affordable housing;
- Achieving quality development;
- Changing planning practice;
- Mobilising people and funding;
- Achieving a cultural step change; and
- Building partnerships that work.

To help ensure the results would be robust, a Research Advisory Group was set up with the aim of testing our conclusions with a range of other experts from across the sector, including academics and the RICS. The team undertook the commission in four phases:

Agreeing what may need to change

An initial meeting considered conditions that might need to change to support an increase in house-building in London, drawing on a review of previous research. Some thirteen barriers were identified that can arise in assembling land. Fourteen possible case studies were identified, and were narrowed down to the places from which the most could be learned.

Assembling the evidence

Case studies were prepared of housing developments in four countries.

- The French case study is ZAC Claude Bernard in a disadvantaged part of North East Paris plus an example from the fast-growing city of Montpellier and Paris Rive Gauche, where a railway line has been built over to create a new district
- The German case study is a sustainable urban extension to the historic university city of Freiburg plus an example of land pooling in Frankfurt.
- The Dutch case study is a new settlement on the edge of the mid-sized town of Amersfoort where land has been pooled plus an example from Amsterdam of creating new housing sites in the River Ij.
- The North American case study is a regeneration area in a former industrial area in Portland Oregon plus the example of Toronto in Canada.
- The report also draws on examples of planned intensification from Hong Kong and Denmark where housing and transport has been combined.

Because the UK has particular cultural and legal traditions, the team also drew heavily on what London could learn from its own past. A literature review has summarised the lessons from periods when London grew fastest as well as good practice from recent experience.

Drawing the lessons

Dentons drew up a list of eighteen possible measures that could address the various challenges and that were capable of implementation both in the short and longer terms. The measures broke down into four topics: planning for strategic housing; acquiring land; incentivising land assembly; and resourcing land assembly. The most promising ones were selected and worked up.

Testing the recommendations

Two very different 'test cases' have been examined to see how far the possible measures could achieve the GLA's aims and what benefits or advantages could secure the support of the different stakeholders.

WHY LAND ASSEMBLY MATTERS FOR HOUSE-BUILDING

Delivery rates for housing have fallen far behind demand for decades, with common criticisms including restrictive planning policies, limited resources for planning larger schemes, a shortage of developers willing to take complex schemes forward, and an acute shortage of experienced staff in the boroughs. For London the assembly of land in multiple ownership is now seen as one of the main obstacles to doubling house-building rates.

Land assembly to deliver housing is inherently complex and time consuming as it may involve any or all of:

a. Unifying multiple interests including adjoining land, leasehold and other interests affecting the title of the land;
b. Removing ransom strips and other impediments such as rights of way;
c. Obtaining agreements with statutory undertakers, including highways and other agencies;
d. Remediating damaged land;
e. Providing infrastructure to land which otherwise would and could not come forward;
f. Relocating non-compliant uses that would conflict with housing;
g. Freeing up of underutilised land that does not make good use of its location, for example by taking advantage of accessibility or amenity, but which may currently be occupied or operational;
h. Investing in advance of planning permission being granted and certainty that the development can proceed.

The review of barriers to land assembly identified factors that are inherent in the sites, such as contamination and unpredictable costs and values, as well as factors associated with ownership, such as absentee owners, and over-expectations due to an inflated 'hope value'. Land is often occupied, which requires compensation or relocation. Ownership can be fragmented, and land value across the entire site may not split proportionately

into individual plots. Finally, as well as owners who prefer to 'hold out' and speculate, there is a loss of the skills and techniques that used to be available in both the public and private sectors to assemble land.

Utilities and transport undertakings can be hard to engage because their priorities are not aligned with the need to deliver more homes, making it hard to secure the 'marriage value' from putting adjoining land together. Compulsory purchase, or the threat of it, is therefore often essential, but local authorities may be wary of exercising their powers because of a lack of capacity or experience as well as financial reasons. The nervousness about compulsory purchase is deeply embedded in strategic planning for housing with a general reluctance to incur the costs and delays involved.

WHAT LONDON CAN LEARN FROM ITS PAST

While land assembly today presents greater challenges than in the past, useful lessons can be learned from when London has grown fastest: a combination of leasehold development and public infrastructure investment were responsible for the great private development 'surges' that have taken place, for example in the early 19th century or the 1930s. The use of the Landlord and Tenant Act enables private landowners to take a long-term perspective and enforce covenants thus attracting institutional investment.

The high rate of building in the 1930s is sometimes attributed to fewer planning controls, but just as importantly included the availability of cheap land and finance, and simple-to-build 'pattern book' houses. New arterial roads and extensions to the London Underground - aimed at tackling unemployment and the Great Depression - opened up large areas of former agricultural land.

