

MAYOR OF LONDON

Darren Johnson AM

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Dear Darren

Encouraging diversity in London's house building industry

Thank you for your letter of 21 July. I apologise for the delay in responding to you.

Like you, I am keen to get more players involved in meeting the London house building challenge. To this end, I am pleased by the findings of a recent report for the Greater London Authority (GLA) by Molior consultants, 'Barriers to Housing Delivery in London – Update', which has found that the number of developers starting larger housing sites (over 20 units) for market sale in London has increased from 82 firms in 2011 to 103 firms in 2013.

However, I recognise that more must be done, especially for the SME sector, and I am grateful for your comments and suggestions on behalf of the committee. Here are my responses to the points that you raise.

You ask about the role of the London Development Panel (LDP) in accelerating development and assisting smaller builders. As you know, I established the LDP to speed up the process of bringing public sector sites to market, and therefore to accelerate the delivery of new housing. This is working well and we now have a substantial number of boroughs and other public bodies using the panel alongside the GLA, Transport for London, London Fire and Emergency Planning Authority and the Metropolitan Police Service. This is encouraging but in itself does not, as you acknowledge, always deal with the 'absorption rate' challenge associated with large sites. You therefore suggest whether I have considered the division of large sites into smaller parcels before development, reserving some of these for SME developers.

I have considered this carefully but the scope for adopting such an approach is now limited by the small number of major development sites that remain in GLA ownership and that are not currently in development or active procurement. Of the 670 hectares of land that the GLA inherited from the London Development Agency, the London Thames Gateway Development Corporation and the Homes and Communities Agency, over 85 per cent has either been developed, is under construction, is contractually committed or is being marketed. This includes most of the larger

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sites, many of which will deliver significant numbers of new homes for London (as well as requiring large amounts of assembly work prior to development). The scope for doing what you ask is therefore limited, and, following a review of my current land holdings, it is not clear that such an approach would prove effective, not least because the complexity and costs associated with bringing forward strategic sites inevitably favours larger and better funded developers that can apply their financial and operational capacity to the task of site preparation, infrastructure, marketing and risk. Although I will continue to look at the potential to seek an element of SME activity in our remaining larger sites as they come forward for procurement, it is far from clear, therefore, that smaller builders will find these opportunities either appealing or appropriate. However, the GLA has other investment programmes from which smaller developers can benefit. For example, the GLA has established a £21.7m revolving fund with Pocket Living to deliver homes across London over a ten year period.

Notwithstanding this, I agree that we need to address the constraints that can apply to the rate of building new homes on larger sites where these are in the hands of traditional house builders. As you point out, there are limitations in terms of market appetite to sell beyond local 'market absorption' levels. To address this I am adopting a new approach on larger sites whereby in addition to conventional market and affordable housing we will also require a level of long term market rented housing to be provided. This, as you will appreciate, does not face the same absorption constraints as build for sale, and can accelerate build rates.

You point to international examples where the state organises development land into smaller parcels and building is undertaken by SMEs. As you point out, this approach would require very substantial investment in infrastructure and site preparation from the public sector to achieve the results that you are suggesting.

You ask if I will add requirements to Housing Zone contracts to ensure that small and/or new developers can help to maximise housing delivery. Housing Zones are intended as a flexible approach to unlock and accelerate housing supply and although I agree that utilising a range of developers could be useful to accelerate delivery, and I hope to find examples through Housing Zones of being able to test this in practice, I am reluctant to impose such requirements on bids as it may not always be an appropriate mechanism. I have already made it an explicit condition of Housing Zone status and funding that bids must identify practical and deliverable ways to accelerate the building of homes across tenures, and SMEs may well play a useful role in certain instances.

You also ask if I would commission and publish research into the 'End-to-End project management' option set out in the Housing Zones prospectus. This option was set out as an example of what could be explored in Housing Zones, and was stated in the prospectus to be a longer term possibility. It is for boroughs to bid for Housing Zone status and to propose to the GLA what they would like to see happen in each location, which may or may not include this option. Given this, I feel that it is premature to commission research on an approach that boroughs may not want to pursue. I will keep this under review and give it further consideration once we see the bids from boroughs.

Regarding the work that has been undertaken by the GLA to explore the potential for a developer framework, along the lines of the LDP, but for SME builders. Officers have considered how such a framework may work but have concluded that it would not be possible to operate such an arrangement effectively at a pan-London scale. A London-wide SME developer panel would need

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to include a very large number of members to ensure that it covered the whole of the city and provide the capacity required to meet the needs of panel users. It would therefore be very difficult to assess the quality and capability of panel members and ensure that these standards are maintained during the length of the framework contract. In addition we have no evidence of SME appetite for such an arrangement, which would inevitably require a considerable investment of effort on their part prior to bidding for inclusion on a panel.

It is my view that SME developer and contractor panels are likely to work best at a sub-regional level, and we are aware that a number of Boroughs are considering establishing such frameworks. Where this is the case, the GLA will be supportive. We also continue to encourage LDP members to use, support and partner with the SME sector through contracts won through the LDP. A number of smaller developers and constructors have formed consortia with LDP members to bid for sites, a good recent example being the Floating Village in the Royal Docks, which is using the small Dutch developer Monteflore as part of the development team.

Your letter also asked whether I would publish a register of key information on LDP disposals on the LDP website. I intend to do this on the GLA website by the end of October, although the capital receipt will be commercially confidential.

Thank you again for writing to me.

Yours ever,



Boris Johnson
Mayor of London

Cc: Dan Maton, Budget and Performance Adviser, GLA