



Sadiq Khan (Mayor of London)
New London Plan
GLA City Hall
London Plan Team
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Dear Mayor,

Representations in respect of the draft London Plan December 2017

We are a developer and operator of Build to Rent and Sale homes with a track record of delivering successful developments across London including two fully let, institutionally funded BtR developments. We focus on creating, managing and curating communities where people want to live and have a pipeline of c.7,500 homes in London.

We welcome the intention of the plan to drive additional housing supply across London and the ability to provide more certainty to enable developments to proceed and clarity to London Boroughs. We are generally supportive of the draft Plan and many of the policies contained.

However, we believe that there is a likelihood that specific policies of the plan may lead to the needs of London's renters, in particular, not being met. This is based on our knowledge and understanding of the needs and aspirations of renters through research and speaking to our residents.

Potential polarisation of BtR and Shared-Living

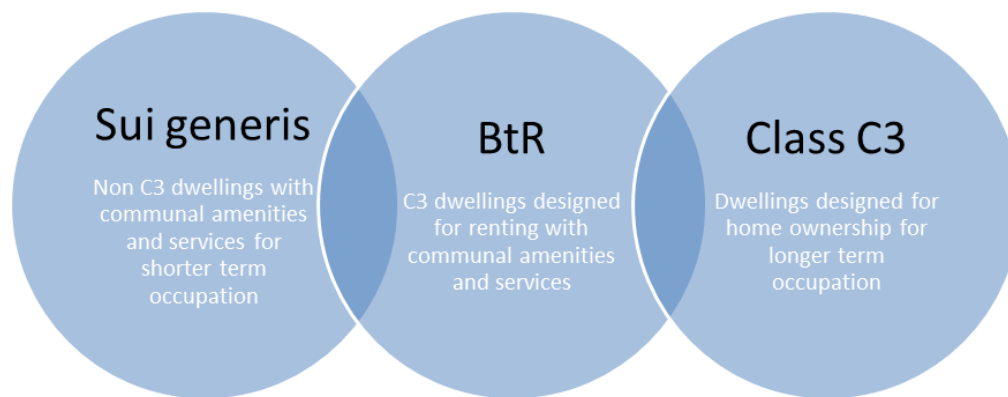
There are a number of policies that require the BtR sector to closely follow standards fundamentally established for homes designed with long-term ownership and occupation in mind. There is also the introduction of 'Large-scale purpose-built shared living' with clear requirements to ensure that this remains within the Sui Generis Use Class.

Our knowledge and wider sector research shows that renters want a range of well-designed, professionally managed homes where they have the opportunity to meet and socialise with other residents and to feel part of a community. The Plan has [REDACTED] polarise the respective offers from BtR and Shared-Living operators [REDACTED] that renters actually want is not provided by either.

This is because whilst creating well-designed developments BtR developers are not encouraged in policy or planning terms to include communal amenity facilities or any form of additional services and may choose to simply use space to provide more homes. Shared-Living operators must create developments of very small units with communal amenities. A significant proportion of renters want neither of these options.

The infographic below shows that BtR has the potential to bridge the gap between shared living and home ownership if it is provided with appropriate flexibility to deliver what renters want. If the flexibility is created the BtR sector can deliver homes and a high quality service offer to renters at scale across London and we would urge for flexibility and innovation to be supported for the BtR sector rather than this being curtailed by standards predominantly designed for home ownership and longer term occupation.

Delivering housing flexibility to meet Londoners needs



Set out below are a number of further comments in relation to specific areas where we feel policies are incorrect or need further clarification.

- **Policy SD1 - Opportunities areas**

The identification of Opportunity Areas is helpful to focus development around key infrastructure.

However the aspiration for greater levels of affordable housing in these areas may be unrealistic as many of the areas are those in need of regeneration and whilst land values may be lower, construction costs could well be higher and local sales/rent levels constrained. In many of these locations BtR could be the ideal tenure to promote wider regeneration but developers may need to take additional risks to make projects viable. Burdening these schemes with an [REDACTED] of higher levels of affordable homes may be counterproductive.

- **Policy GG1 - Building Strong and Inclusive Communities**

We believe that place-making and community should be considered throughout the development process so we support the emphasis placed on this in the draft Plan.



Our experience suggests that not enough focus has historically been given to future management and community curation as part of the planning process and that greater emphasis should be given to the benefits of a considered approach when determining applications.

We suggest that place-making and, more importantly, management should be key considerations in the design review process outlined in the draft Plan.

We would also make the observation that designing, constructing and managing good places for people to live often comes at a cost which should be properly considered as part of viability assessments. This could be at odds with the clear focus on developments delivering the maximum possible levels of affordable housing.

- **Policy GG2(E) - Making the Best Use of Land**

Whilst developments can/should contribute to the strategic target of 80% of all journeys using sustainable transport there is a need for strong commitments to be made around future infrastructure improvements/funding to provide developers with certainty to invest in developments in areas that may otherwise not be viable.

