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Boris Johnson
Mayor of London
(Sent via email)

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Dear Boris

Encouraging diversity in London's house building industry

In March, the London Assembly's Housing Committee examined the barriers to entry into London's house building industry. We spoke to representatives of small builders, community groups, and academics as well as the Executive Director for Housing and Land from the GLA. In this letter, we set out some of our findings from the session. We urge you to reconsider your approach to using public sector land to support house building in London. In particular, we think that where possible this land should be used to help new and/or small developers enter the market, an aspiration in your housing strategy.¹

The land problem

The Committee shares your concern that London's house building industry is more concentrated than ever.² At present, it is dominated by a small number of large developers that alone do not have the capacity to build the number of homes that London requires. It is vital therefore that the public sector does all it can to encourage new entrants to the market, especially small and medium enterprise (SME) developers. Research has shown that since the economic downturn, the number of SME house builders has contracted at a much faster rate than larger builders.³

Homes cannot be built without land. But competition for expensive land makes it harder for small builders to enter the market or to grow. A recent survey of London companies in the property and construction sector found that land availability was the top barrier to house building.⁴ In addition, the land market is complex. Options agreements are commonly in place between landowners and developers so it is difficult to identify available sites. And many developers focus on securing

¹ [Home for London: the draft London Housing Strategy](#), GLA, page 48.

² [Home for London: the draft London Housing Strategy](#), GLA, page 49.

³ [Solutions for the housing shortage](#), Shelter, July 2013, page 15.

⁴ [Getting our house in order: the impact of housing undersupply on London's businesses](#), London Chamber of Commerce and Industry, May 2014, page 13.

strategic land banks to manage their pipeline of new housing supply in future years. The 2007 Callcutt review of house building delivery found that: ‘identifying, acquiring, preparing, developing and selling land (with houses on it) is the key activity of all house building companies’.⁵ As a result, privately owned land released for development by the planning system is likely to be retained by existing house builders while new, small players struggle to get a foothold in the market. (A separate but related issue is that, since the recession, small developers still struggle to access finance to purchase land.)

Given these problems, it is vital that the public sector uses its surplus land to help stabilise the land market, as KPMG and Shelter have argued recently.⁶ You committed to an exit strategy on the 670 hectares of surplus public land the GLA inherited in 2012.⁷ Other public sector bodies in London, such as NHS trusts, may also be sitting on surplus land over which the GLA could take strategic control.⁸ London’s house building industry is not building the number of homes London needs; London government must use the resources available to it, such as surplus land, to help ease this problem.

The London Development Panel

Early signs indicate that the London Development Panel (LDP) might be successful at speeding up the disposal process for public land, such as at the Peel Centre in Hendon. But quick sales of large sites to big developers do not guarantee that homes will be built faster. As your housing strategy highlighted, one of the greatest market failures in London’s house building industry is the issue of absorption, where developers manage the release of homes for sale at a rate that optimises viability and returns for them.⁹ This is particularly the case for large sites and in areas where there is a concentration of development activity. The London Housing Bank is an interesting proposal to try and ease this problem; the Committee looks forward to reviewing its prospectus this summer. Further measures⁸ are, however, needed to tackle the absorption issue and there is a risk that the LDP might make the problem worse.

To prevent successful LDP bidders from land banking public sites, they must sign detailed development agreements that specify performance expectations.¹⁰ These might stipulate fast build-out rates following disposal and/or require a mixture of tenure on the site (which can provide an incentive to build quicker).¹¹ But these agreements will not guarantee that overall output in London’s house building industry increases. Many large developers are not looking to increase their output – in fact house builders’ business strategies are now explicitly avoiding increasing the number of homes built.¹² There is therefore a risk that LDP developers prioritise their house building on LDP sites in the short term – i.e. those with development agreements in place – at the expense of their other sites, which they can then build out in future years. Put

⁵ [The Callcutt review of housebuilding delivery](#), November 2007, page 136.

⁶ [Building the homes we need: a programme for the 2015 government](#), KPMG and Shelter, May 2014, page 11.

⁷ [Mayor calls for power to unlock London’s housing potential as he breaks ground in Catford](#), Mayoral Press Release, 15 July 2014. Of this, 87 per cent is either developed or has been moved into development.