After the Second World War, and the Town and Country Planning Act, public measures such as the use of Comprehensive Development Areas (CDAs) and the designation of a New Towns and the London Green Belt enabled damaged land to be mobilised in a strategic and planned way. Comprehensive Development Areas enabled sites in different ownerships to be rapidly assembled, as did the setting up of the development corporation for the London Docklands.

Today public-private partnerships are used to achieve something similar. But whereas London's footprint grew physically by 60% in the last hundred years, it has expanded very little in the last thirty. Successes such as the London Olympics and subsequent development in East London were at a high cost in terms of land assembly, and are exceptional. Redevelopment of Council estates is important but difficult. Case studies of the redevelopment of Croydon, the Docklands and King's Cross illustrate possible models for mobilising strategic land.

WHAT LONDON CAN LEARN FROM ELSEWHERE

Continental cities that have kept up house-building rates and suffered less from the effects of house-price inflation have adopted much more proactive approaches to land assembly.

Planning for strategic housing

Strategic planning is used to join transport and development together in Northern Europe. Municipalities develop strategic spatial plans that specify where growth or regeneration should and should not take place: thus the French differentiate between *'urbanisme'* and *'L'aménagement du territoire',* that is between development management and spatial or regional planning. Transport is integral, not kept in silos, as case studies of Paris and Freiburg illustrate.

Local leadership is critical. While guidelines may be set nationally, as in with the VINEX housing schemes in the Netherlands, agreement is reached at a regional or metropolitan level to link transport and development, rather than relying on central government. Priorities are resolved locally,

thanks to the greater devolution of powers and resources to local authorities.

Local infrastructure can be funded out of land value uplift. Spatial plans provide the certainty that investors, both public and private, are looking for. The German concept of 'poorly or under-utilised land' is used to identify locations for planned intensification as a prelude to applying 'Urban Development Measures' to recover the costs of infrastructure from development. Something similar applies in the Netherlands, where locations have been classified in terms of their connectivity.

Higher quality standards are achieved, thanks to greater municipal power. Though planning powers are weaker in North America, spatial sub-regional plans also have greater force in progressive cities such as Portland Oregon. These are backed by tax incentives and public private partnerships that mobilise the support of private landowners and investors behind what the municipality is planning. North American cities, as well as Hong Kong, use density guidelines, or Floor Area Ratios, to negotiate community benefits, such as affordable homes, in return for greater private development. Urban Renewal Areas focus the benefits of tax incentives on priority areas, thus incentivising private investment where it is most needed

Acquiring land

Researchers agree that planning is much less adversarial in most of Continental Europe than in the UK, as a stronger tradition of collaboration between the stakeholders for historic reasons is supported by government planning policies, such as the VINEX policy in the Netherlands. Land pooling, as in cities such as Amersfoort or Frankfurt, helps overcome the barriers to complex schemes where the local authority does not already own the land. Joint ventures or municipally owned development companies reduce reliance on private developers to take the lead.

Joint venture companies can also align or adjust the interests of different land owners by providing a dedicated project management team with planning and development skills. If London were to follow the Dutch Building Rights or 'First Choice' model, developers would recoup the proportion of the site's value or area that they put in, with the sanction that the municipality could undertake the plan it has drawn up, which would speed up cooperation.

The availability of 'patient capital' for installing local infrastructure, such as roads and utilities is a further strong incentive for collaboration, as it has been in London in the past.

Incentivising land assembly

Land values are generally lower in the Netherlands and Germany than in the UK and housing is much more affordable than in London. Lower house prices and hence land values are helped by faster rates of development, the availability of suitable land with planning permission on which to build, and a wider variety of house-builders, which are mutually reinforcing.

A compromise is secured over who gets what from development. Land prices are 'frozen' on 'under used or poorly used land' designated for development under the German system. They have also been kept down in the Netherlands by cities being given the power to implement an agreed plan under the 'building rights' or 'first choice' model. In other words, the rights of the private owner are constrained by the wider public interest.

The local authority or a special purpose vehicle set up as a partnership with private developers, plays a more proactive role in enabling development on complex sites, with landowners getting a share of the uplift in development value. Note, with faster rates of development speculators lose out, but genuine investors may well do better, as financing costs will be lower. Portland Oregon provides a good model for smart growth (see page 45).

Resourcing land assembly

Effective partnerships between the public and private sectors work best where they are supported by national policies with long lives so investors know

where development will occur and when infrastructure investment will be made. The main message from Portland Oregon or Toronto in Canada is that cities benefit from local private developers with the capacity and commitment to support their cities, assisted by tax incentives at a State level. Agreement is secured through skilled negotiation over development rights and densities by the municipalities, aided by public development agencies that engage private sector support for the overall plan.

