

# LONDON ASSEMBLY

## Homes Down the Track A marathon and a sprint for TfL

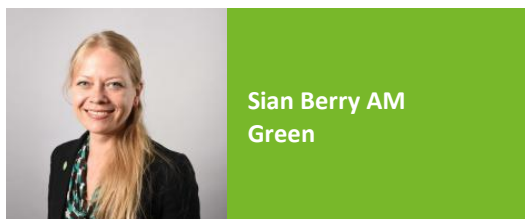


**Housing Committee**  
June 2017

Holding the Mayor to  
account and  
investigating issues that  
matter to Londoners

**LONDON**ASSEMBLY

# Housing Committee Members



The Housing Committee scrutinises the Mayor's role and record in delivering the private, social and affordable homes London needs.

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# Andrew Boff AM

## Deputy Chair of the Housing Committee



TfL is one of London’s largest landowners, and plans to develop much of its surplus land. The Mayor identifies housebuilding as his single biggest priority and is keen for TfL to develop “genuinely affordable” homes on its extensive portfolio. London needs thousands more homes, and using public land is one way to help deliver homes at lower prices. It’s a marriage made in heaven – what’s not to like?

TfL is gearing up to become a significant property developer, with the help of private sector expertise. In forming joint ventures with its development partners, it is retaining, in the main, a long-term interest, offering it control over what is built, and generating ongoing revenue streams. Parcels of London land, albeit relatively small parcels, available at pre-planning prices, are an attractive prospect for developers, whether private concerns or housing associations: there was significant competition to join TfL’s Property Partnership Framework of pre-qualified developers, who will be invited to tender for many of its sites.

However, TfL, the Mayor and their partners face a range of trade-offs and obstacles to be overcome in getting the best deal for Londoners from this considerable opportunity. Our investigation sought to identify these downsides, and to consider how the Mayor and TfL will jointly reconcile the potentially competing objectives they represent.

For example:

- delivering affordable homes on expensive sites requires significant subsidy, whether in terms of capital grant, or monetary value foregone. Many TfL sites are in inner London so the opportunity costs may be substantial.

“London needs thousands more homes, and using public land is one way to help deliver homes at lower prices...what’s not to like?”

- TfL, like most other public landowners, is not a property developer. Journeying in that direction takes time and money, and implies organisational change with long-lasting consequences. There is a lesson here for other public organisations aspiring to make money from their land assets.
- we need to get our small developers back to building homes, rather than just loft extensions and conservatories. But they are less resilient than the volume builders, so need more certainty in what is a risky business. TfL, as landowner, can play a role here, but needs to work closely with the boroughs, as planning authorities, to shoulder some of the extra burden, with attendant costs.

TfL has set itself the target of starts on sites by 2020 to deliver 10,000 homes. Our evidence suggests this is something of a sprint, and we don't think TfL will make it unless it takes some more radical steps. Either way, we need to be clear about the trade-offs TfL is making, to be sure its land delivers the best deal for Londoners.

# Summary

TfL is a significant London landowner. It owns around 5,700 acres of land which could potentially be built on to provide new homes for Londoners. And its portfolio of sites offers development opportunities well into the future.

However, many of these sites are small and/or hard to access and exploit. Moreover, TfL is not a property developer. It will need to change the way it operates, and its business culture, to enable it to ramp up development.

While the Mayor describes the process of tackling the housing crisis as a “marathon,” more radical measures, such as streamlining TfL’s site bidding process or enabling small builders to build out dedicated pilot sites, may be needed to get the process off to a sprint start.

## Getting the best deal from London’s public land

Most public organisations are not geared up to manage property development; to make best use of London’s land, public landowners need to develop or acquire the relevant expertise. TfL has made a good start on this process, but may still need a larger property development team to manage its assets effectively. Other public organisations should also be able to leverage the expertise which the public purse has invested in TfL, so it acts as a multiplier. In analysing and classifying London’s public sites, the London Land Commission has an important role to play.

The Mayor’s role is to take a strategic overview. He must use his soft power and funding to maximum effect in supporting the boroughs to capitalise on the opportunities their land assets represent. This means effective information-sharing and resource-pooling, where appropriate, between boroughs, as well as with TfL and its developer partners, to realise London-wide value.

There are trade-offs to be made in determining what constitutes the best deal. To deliver the best deal for Londoners, collaborating partners need to ensure development objectives for each site are clear and closely aligned from the outset.

## Delivering housing quickly and effectively

TfL needs to consider alternative and more rapid approaches to releasing its sites, and to streamline its processes, if it is to deliver thousands of genuinely affordable homes quickly. It must ensure a seamless interface between engineering, operational and property development teams. Harnessing the capacity of smaller builders could also help it to deliver more homes quickly.



TfL should also consider adding a property professional to its board membership, to ensure it has the right skills to scrutinise effectively, and offer leadership and governance capacity, on property development and management activities.

## Building London's capacity to deliver quantity and quality

TfL has the opportunity to create visionary new communities, and to build London's capacity to deliver new housing stock, now and into the future.

