M3 Capital Partners comments

Page: Policy H6 Threshold approach to applications
Section: N/A

To whom it may concern,

Following a review of the draft London Plan we wish to submit the following feedback.

A) Fast Track Route for BTR

We note that the Draft Plan recognises the importance of BTR sector in accelerating delivery of Housing (H13.A) and the secondary benefits of its long-term business model (section 4.13.1). We welcome the recognition of the 'distinct economics' of the BTR sector outlined in section 4.13.2 and that *"…in some circumstances Build to Rent may not be able to compete for land on an equal footing with speculative Build for Sale, as it may generate lower initial land values."* This assessment is in line with our recent experience in developing BTR schemes in London through our BTR platform Essential Living. We also note that the Viability Tested Route set out in the SPG is designed to recognise the difference in valuations between BTR and Build to Sale (BFS) and H13 provisions around the 15-year covenant (H13.B.2) and clawback mechanism (H13.B.3) have been put into place to ensure that any advantages created as a result of the BTR valuation are not exploited by a BFS business model. We believe this is a reasonably fair approach to the 'distinct economics' of BTR.

However the 'distinct economics' of BTR are not reflected in the Fast Track Route threshold set at 35% on par with BFS (policy H6.B). This will adversely impact the Residual Land Values for BTR and will therefore make it uncompetitive with regards to land acquisition and pricing compared to BFS. This economic advantage given to BFS in direct contradiction with aforementioned policies aiming to support the BTR sector. In order to level the playing field we propose the two following:

- Change 1 – lower the threshold for BTR Fast Track Route is lowered to 30% in recognition of the 'distinct economics'

- Change 2 – for BTR schemes which go through Fast Track Route with 35% Affordable Housing, the 15-year covenant 15-year covenant (H13.B.2) and clawback mechanism (H13.B.3) should not apply, since the Affordable Housing quota provided is on par with BFS Policy H6 and the 'distinct economics' are not recognised.

B) DMR Provisions

We welcome the recognition of long-term nature of BTR business model and that an appropriate and more aligned form of Affordable Housing is required for this business model. M3 Capital and our BTR platform Essential Living have been pioneers in proposing Discounted Market Rent (DMR) as a recognised form of Affordable Housing and our Essential Living development in the Royal Borough of Greenwich became the first scheme in the UK to achieve a DMR planning permission. Therefore, we believe that the DMR provisions set out in policy H13 are an important step forward in Affordable Housing policy. However we note that the restrictions created around the definition of DMR make this form of Affordable Housing uncompetitive to the traditional Affordable Housing Tenures detailed in Policy H7, the following restrictions in particular:

1. DMR rental levels reduce the valuation of DMR units below traditional Affordable Housing tenures set out in Policy H7.
2. The obligation for DMR to be "…*fully integrated into the development with no differences between DMR and market units*" reduces the overall Operating Margin since the same high-level of service provided to Market Rent units will have to be provided to DMR, since it is practically not possible to differentiate service in a pepper-potted scheme. This creates further adverse impact to BTR valuations.

The result of the restrictions above will incentivise BTR schemes to go through a traditional BFS C3 planning route, and thus not make use of the DMR provisions created in the Plan. However we believe DMR is important component and tenure-type of Affordable Housing contribution and evidence from international markets where it has been applied demonstrates that it can be a very successful and long-term form solution. There is need for a broad range of affordable housing, not just social rents, and DMR can be an important part of the affordable offering. Therefore in order to level the playing field with BFS especially in Central London locations we propose the following changes:

- Change 3 - remove the following reference "*DMR units should be fully integrated into the development with no differences between DMR and market units*" from Clause 4.13.3 in order to not adversely affect the Net Operating Margin of BTR operators.

- Change 4 – modify the provisions around DMR rents stipulated in Policy H13.C, by setting DMR rents to a fixed discount to Market Rents of 30% across the board.

Best Regards,

Trishul Thakore

Partner

M3 Capital Partners (UK) LLP

Page: Policy H13 Build to Rent
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