Larger European cities such as Paris or Amsterdam intervene more directly in land, and employ some form of development agency that can act independently from the local authorities that set it up. They have long benefitted from the popularity of living near the city centres, and have had less competition from the suburbs. Hence even with lower property values housing development can still be viable.

Smaller cities such as Montpellier, with a population the size of a London Borough, tend to set up joint ventures with landowners or private developers. Their companies have full-time staff dedicated to implementing projects that outlive any political change, and who can cross the boundaries between different authorities, and supplement the skills and resources of the private sector.

State investment banks supply long-term loans at lower interest rates than a private developer would have to pay, which helps make complex schemes viable, for example in pooling land from different owners or developers. The successes in building affordable and sustainable housing are achieved by 'winning teams' working together over many years (more than a decade) to create sustainable new neighbourhoods.

Instead of public funds being spread thinly and dependant on bids to central government, investment is concentrated in places with the most growth potential. More funding is raised locally thanks to municipalities being able to identify and mobilise the necessary land. Compensation reflects a balance between public interest and the interest of the original owner, while offsetting the costs of providing local infrastructure.

IMPLEMENTING ALTERNATIVE MEASURES

Much can be achieved by making better use of existing powers, but there are also some measures that require government support or even legislative change. Our ten recommendations are structured around the four themes of the report, and some of these are already being implemented. They start with the fundamental proposal of introducing Land Assembly Zones (LAZ) to make the whole process easier and faster. *(See next page for Land Assembly Action List).*

THE ADVANTAGES A BETTER MODEL WOULD BRING

Gerald Eve examined two strategic opportunities (one in West and another in East London) to assess the overall impact of our recommendations in terms of financial considerations, delivery and risks.

Their modelling suggests that on former industrial sites benefitting from investment in improved transport services housing yield could increase between 20 and 30% with an overall saving in development times of five years, while on the edge of a metropolitan town centre the yield may increase between 5 and 10% with a time saving of two to three years.

In conclusion, our report shows the general benefits from adopting a better model for land assembly on sites large and small include:

- building extra homes faster
- reducing costs and risks to investors and house-builders
- joining up transport and development,
- creating stronger communities,
- tackling 'free-riders', and
- diversifying development and investor partners.

LAND ASSEMBLY ACTION LIST

1. **Introduce a new planning designation termed 'Land Assembly Zone' (LAZ).**

   - This will provide the focus and incentive to encourage land owners to self-assemble by resolving to use compulsory powers in priority areas for housing development or intensification.

2. **Require Land Assembly Zone designations to be accompanied by an 'in principle' commitment to exercise compulsory acquisition powers.**

   - In the longer-term, the process for CPOs relating to the designation land should be streamlined by removing the scope for public inquiries for compulsory purchase orders in respect of LAZ land.

3. **Identify a lead body with responsibility for land assembly in each Land Assembly Zone.**

   - This would normally be the local authority.

4. **Allow confirmation of CPOs ahead of planning consent.**

   - Guidance should in the longer term allow for the confirmation of CPOs outside designations ahead of planning consent in the interests of 'good planning'.

5. **Allow Mayoral confirmation of London local authority CPOs.**

   - CPO confirmation powers should be delegated to the GLA for London for CPOs not promoted by the GLA within LAZs. **Amendments would be needed to the Acquisition of Land Act 1981, and the CPO Guidance.**

6. ‘Use CPO land or lose it’.

- The GLA or local authority should hold land acquired pursuant to a CPO in a land bank where development does not occur.

7. Introduce statutory land pooling.

- Develop a contractual basis for land pooling and introduce a statutory model for land pooling. Compensation paid to landowners should include part of the marriage value of the assembled site, perhaps with graduations depending on the time at which participants contribute their land. **This will require changes to the Land Compensation Act 1961 and CPO Guidance.**

8. Freeze land values in LAZs.

- In any land pooling model, the land values should be set at the market value on the date of designation for the purposes of fixing the share of the pool. **A freeze on land values from the point that a draft designation is published would require changes to the Land Compensation Act 1961.**

9. Introduce a planning application moratorium.

- This would enable district councils to defer the consideration of planning applications in a designated Land Assembly Plan for one or more years, depending on the complexities. **It would necessitate an amendment to the Town and Country Planning Act 1990.**

10. Create a multi-disciplinary team to support the boroughs and developers in tackling strategic and difficult sites.

- This would be supported by the devolution of additional finance to provide a long-term London revolving fund to support land assembly, and can start right away.


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