It can do this, firstly, by demonstrating how smaller and medium-sized housebuilding businesses can effectively be re-engaged in housing delivery. Diversifying London's housebuilding industry is one way to support the step-change in delivery needed to house London's growing population.

Secondly, its substantial site portfolio offers the chance to focus on the medium-term as well as the short-term, to deliver innovative housing schemes and inspiring new neighbourhoods. It should aim to raise the bar in creating sustainable new places to meet London's housing needs.



# Summary

## Recommendations

<p><b>The London Land Commission has more to do to make its database really valuable</b></p>	<p><b>Recommendation 1</b></p> <p>The London Land Commission (LLC) should undertake more detailed work to classify London’s developable public landholdings. This would make its database more usable for developers, especially smaller businesses. Once this work is complete, the LLC should be relaunched to ensure developers are aware of it and what it offers.</p>
<p><b>The Mayor, TfL and the boroughs need to work closely together to maximise the opportunities London’s public land offers</b></p>	<p><b>Recommendation 2</b></p> <p>The Mayor needs to work with the boroughs and TfL to align development objectives for each site, and stick to them, to reduce complexity for developers.</p> <p><b>Recommendation 3</b></p> <p>TfL also needs to develop and resource a strong relationship with each relevant borough to accelerate delivery and create certainty wherever possible.</p>
<p><b>TfL needs to review aspects of its culture and operations to deliver best value to the public</b></p>	<p><b>Recommendation 4</b></p> <p>TfL needs to ensure effective joint working between its property development and operational and technical staff, to minimise and resolve early the inevitable frictions which will arise for each scheme.</p>

	<p><b>Recommendation 5</b></p> <p>TfL should consider whether it needs to add a property professional to its board membership to ensure effective oversight of its property development activities.</p>
<p><b>TfL should consider some radical solutions, at least initially</b></p>	<p><b>Recommendation 6</b></p> <p>TfL and the Mayor should consider a more rapid approach to procurement on a first set of sites, to speed up initial delivery.</p>
<p><b>TfL must help engage London's smaller and community builders</b></p>	<p><b>Recommendation 7</b></p> <p>TfL should prioritise identifying and analysing smaller sites so that more of them come forward quickly. By the end of 2017, it should put together a pilot approach to working with smaller builders, to deliver two or three 'quick win' sites as demonstration projects.</p> <p><b>Recommendation 8</b></p> <p>TfL should appoint a small builder champion to its property development team.</p>

# 1. Using public land for housing

## Key findings

- Making better use of public land will help to make the step-change in delivering the volume of homes, especially affordable homes, that are needed to support London's growing population.
- One quarter of London's land is held in the public sector, but despite initial research, it remains unclear how much of that is developable.
- Public bodies lack expertise in property development. They are usually constrained by narrowly-defined targets for disposals, and are not always able to see opportunities to maximise potential beyond administrative boundaries and discrete funding envelopes.
- As a significant public landowner, TfL has an opportunity to create public value through visionary schemes which will stand the test of time, as well as developing and diversifying London's housebuilding market.

## The opportunity of public land

- 1.1 For some years London has been building only around 20,000 new homes per annum, representing a rate of housing stock growth well below that of both population and jobs. The availability of building land is a key constraint; releasing more public land will be an important factor in delivering the required step-change to ease London's housing crisis.
- 1.2 There remains some uncertainty over the amount of developable public land there is in London, although the boroughs are thought to own a significant proportion of the land in their areas, including as much as 40 per cent in Southwark and Barking & Dagenham. The London Land Commission (LLC) has published its register of public land, showing that around one quarter of all London's land is owned by public sector organisations. It identifies 40,000 sites with the capacity for some 130,000 homes, owned by around 150 different public landowners. However, more detailed site analysis is needed to make it really useful: the current version is a basic land register, including, for example, many operational sites as well as public housing estates. Moreover, many developers are unaware of its existence. LLC staff hope in future to distinguish surplus non-operational land from that which is in current productive use.
- 1.3 TfL has been analysing its landholdings in much greater detail than the LLC has yet been able to do. TfL owns some 5,700 acres, spread across London, but the majority of this is unlikely to be developable. For the most part, this is due to it being in, or supporting, operational use: it accommodates the tracks, stations, equipment and depots which enable London's transport system to function.<sup>1</sup> From a longlist of potential sites, TfL has drawn up a set of around 100, extending over some 300 acres, which it wishes to bring forward for development. It has been working through the various operational and planning constraints which apply to each, determining their potential value and assessing the cost of unlocking that value, in order to arrive at a priority list to take to market. Its current target is to deliver starts on sites by 2020 which will accommodate 10,000 homes.

### Recommendation 1

The London Land Commission (LLC) should undertake more detailed work to classify London's developable public landholdings. This would make its database more usable for developers, especially smaller businesses. Once this work is complete, the LLC should be relaunched to ensure developers are aware of it and what it offers.

