grainger plc
Investing in homes since 1912

March 2018

*Deadline: 5pm, Friday 2nd March 2018*
*Response emailed to LondonPlan@london.gov.uk, titled 'New Draft London Plan'*

**Grainger plc response to Draft London Plan**

Introduction
Grainger is a leading housing provider and the UK's largest listed private residential landlord, with responsibility for over 9,000 rental homes across the UK including over 2,000 in London. We are a business solely focused on the UK private rented sector and build to rent ('BTR').

We are committed to professionalising the private rented sector through build to rent by creating, high quality purpose-built, new homes for long-term rent. Over the past two years we've committed to invest c.£690m into BTR, which will deliver 4,300 new homes, and we are continuing to invest. In London this equates to c.£200m and c.900 new homes we have secured and will be delivered. We plan to invest more than £850m in total by 2020.

Our business model is focused on designing, developing, investing in, and managing rental homes ourselves. Our business model is to originate, invest and operate our properties utilising our national platform.

Our latest development, Argo Apartments in Canning Town, London, is a prime example of our commitment to delivering mid-market homes in London, which are affordable to local residents on average incomes. Apartments at Argo are aimed at average local earners including key workers. A couple or two sharers each earning £25k per annum will meet our affordability criteria for a two bedroom apartment at Argo, significantly below the median local salary of £33k within a three mile radius of our building in Canning Town.

We offer long term, family friendly tenancies up to three years in length with pre-agreed annual rent reviews and we do not charge lettings fees.

We have the UK's leading professional residential property management platform, which allows us to provide our customers with qualified, dedicated, named property managers, and on our bigger properties, on-site management staff, to ensure the building is well managed and maintained.

This approach is central to our investment philosophy of creating long term communities in our developments and our focus on retaining customers for as long as they want to rent with us.

A recent report by the London School of Economics and Savills, commissioned by the British Property Federation, "Unlocking the benefits and potential of build to rent", demonstrated that the build to rent sector could deliver up to 240,000 new homes by 2030, at a rate of around 15,000 per year. The private rented sector, backed by institutional investors and through build to rent, can support London achieve many of its housing and economic goals by:

1. Increasing housing supply;
2. Accelerating the delivery of new homes;
3. Creating new jobs through investment and construction;
4. Providing greater stability in the housing market;
5. Providing greater stability and improved standards for tenants; and
6. Supporting greater labour market mobility and improved productivity.

**Executive summary**

Grainger welcomes the Mayor's Draft London Plan, which has an increased focus on the build to rent sector and the benefits it can bring to London.

We welcome the Plan's aim to make London a better city for people of all walks of life and we are pleased to see the Plan's recognition that housing, including build to rent and rental housing, is critical to ensuring future good growth for the city.

We strongly believe that a more professionalised, long term rental housing market supports economic growth through better labour market mobility and increased productivity.

London's ambitions to attract the best global talent is reliant upon having suitable housing options for such individuals. A long-term rental option is often more attractive than buying a house for the mobile global workforce because of the UK's higher stamp duty rates and deposit requirements. With London in direct competition with San Francisco, New York, Hong Kong, Paris, Frankfurt and more, our housing offer often puts us at a disadvantage when other cities offer higher quality housing options at better value for money.

Build to rent can address this and support London's competitiveness.

It is important to note that build to rent is not just for young professionals. Many renters are young families but also downsizers, and we see this borne out across our portfolio. The sector can provide high quality, long term homes for key workers such as nurses and teachers too. A quarter of our customers at one of our BTR buildings in Barking, East London are key workers, and a third are young families.

The Draft London Plan does however pose a risk to achieving London's growth potential by introducing a planning environment that is likely too onerous for development. The ambition of the Plan translates into a significant overall increase in the burden placed on developers, without seeming to give consideration to the overall impact on the sector. The incremental regulatory increase across so many aspects (e.g. design, green space, 35% threshold, covenant, clawback etc) risks over-burdening developers thereby undermining the Plan's ultimate objective of encouraging growth and new housing.

We also have concerns regarding the capacity of local planners to cope with the additional aspects proposed in the London Plan. Many planning authorities are already under-resourced and the Draft London Plan could make the situation worse. We believe it is important for local planning departments to be given additional support to ensure they have enough qualified planners to efficiently process planning applications.