- **Policy GG4(E) - Delivering the homes Londoners need**

Whilst we support the need to ensure consented developments are built out there needs to be clarity over what is meant by 'ambitious and achievable build-out milestones' and 'incentivising build-out milestones'.

A policy should only be included where specific details are included.

- **Policy SD6 - Town Centres**

We support mixed-use and housing-led intensification in town centre locations but would highlight a potential conflict with the Agent-for-Change principles contained in the draft Plan, in particular Policy D12 (D) which could have the effect of curtailing intensification.

- **Policy D2(H4) - Maintaining Design Quantity**

Ensuring that approved design is delivered should be covered by the [REDACTED] process and conditions - it is not appropriate for architects [REDACTED] to be added to legal agreements as there may be valid reasons for a change in consultants.

- **Policy D4 - Housing quality and standards**

As highlighted at the beginning of these representations we believe there is the potential that the policies set out in this draft Plan (for BtR and Shared-Living) may inadvertently fail to deliver the homes and communities that



London's renters are seeking.

There is a contradiction between welcoming innovative housing designs to bring forward constrained sites and the requirement for all dwellings to meet minimum space standards. Flexibility should be allowed for space standards to be considered as part of innovative approaches.

Specifically for BtR developments we suggest that additional flexibility should be provided to allow for innovation specifically around the creation of homes to meet renter demand and the fact that homes are rented to meet current needs which may differ from long term aspirations. Through careful analysis of data from our BtR developments we can identify exactly how homes are being occupied and their affordability to renters. A greater range of homes would better meet need and assist with affordability.

Section 3.4.2 states that the provision of additional services and spaces as part of a housing development, such as building management and community space, is not a justification for failing to deliver minimum standards. Whilst we agree that this is not a justification we believe that the provision of such services and spaces should be properly considered in relation to the design quality of the development and any innovative approaches proposed. In addition there appears to be a contradiction with Policy H18 (Large-scale purpose-built shared living) where it specifically states that additional services and spaces are required to support the fact that units are significantly smaller.

The provision of on-site management should be taken into consideration and a number of areas were identified within the Affordable Housing and Viability SPG where flexibility would be applied to BtR homes. This flexibility should remain in the draft Plan.

Given the potential polarisation that could result from the proposed policies we suggest that the production of the single guidance document clearly setting out the standards for all housing tenures (as identified in 3.4.12) should be completed prior to adoption of the Plan. This guidance should reflect the changing and different needs of today's purchasers and renters and new approaches, such as open plan layouts (facilitated by sprinkler systems) which were not included when previous standards were developed.

- **Policy H6 - Threshold approach to applications**

[REDACTED] the rationale for a threshold expectation for SIL and LSIS at 50% is understood we suggest that this threshold should not be applied to developments where commercial and residential co-locate and that such developments should be at the 'base' 35%.

Our experience of looking to develop co-location opportunities suggests that such schemes are likely to be burdened with considerable additional infrastructure costs, e.g. significant transfer slabs and vehicle/pedestrian



segregation, as well as a requirement for affordable workspace, which make achieving a 50% threshold for affordable housing difficult to achieve. It is clear from the lack of demonstrable examples of co-location that this is not easy to successfully achieve and policy should be encouraging rather than potentially discouraging such opportunities.

- E(2) - Late Stage Viability Reviews should not be applied to BtR developments as this has the potential to reduce the quantum of BtR homes that will be developed over the life of the Plan contradicting the overriding desire to increase housing supply.

The majority of BtR developments will be funded by institutional investors based, in some way, on a long term view of how the asset will perform. It is, therefore, not appropriate for a review to be undertaken after a short period of time as there may be other issues that affect the performance of the asset over its lifetime, such as rental growth, voids and life-cycle costs, on which the owner will have taken a view. If late stage reviews are included then we believe these will be factored into investor appraisals and viability will be impacted leading to the provision of fewer BtR and affordable homes.

- **Policy H7 - Affordable housing tenures**

The introduction of Discounted Market Rent as an affordable housing product for BtR developments is welcomed. However we would urge that section 4.7.6 is amended to consider DMR as an intermediate housing product more in line with Shared Ownership or Discounted Market Sale. This would allow affordability to be considered in relation to a £90,000 household income.

The rationale behind this is that defining affordability within the £60,000 threshold effectively caps rent on any DMR unit to £16,800 per annum (£60,000 x 70% x 40%) - equating to £1,400 per month. This is unlikely to affect smaller homes but will be an issue for 2-beds in certain locations and 3-beds in the majority of locations. This is likely to place further strain on viability and the quantum of affordable homes that are likely to be provided.

Occupation data shows that 40% of our market rent homes are already being occupied by residents earning less than £30k per annum. A further 40% earn less than £50k. We believe that DMR units will make BtR living even more affordable to Londoners but a cap on household income precluding two renters each to rent a purpose designed 2-bed home seems counter

- **Policy H13 - Build to Rent**

We believe that the methodology used to assess the value of BtR and DMR homes in the London Plan Viability Study is potentially flawed and, therefore, the rationale behind the introduction of the 35% threshold for Fast Track for BtR developments could be incorrect.