⁸ [Home for London: the draft London Housing Strategy](#), GLA, page 45.

⁹ [Home for London: the draft London Housing Strategy](#), GLA, page 49.

¹⁰ David Lunts, Executive Director Housing and Land, GLA, Housing Committee, 25 March 2014.

¹¹ The London Housing Bank intends to do exactly this: provide finance for developers to build homes that are rented for a number of years before they are sold thereby reducing the problem of absorption since developers can spread the market sale of homes on a given site over a number of years.

¹² For example see: [Solutions for the housing shortage](#), Shelter, July 2013, page 17; [We must fix it](#), Institute for Public Policy Research, December 2011, page 29.

simply, the Committee believes that surplus public land in London should be used to increase the number of homes being built each year by boosting the capacity within the industry to build. Selling it predominantly to large developers who already have current and strategic land banks may not be the best way of achieving this goal.

A different approach

An alternative would be to divide some large sites into smaller parcels of land and commission homes on these sites from different bidders. While this may increase the length of the disposal process for each site, it might also help accelerate house building if several builders worked on a site at once, a point made by the Cambridge Centre for Housing and Planning Research at our meeting.¹³ This approach would also help boost competition in the sector if some of the land parcels were reserved for SME developers and/or other new entrants to London's house building industry.

Parcelling public land into smaller sites prior to disposal is common in other countries. The standard approach to development in the Netherlands has been for the municipality to buy undeveloped land, provide the necessary infrastructure and services, parcel it into lots and sell them at prices that recover at least the costs involved.¹⁴ If replicated in London, this approach would – in some cases – require significant upfront investment from London government. The Committee welcomes the £400 million fund that you and the Chancellor of the Exchequer recently announced to support Housing Zones in London.¹⁵ When you review bids from London boroughs later this year, we encourage you to prioritise proposals where public subsidy is used to support 'additionality' (i.e. overall output in the sector). And when you agree Delivery Frameworks with boroughs to establish Housing Zones, we urge you to include requirements that zones encourage development by new and/or small developers, perhaps by parcelling individual plots prior to sale. These will address some of the issues that you raise in your consultation document.¹⁶

Finally, we would like to state our support for the 'end-to-end project management' proposal that you set out as a future policy option.¹⁷ Not only would this place less reliance on developers with deeper pockets to build homes on public land (or land acquired using CPO powers), but developed, serviceable land would generate bigger capital receipts for the public sector once that land is sold. Of course, there would be risks with this approach as well as benefits. We recommend that the GLA conducts research into how other countries approach land assembly, in particular the Netherlands, which has a similar population density to England and scarce land.¹⁸

Helping SMEs

In January, you told the Assembly that the LDP was created to accelerate housing delivery on medium to large sized housing-led developments on public sector land.¹⁹ You added that the GLA

¹³ Sarah Monk, Cambridge Centre for Housing & Planning Research, Housing Committee, 25 March 2014.

¹⁴ [International review of land supply and planning systems](#), Joseph Rowntree Foundation (and Cambridge Centre for Housing and Planning Research), March 2013, page 27.

¹⁵ [Housing Zones: A Prospectus](#), Mayor of London, June 2014.

¹⁶ For example, Housing Zone bids must answer the following: Is there evidence of market capacity for the proposed increase in housing? What strategies are proposed to accelerate housing delivery and overcome issues of market absorption? ([Housing Zones: A Prospectus](#), Mayor of London, June 2014, page 26).

¹⁷ [Housing Zones: A Prospectus](#), Mayor of London, June 2014, page 22.

¹⁸ [International review of land supply and planning systems](#), Joseph Rowntree Foundation (and Cambridge Centre for Housing and Planning Research), March 2013, page 12.

¹⁹ Answer to Mayoral question ([2014/0149](#)), Supporting small and medium-sized builders, 29 January 2014.

