Greater London Authority
City Hall
The Queen's Walk
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SE1 2AA

2nd March 2018

To whom it may concern,

Urban Exposure response to consultation on the Draft New London Plan

Urban Exposure are delighted to have the opportunity to respond to this consultation on the Mayor's Draft New London Plan.

As a leading development finance provider with expertise in, and a commitment to, funding public land developments including residential, mixed use and PRS schemes, we believe we are well-placed to comment on key aspects of the Plan.

Our full response is outlined below. Should you have any questions about our response or would like to discuss Urban Exposure's work in London in more detail, please do not hesitate to contact me directly on randeesh@urbanexposureuk.com or alternatively 0207 408 4116.

Sincerely,

Structure of response

Our response to this consultation is divided into three parts:

1. The importance of non-bank finance in bridging the housing finance gap in London
2. Response to specific proposals outlined in the Draft New London Plan
3. Additional proposals to increase the supply of housing in London

1. The importance of non-bank finance in bridging the housing finance gap in London

Regulatory and commercial constraints for High Street banks mean they have significantly reduced their exposure to the UK residential development finance market.

Regulatory (specifically RegCap requirements) pressure is a long-term issue in restoring credit availability in the development finance market which impacts regulated lenders, including banks, pension funds and insurance companies:

Regulatory Capital

Since GFC, banks are subject to far more stringent rules in terms of their CET1 capital requirements. Development finance loans are 150% risk weighted regardless of the borrower's sophistication, asset quality and de-risking factors such as pre-sales – meaning that the risk appetite for this asset class, relative to other forms of lending, is significantly reduced.

Senior Persons Regime

The Senior Persons Regime, which imposes severe penalties, both civil and criminal, on the Board if a bank does not demonstrate proper management of its loan book, will make complex lending such as development finance more unattractive to banks who do not have a strong and established track record in this asset class. Banks will have to demonstrate that they are able to manage all aspects of a property development loans, especially the complex type of property development loans originated by Urban Exposure.

Conduct Requirements

New FCA and PRA conduct requirements, will require Banks to demonstrate deep and detailed procedures relating to the origination and project monitoring of property development finance loans. Banks may be able to demonstrate an ability to properly originate a property development loan, but are not always set up to manage the monitoring of development loans.

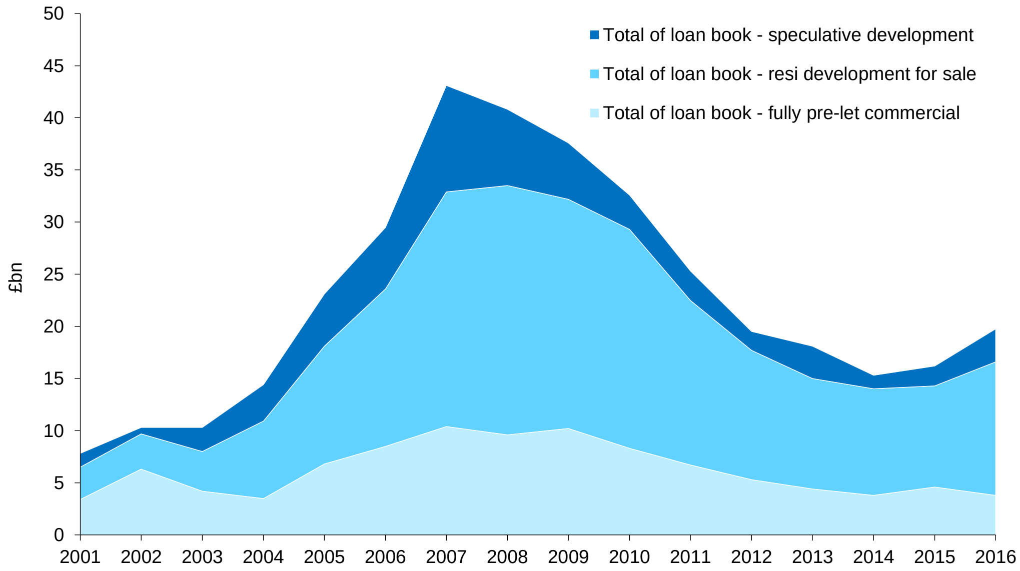
Most experts predict the UK non-bank lending market will grow over the next 5-10 years to levels similar to those seen in the US, where non-bank lenders account for anything between 25-50% of all CRE loans.

A funding gap exists in London's housing market

We would like to see greater recognition in the Draft New London Plan as to how private finance, including non-bank sources of finance, can help fill the significant housing funding gap which will exist in London if targets within the Draft Plan are to be met.

Research indicates that debt outstanding and secured by residential development projects for sale has steadily declined by approximately 46% from a peak of £23.9bn (2008) to approx. £13bn (2016).

Allocation of Development Finance (Banks, Building Societies and Insurance)[1]



If the national housing shortfall is to be corrected and the Government's target of delivering 300,000 new homes a year is to be met, we estimate a funding gap of £172bn over the next 5 years.

Breaking this down for London, our research indicates there will be a funding gap of £33bn in London over the next 5 years if completions of 65,000 per annum are expected to be met, from a base of 39,000 units having been completed in 2016/17.

