

# Subject: Encouraging Diversity in London's House Building Industry

Report to: Housing Committee

Report of: Executive Director of Secretariat

Date: 25 March 2014

This report will be considered in public

## 1. Summary

- 1.1 This report sets out the background and context to the Committee's meeting on London's house building industry. The meeting will explore barriers to entering the market and how the Mayor and others can improve competition in the sector.

## 2. Recommendations

- 2.1 **That the Committee notes the report, puts questions to the guests and notes the discussion.**
- 2.2 **That the Committee delegates authority to the Chair, in consultation with party Group Lead Members, to agree the output from this meeting.**

## 3. Background

- 3.1 London's house building market is more concentrated than ever. The GLA-commissioned report *Barriers to Housing Delivery* found that only 23 builders accounted for 70 per cent of private sale housing starts.<sup>1</sup> The report highlighted that more new entrants to the market might lead to increased housing development. However, three key barriers currently deter new entrants from entering London's market: the cost of land, access to finance and complexities in the planning system. Despite these barriers, the Mayor's draft London Housing Strategy aspires to develop a programme to encourage and support small and medium sized builders to enter the London market, including for custom and self-build – for example by offering payment of the Community Infrastructure Levy (CIL) on completion of sale rather than upfront.<sup>2</sup> The Mayor has also previously pledged to support Community Land Trusts across the capital using public assets.<sup>3</sup>
- 3.2 Land is expensive and prices continue to rise. In the 12 months to September 2013, the cost of prime central London residential development land increased by 14 per cent, more than four times

<sup>1</sup> [Barriers to Housing Delivery](#), GLA, December 2012.

<sup>2</sup> [Home for London: the draft London Housing Strategy 2013](#), GLA, December 2013, page 50.

<sup>3</sup> Boris Johnson 2012 manifesto, *Growing the London Economy*, page 38.

the increase in the Retail Price Index.<sup>4</sup> The IPPR argues that control of land is a key inhibitor to a more diverse, competitive housing market.<sup>5</sup> However, much of London's land with planning permission is not currently owned by builders. Around 45 per cent of schemes with planning consent are on land controlled by firms that do not build, including owner-occupiers, investment funds, historic land owners and government.<sup>6</sup> Encouraging a change of ownership from non-builders to builders could increase the pipeline of new housing in London.

- 3.3 Encouraging new developers to bid for public land could also improve competition. On the continent there are examples where public land is parcelled up and sold to many small developers.<sup>7</sup> This has helped small private developers and community-led or self-build initiatives. But the GLA appears to be taking a different approach. It recently set-up the London Development Panel – a framework agreement between 25 developers, enabling public land owners, including London's boroughs and government bodies, to award individual contracts without having to go through a full and expensive procurement process each time.<sup>8</sup> The GLA hopes that the new panel will speed up the disposal process. However, it may also have other effects, such as further reducing competition in London's house building market and providing little scope for new entrants or community-led initiatives to acquire GLA Group-owned sites.
- 3.4 Whether purchasing public or private land, small builders and community-led initiatives need access to finance. Accessing long-term finance has been difficult in the last few years. Both the cost of debt (i.e. interest payments) and the availability of debt are a barrier, particularly to developers. The result of demanding lending criteria from banks and other financial institutions is development without scheme-specific debt: large developers are able to use their strong balance sheets to secure funding, rather than doing so on a scheme-by-scheme basis using a Special Purpose Vehicle (SPV). This means that smaller, less well capitalised developers find it harder to fund development in London.<sup>9</sup>
- 3.5 Finally, the planning system, as well as complex building regulations and standards, may also be deterring new entrants to the market. Planning applications for some schemes can now run into hundreds of thousands of pounds.<sup>10</sup> This could prevent smaller developers without the resources to invest up-front from entering the market. Moreover, understanding complex building regulations and standards may require legal expertise that smaller developers do not have.

## 4. Issues for Consideration

- 4.1 At the meeting, the Committee may wish to ask the following questions about improving competition in London's house building market:
  - Is London's house building market constrained?
  - What are the greatest barriers that prevent new entrants to the market?

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<sup>4</sup> Sources: [Residential Development Land Index](#), Knight Frank, September 2013; The Retail Price Index rose by 3.2 per cent in the 12 months to September 2013 ([UK \[CPI\] inflation rate unchanged at 2.7% in September](#), BBC, 15 October 2013).

<sup>5</sup> [We Must Fix It](#), Institute for Public Policy Research, December 2012.

<sup>6</sup> [Barriers to Housing Delivery](#), GLA, December 2012, page 9.

<sup>7</sup> For example, in the Netherlands (see [Public land development as a strategic tool for redevelopment: Reflections on the Dutch experience](#), Land Use Policy 30 (2013) 774–783, June 2012).

<sup>8</sup> [London Development Panel](#), GLA website.

<sup>9</sup> [Barriers to Housing Delivery](#), GLA, December 2012, page 17.

<sup>10</sup> [Barriers to Housing Delivery](#), GLA, December 2012, page 11.

- What can be done to encourage smaller developers and community-led initiatives to build in London?
- What specifically can the Mayor do to help new developers and community organisations acquire land and build homes?

4.2 The Committee has invited a number of expert guests to discuss these matters, including:

- Paul Rayment, Senior Surveyor, Affleck Property Services, Member of the Federation of Master Builders;
- Sarah Monk, Deputy Director, Cambridge for Housing and Planning Research;
- Tim Craine, Director, Moliior;
- Stephen Hill, UK co-housing network; and
- David Lunts, Executive Director – Housing and Land, Greater London Authority.

4.3 The Committee may wish to delegate authority to the Chair, in consultation with Party Group Leads, to agree an appropriate output following the meeting.

## 5. Legal Implications

5.1 The Committee has the power to do what is recommended in this report.

## 6. Financial Implications

6.1 There are no financial implications to the GLA arising from this report.

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**List of appendices to this report:** None

<p><b>Local Government (Access to Information) Act 1985</b></p> <p>List of Background Papers: None</p> <p>Contact Officer: Dan Maton, Budget &amp; Performance Adviser</p> <p>Telephone: 020 7983 4681</p> <p>Email: dan.maton@london.gov.uk</p>
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