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is exploring the potential to set up a framework for SME house builders to improve the supply and delivery on smaller housing developments and to help this part of the sector. Small builders need more help. The Federation of Master Builders told us that since sites available on the open market are so highly priced, and since access to finance remains difficult for SMEs, the release of public land over the next few years is going to be an increasingly important factor in whether or not new entrants emerge in London.²⁰ It added that, currently, small bodies do not even understand how they can access public sites. We would therefore welcome more openness about the framework that the GLA is considering to help small builders, such as when it might be up and running, and how the GLA intends to reach out to small builders so they are aware of it once it is established.

Transparency

However the GLA decides to dispose of its land assets, it must do so transparently. At our meeting, one guest raised the issue that – on paper at least – the LDP risked appearing like a cartel. In her experience, large developers often take turns in bidding for land, rather than genuinely competing with each other.²¹ In order to avoid any accusations of unfairness, it is in the GLA's interests to publish key information in an accessible place about each LDP disposal after a successful bidding round is completed. At the very least, the names of successful bidders for each disposal should be published prominently on the LDP web page, as well as the size of the plot of land that was sold and the value of the capital receipt. Once a disposal is completed, commercial sensitivities should not be used as a reason to prevent this disclosure. Moreover, since much of the information is already published in Mayoral Decisions, it should not be overly burdensome to collect it in one place.²² Doing so will enable Londoners to see who is buying London's land, where and for how much.

Conclusion

Large developers will continue to play a major role in easing London's housing crisis. The LDP will be a useful vehicle for disposing of some public land and ensuring that homes are built on it; certain sites – particularly those that involve high rise developments – may not lend themselves to smaller developers. But we must also use public sector resources, such as land, to help new developers add to the house building industry's overall output where they can. The GLA has one chance to sell its land: it must use it as a catalyst to boost London's house building capacity over the longer term.

The Committee therefore seeks some reassurances about your approach to disposing land through the LDP and the effects on London's house building industry from excluding small builders from the panel. Our concerns are not alone: the London Chamber of Commerce and Industry (LCCI) also recently called on the GLA to actively recruit smaller developers to the LDP.²³

²⁰ Paul Rayment, Member of Federation of Master Builders, Housing Committee, 25 March 2014.

²¹ Sarah Monk, Cambridge Centre for Housing & Planning Research, Housing Committee, 25 March 2014.

²² There is already some good practice of disclosure. For example, in [DMPCD 2013/140](#), MOPAC explained that the Hendon site attracted 12 expressions of interest from LDP members, seven formal responses of which four were shortlisted. It then explained that it received two responses following the formal invitation to tender that both exceeded the expected price.

²³ [Getting our house in order: the impact of housing undersupply on London's businesses](#), London Chamber of Commerce and Industry, May 2014, page 6.

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I would be grateful if you could respond to each of the following points by **Friday 19 September 2014**:

1. What effect do you anticipate the LDP to have on the absorption problem in London's house building industry?
2. Where the GLA wishes to dispose of land that does not require large amounts of assembly work prior to development, will you explore the possibility of dividing large sites into smaller parcels before disposal, with some reserved for SME developers to help support new entrants into London's house building industry?
3. As you agree Housing Zone Delivery Frameworks with boroughs later this year, will you add requirements to ensure that zones maximise delivery by new and/or small developers? (These requirements could specify that boroughs parcel a proportion of land within Housing Zones into smaller plots, targeted at SME developers.)
4. Will you commission comparative research and publish a paper later this year on how the GLA could take a greater role in land assembly and 'end-to-end project management'?
5. Please provide the Committee with more details about the proposed alternative London development framework to help SME developers access public land, including when it might be up and running and how the GLA intends to market it to SME developers so that they know it is available.
6. To ensure greater transparency, will you commit to publishing a register of key information about past and future LDP disposals prominently on the LDP website? (For each disposal, the register should include as a minimum the number of expressions of interest from panel members, the name of the winning bidder, the size of the plot of land and the value of the capital receipt.)

The full transcript from the Committee's meeting is available here:

<http://www.london.gov.uk/moderngov/documents/s35678/Minutes%20-%20Appendix%201%20-%20Transcript.pdf>

I would be grateful if you copy your response to Dan Maton, Budget and Performance Adviser, 020 7983 4681, Dan.Maton@london.gov.uk.

Yours sincerely,



Darren Johnson AM
Chairman of the Housing Committee

Cc. David Lunts, Executive Director of Housing and Land, GLA