Support for BPF and London First responses

Grainger is an active member of both the British Property Federation and London First, and we have proactively been involved in the shaping and drafting of both their responses to the Draft London Plan. We therefore explicitly lend our direct support and backing to their responses.

## Detailed comments

### Chapter 4: Housing; H13: Build to Rent

Our response to the Plan focuses primarily on **Chapter 4: Housing**, with a particular emphasis on **H13: Build to Rent**.

35% fast track threshold for BTR
We have one major comment relating to this section of the Draft London Plan:

- We strongly feel that the Plan incorrectly treats Build to Rent the same as traditional housebuilding for sale in viability terms, particularly with the application of the 35% affordable housing threshold for fast track for both types of developments.

- Coupled with the proposal of a 15 year covenant as well as an unnecessarily onerous clawback mechanism, these measures will likely undercut the potential of the build to rent sector.

- We recognise that the threshold is only intended for enabling schemes to be 'fast tracked', however we envisage several problems with this assumption.

    1. 35% will undoubtedly become the standard level expected among all boroughs, and therefore Build to Rent will struggle to benefit from fast-tracking at all.

    2. One of the distinct benefits of Build to Rent is its ability to deliver housing more quickly, and by not being able to benefit from fast-tracking undermines one of its key tenets.

    3. The investment philosophy of Build to Rent is wholly different than private housing for sale. Build to Rent must be priced at a reasonable level in relation to local wages to ensure high levels of occupation.

    4. We are concerned that the 35% figure will become a standard expectation among the boroughs, and it will be used to delay or prevent BTR developments from going ahead.

- Build to Rent is also a wholly different commercial investment from PFS and other real estate asset investments, with widely different financial returns, cashflow and risk profile, both during construction and once occupied, which puts it at a disadvantage when competing for development opportunities against traditional private housing for sale schemes.

- The lower margin, long term nature of Build to Rent, means that such schemes cannot bear the same upfront costs.

Detailed financial modelling to evidence BTR v PFS

- We have undertaken detailed financial modelling comparing generic and hypothetical yet realistic private for sale (PFS) schemes and build to rent (BTR or PRS) schemes in London at varying levels of affordable housing and discounts.

- This modelling has shown that a PFS scheme can pay 29.2%, nearly a third, more for land than a Build to Rent/ PRS scheme on a like-for-like basis (35% affordable housing, with a third of this being offered at 30%, 40% and 50% discount to market levels respectively).

- The financial modelling we've undertaken also shows that Build to Rent can only compete against PFS in two scenarios:

    - 35% of units as affordable homes at a 20% discount to market rent (DMR), or

    - 20% of units as affordable homes at varying discounts of 30%, 40% and 50% (one third each)

- The results of our financial modelling based on a generic hypothetical site are set out below.

| Tenure Mix | Land Value |
|---|---|
| 65% PFS and 35% affordable (33% at 70%, 33% at 60% and 33% at 50% of market) | £14.4m |
| 65% PRS and 35% affordable (33% at 70%, 33% at 60% and 33% at 50% of market) | £10.2m |
| 65% PRS and 35% affordable (all at 80% of market) | £14.8m |
| 80% PRS and 20% affordable (33% at 70%, 33% at 60% and 33% at 50% of market) | £13.4m |

- *Our modelling is based on generic assumptions around profit requirements and average Zone 3 – 4 pricing per square foot.*

- *We do not enclose the full financial models for brevity sake, but would be happy to share the detailed analysis with GLA officials should that be required.*

- Our analysis shows the challenge for BTR schemes to compete on the same basis against PFS schemes.

- We therefore strongly urge the Mayor to consider enabling BTR schemes to benefit from fast-tracking when either providing 35% of units at 80% of market rent levels (DMR); or when providing greater discount levels but at a lower overall quantum of units (such as 20% of units at 30%, 40% and 50% discounts).

- Applying affordable housing tenures with deeper discounts reduces the profitability of schemes. On a BTR scheme it can likely be counterproductive by forcing up the pricing on the private open market rent units to compensate for the reduced value elsewhere, going against the intention of the majority of units being suitable for people on local average incomes.