Whilst we accept that this is a target effectively this threshold is too high and is likely to set aspirations for LAs that are unlikely to be achievable. It is also at odds with the recognition that the BtR sector has distinct economics when compared to housing for sale as well as other beneficial aspects for the local housing offer and economy.

Setting the threshold at this level also means that BtR schemes are unlikely to achieve a Fast Track route through planning requiring the inclusion of Late Stage Viability Review which, as stated previously, is not appropriate for BtR developments.

It appears that the threshold has been set at 35% based on the Viability Study undertaken but as we set out below we believe there are fundamental issues with the way the value of both BtR and DMR values have been calculated which brings into doubt whether the basis for setting the threshold is correct. There are also a number of areas where we feel the viability methodology is inconsistent with the provisions of the draft Plan.

- **Use of DCF as method of assessing BtR value** - given that the vast majority of viability assessments are undertaken using more the traditional residual valuation methodology and that this is the methodology suggested within the most recent RICS guidance, we suggest that this methodology should have been used as the basis for assessing the value of BtR and DMR units in the London Plan Viability Study.

The Technical Report recognises that the form DCF modelling used needs careful operation because of heightened sensitivity to assumptions and it would appear that some of the assumptions used may have not been incorrect - see below.

- **Assumptions used in DCF modelling** - the assumptions made in the DCF modelling appear not to take adequate account of the risks taken by investors during the development, let up and operational phases of the developments life.

The rental stream value of the BtR example in point 40 suggests that this represents 95% of the open market value of the unit. Based on our experience and market evidence this is not representative of the value [REDACTED] be generated when risks associated with the development [REDACTED] the scheme are considered.

- **Assessments of gross to net income** - the quantum of costs associated with the operation of the completed asset are understated. There does not appear to be sufficient allowance for costs associated with the required on-site management, lettings and day-to-day costs (such as cleaning, servicing, H&S and VAT) as set out in the definitions of BtR developments within the draft Plan.



There is no industry benchmark for operational costs but our experience suggests that an absolute minimum of 25-27% excluding any allowance for major repairs/life cycle costs is required.

- **Developer returns** - these are stated in the Viability Study (point 65) to range from 10-13% of GDV. This range is too tight (as a result of being averaged between construction returns and full development risk) and does not adequately reflect the risks (both short and long term) being taken on BtR developments. It is correct that on forward funded schemes developer returns could be lower but in this instance some development risks will be factored into the investor return requirements and, therefore, the estimated GDV value of the development. Returns should be within a range of 10-15% of GDV with the key differentiators being complexity, market demand and building height.
- **Affordability** - DMR homes appear to be assumed, in the viability modelling undertaken to assess viability, to be let at 80% of market rents in Bands C/D/E.

This contradicts Section 4.13.6 of the Plan which states that to follow the Fast Track Route '30% of housing must be at LLR with the remainder (of the DMR homes) should be provided at a range of discounts below market rent based on local need to be agreed with the borough and Mayor where relevant, for example with half of the remaining units at 50 per cent and half at 70 per cent of market value'

The rental income from DMR units in the viability modelling has, therefore, potentially been overstated.

- **DMR rent level** - the formula £60,000 x 70% X 40% (set out in the Annual Monitoring Report) effectively sets the maximum rent payable for a DMR home to be affordable at £16,800 per annum.

However, the example in Appendix B (point 40) quotes a 'DMR rent charged' of £18,323 per annum for a typical 2-bed DMR home. The rental income and, therefore, value of the DMR unit in the example is overstated by c.£40k as this is assumed to be let at a higher level than is possible under the affordability consideration.

Management costs - Section 4.13.4 states that '*DMR homes should be managed in the same way as LLR units and be integrated into the development with no differences between DMR and market rent units*'.

In Appendix B (point 40) the management allowance drops between market rent, DMR and LLR units. If DMR/LLR homes are to be treated equally then it should be assumed that the costs of managing and operating the homes would be consistent regardless of tenure.



- **Policy T5 - Cycling**

The drive towards sustainable travel is supported but we do not believe there is sufficient evidence to support the increase in cycle provision on 1-bed homes from 1 space to 1.5 spaces per unit.

Whilst we appreciate that the intention is to future proof developments there needs to be demonstrable evidence as to why the current standards need to be increased. Our experience demonstrates that significant future proofing is already being provided with the current required level.

In addition we consider that flexibility should be provided for alternative options to cycle ownership that also help activate ground floor frontages. This is especially pertinent in developments where underground space is not possible or viable. We believe that a cycle hub providing effectively managed cycle hire would activate frontage and provide a useful alternative option to bike ownership and, contrary to the draft Plan, should be taken into account when considering cycle provision.

We trust that these representations are clear and helpful but if there is any further information that we can provide to be of assistance then please do not hesitate to contact us further.

We look forward to seeing future iterations of the draft Plan as it continues the process to adoption and to working with you to deliver the new homes that London needs.

Yours sincerely

Simon Chatfield
Director