[1] De Montfort University, *The UK Commercial Property Lending Market*, Research Findings, 2015

	Current Market	Projected Market	Notes:
Avg. House Price in London £	£470,922	£470,922	Nationwide House Price Data, Q4 2017
Savills Estimated Housing Completions in 16/17	39,500	65,000	New Draft New London Plan target
Implied value £	£18,601,421,401	£30,609,933,950	Average house price x no. of units
Finance required (against value) £	£10,230,781,770.33	£16,835,463,673	Applying a 55% loan to value ratio
Funding Gap p.a.		£6,604,681,902	Current vs required finance
		£33,023,409,512	Financing gap for next years (if not met)

House building is becoming more dependent on a small number of larger developers

Whilst the level of real estate lending has increased in recent years, smaller developers are still struggling to obtain finance, with 54% identifying a lack of finance as a barrier to increasing output, and 45% reporting that there are sites they are interested in which are stalled for finance reasons, up from 35% in 2016.[2]

House building has become increasingly dependent on a small number of large developers since the financial crisis, leading to a concentration of power around controlling overall levels of output in their hands. Nationally, the number of SME house builders in operation has halved since 2007 and, as the Mayor's draft Housing Strategy notes, only 12% of new build homes across the UK are built by SMEs today, compared to 40% in 1988.[3]

Non-bank lending can be part of the solution

Examples of non-bank providers of finance include debt funds, peer-to-peer lenders, and other specialist lending institutions offering a range of financial products. Urban Exposure provides market leading Senior and Stretch Senior Debt, Mezzanine Finance and Bridge Finance to residential developers.

[2] Federation of Master Builders, *FMB House Builders' Survey 2017*, September 2017, pp.10-12
[3] Mayor of London, *London Housing Strategy: Draft for Public Consultation*, September 2017, p.76

This form of investment has been growing since the financial crisis, when traditional sources of finance significantly lessened their exposure to this sector, as detailed above. It is estimated that 16% of all new lending in the UK real estate market in the first half of 2017 came from non-bank lenders.[4]

These non-bank sources of finance can help reduce the finance gap in London's housing market by increasing the availability of finance to smaller developers and offering a wider range of criteria, pricing, product and risk appetites. Non-bank finance sources can fund a broader range of asset types, both new build and refurbishment projects including residential, mixed use, retirement living and PRS schemes and fund those schemes using alternative methods of construction.

2. Response to specific proposals outlined in the Draft New London Plan

Policy H2: Small sites

We welcome the measures outlined in Policy H2 of the Draft New London Plan to increase the role of smaller housebuilders in London's housing market, particularly:

- the Mayor calling on boroughs to "pro-actively support well-designed new homes on small sites through both planning decisions and plan-making";
- the allocation of borough-by-borough targets for completions on small sites, and;
- the introduction of a presumption in favour of certain types of housing development on these sites

We believe that these measures, along with others outlined in the Mayor's draft Housing Strategy, published in September 2017, will help smaller developers play a greater role in London's housing market and increase their output.

However, with fewer than one in eight new homes being built by smaller companies in 2015, down from almost two in five in 1990 (HBF, *Reversing the decline of small housebuilders*, 2017), we believe that

[4] De Montfort University, *Commercial Lending Report,* HY2017

further action is required to create a more diverse housing market and unleash the full potential of SME developers in meeting London's housing needs.

The importance of increasing access to finance for smaller developers

As outlined above, 54% of respondents to the 2017 FMB House Builders Survey identified a lack of finance as a barrier to increasing output.

Accordingly, we believe that specific measures are needed to help address the particular problems which smaller developers face in accessing finance, harnessing funding from both central Government and the GLA, and recognising the growing importance of non-bank sources of finance.

In particular, we call on the Mayor to work with central Government to develop a guarantee for private development finance made available to smaller developers building on sites which meet or exceed the Mayor's target for affordable housing provision. This would help smaller developers unlock additional, lower-cost, private sector finance

The Government committed in the Autumn Budget to providing £8bn of new guarantees to support housebuilding, including SME builders. We would like to see the Mayor and the Government develop a London-specific guarantee which recognises the particular needs of London's housing market and helps deliver on the Mayor's housing targets

3. Additional proposals to increase the supply of housing in London

Ensuring that housing projects are completed on time

We set out in our response to the consultation on the Mayor's draft Housing Strategy our ambition to see more detail from the Mayor around how he intends to reduce the number of delays to housing projects.

Research has found that half of housing projects across the UK are not delivered to time.[5] Whilst the predictability of the construction phase of projects has improved recently, it is still the case that 45% of projects were not delivered on time in 2016.

There has been much public discussion over recent years around 'land banking' of sites with planning permission by larger developers hoping to take advantage of rising land prices, though this is not the only cause of delays.

When a site falls victim to delays due to procurement issues (for example, a contractor or developer running into financial issues, or a dispute between the developer and a contractor) unforeseen costs are incurred which the developer cannot fund.

One way of ensuring that the impact of project delays on the delivery of housing is minimised would be for the Mayor to issue guidance stating that, for developments on public land, the lender supporting the project can step in and complete the project should delivery targets agreed in advance not be met by the original developer. These 'step-in' rights should be structured contractually such that it can be implemented with minimum time impact.

[5] Glenigan, *UK Industry Performance Report 2016,* p. 12