- We suggest the inclusion of new wording to H13 to clarify the points above for local planning authorities, such as:

> *"On a like-for-like basis (e.g. with the same affordable housing allocations), the land value of a more traditional PFS housing scheme is up to 30% higher than a BTR scheme. It is important for local planning authorities to recognise this and therefore to be flexible in their approach to affordable housing allocations on BTR Schemes. It would be inappropriate to insist on 35% without wider consideration given to the BTR scheme, the benefits it will bring and its viability. While 35% of units being allocated for affordable units may be possible on some BTR schemes, viability becomes increasingly difficult with the deeper discounted tenures. Therefore consideration should be given to lower discount levels (eg 20-30% discounts) to secure higher number of affordable units."*

Application of London Plan at the local level

- One additional concern regarding the 35% threshold, but also applicable to the additional points below, is the application or implementation of the guidance / policy in the London Plan at the local level.

- While we understand that the 35% threshold is intended only for the benefit of the fast-track approach, we have serious concerns that there is a risk that this level will become the expected level for all projects regardless of viability or suitability.

Covenant length

- Having been established in 1912, Grainger is a long term investor and we have the benefit of being able to take a long view on investments 10+ years.

- Nonetheless, we do believe that covenant lengths that go beyond 10 years run the risk of inadvertently restricting future value and investment in local areas. Limiting the use of the site in year 10 or beyond does not take account of local market changes that may take place in the future. It may be that a site is no longer suitable for PRS in year 17, and it may be better for the local area to unlock that site for housing for sale.

- The optionality for an investor to have more than one route to exit is valuable and can be an important investment consideration.

- We would suggest that the suggested covenant length of 15 years does not need lengthening, and guidance of a 10-15 year time period would be more beneficial.

- In addition, there is no current market evidence to suggest that any length beyond 15 years is required or has any public policy benefit.

Long term tenancies

- For several years Grainger has offered its customers the option of taking long tenancies up to three years in length, which include the right for the customer to break their tenancy during that time.

- We support the approach in the Draft London Plan where BTR schemes should be expected to offer customers the option for tenancies longer than one year, up to three.

- We believe however it is too onerous and unnecessary to require the customer break clause to be dictated to be a one month period, and believe a slightly longer period may be appropriate in certain locations and situations, proportionate to the length of the tenancy (e.g. a three month notice period for a three year tenancy).

Design standards and amenities

- The Draft London Plan ignores the sometimes minor yet importantly different design considerations for BTR schemes versus PFS.

- Internal and external communal, shared spaces should be given greater credit in design considerations, enabling some marginal flexibility elsewhere in design standards.

- We urge the Mayor to introduce some wording to the Plan setting out some consideration should be given to design standards for BTR schemes.

**Chapter 8; G5: Urban Greening - point G5 B**

- In our view, the recommendation of an interim urban greening factor of 0.4 for developments that are predominantly residential will be challenging to meet and may compromise the provision of good quality non-green amenity space for residents which supports the creation of inclusive communities.

**Chapter 9; SI2: Minimising greenhouse gas emissions - point SI2 D**

- We welcome the acknowledgement that 'offset funds do have the potential to unlock carbon savings from the existing building stock through energy efficiency programmes' and would like to see Boroughs provide the ability for developers and investors to use offset payments for energy efficiency programmes to improve their own existing building stock in the Borough.

## Concluding remarks

Overall adverse impact on BTR

- From our engagement with the GLA over the past year, we understand that the London Mayor is supportive of the BTR sector and the potential benefits it could bring to London. This is very welcome.

- As it stands however, the Draft London Plan, while despite providing positive wording about BTR, in fact risks undermining the sector (perhaps unintentionally) by making it uncompetitive against traditional PFS developers due to the overall impact on the policies proposed.

- We urge the Mayor to consider ways to ensure that BTR has a level playing field to compete so that it can improve and professionalise the rental market, improve housing standards, provide additional homes at fair prices, and support a thriving economy and a flexible, mobile workforce.

**Grainger plc**, No.1 London Bridge, 3rd Floor East, London, SE1 9BG
Telephone: +44 (0)20 7940 9500 | Web: www.graingerplc.co.uk