- 1.4 Effective use of TfL and other public land will be especially important in realising Mayor Khan's manifesto target of ensuring that half of all London's new homes are genuinely affordable. Land price is the key factor in developer

viability assessments, which in turn determine the number of affordable homes a site can bear. The Mayor's new Supplementary Planning Guidance on affordable housing indicates a benchmark level of 35 per cent affordable housing to be delivered on future development sites. This suggests that he will probably look to public land, including that owned by TfL, to deliver more than 50 per cent affordable, working towards an overall target of 50 per cent.

- 1.5 With ownership comes control. In addition to significant influence over the proportion of affordable homes built, TfL's landholdings offer an opportunity to be imaginative and innovative for London in how it develops its sites. TfL says, for example, that it might be able to use the track network to house fibre-optic cables for telecommunications, or that it could consider how to heat the homes on its new developments using the heat output from the Tube. It will also have its own design standard benchmarks and says that, in terms of developer partner selection, it has placed greater emphasis on design than on cost. It has the chance to create visionary schemes, which are both functional and sustainable, in terms of both build quality and the wider community setting. Research from the London School of Economics on urban villages notes that public landowners of large sites need to be creating communities for 50 years and beyond<sup>2</sup> – this is where TfL could be aiming.
- 1.6 As a significant landowner, TfL could also promote the use of innovative construction methods and the development of the market in housebuilding.
- 1.7 Modern manufacturing methods have been in the spotlight recently as a possible way to speed up, clean up and, over the longer term, remove cost from the construction process. Investors, developers and manufacturers are beginning to adopt these new methods for residential development. TfL could make its own contribution to this emerging approach by embracing it for some of its sites.
- 1.8 It could also play a role in supporting the re-engagement of smaller and community builders in London's housebuilding market. This is covered in greater detail in section three.

## Taking public land to market

- 1.9 Public landowners are sometimes perceived as unhelpful partners in property development processes. One developer told us that borough deals take twice as long as buying private land. Another explained that decision-making processes are overly bureaucratic. For example, under the 'Estatecode,' NHS sites must be offered to all other public bodies which might be interested in the purchase, before sale outside of the public sector can be completed, even though only a few such bodies might have an interest. It is important to get governance right, but the administrative effort must be proportionate.
- 1.10 Network Rail owns 50 per cent more land than TfL in London, including many adjacent sites. It is embarking on its own property development strategy. However, some developers criticise it for a complicated governance structure

and cumbersome decision-making, particularly in relation to gaining vacant possession of its sites. For developers, this usually involves negotiation with the train operating companies, as well as getting rail regulation approval, while dealing with Network Rail's own property development set-up. If TfL is to get the best out of its own and any shared development opportunities, it needs Network Rail to step up and work in close partnership with it.

- 1.11 There has also been criticism of public landowners recently, from the National Audit Office (NAO) and others, over the release of public land for housing. In a rising market, it pays to hold on to land. Moreover, there may not be any great urgency about the disposal of land by government departments or other public bodies, whose focus is on service delivery rather than property development.
- 1.12 However, the NAO also criticises the number of homes actually built, following disposals.<sup>3</sup> It notes that in many cases, the target for disposals has been the speed or value of the sale, rather than the number of homes delivered, resulting in a low number of homes actually built out. For example, although by 2015 public sector land had been sold with the capacity to deliver some 110,000 homes, there was scant evidence of how many homes had actually been built. A 2016 Department for Communities and Local Government progress report further indicated that on a sample of 100 sites with a capacity for 9,000 homes, only 200 had been completed.<sup>4</sup> This behaviour is driven in part by existing government regulation requiring the sale of any public land to maximise financial return (sale for 'best consideration').<sup>5</sup>
- 1.13 Public landowners have tended to dispose of their land in isolation. On the other hand, the collective development of adjacent or nearby sites with more than one owner can be beneficial for all parties. By clustering land opportunities suitable for development, there is a greater potential to maximise housing capacity on publicly-owned land, creating so-called 'land marriage-value.' This can also extend to adjacent privately-owned sites, when it is possible to reach a commercial agreement. However, this requires the range of interested organisations and individuals to collaborate, and for the relevant parties to plan their approach well in advance.
- 1.14 This is particularly pertinent where major infrastructure is a prerequisite for development. If, for example, accessibility improvements are required to unlock a site or sites, or physical barriers such as roads and waterways need addressing, a joined-up approach between public and private landowners and authorities is necessary. The Mayor and the boroughs can help de-risk and get more value from development projects by working together to improve the environment in which developers operate. The GLA's Housing Zones programme, initiated under Mayor Johnson, attempts to address some of these issues. The programme is beginning to see some successes – take-up has been enthusiastic, and many boroughs report accelerated site preparation and delivery within the Zones – but more progress is needed. Masterplanning

early and using new Mayoral Development Corporations or housing zones, including supporting infrastructure and potentially buying up surrounding land, will be important to realise the full potential of London's public land.



# 2. Developing TfL's land assets

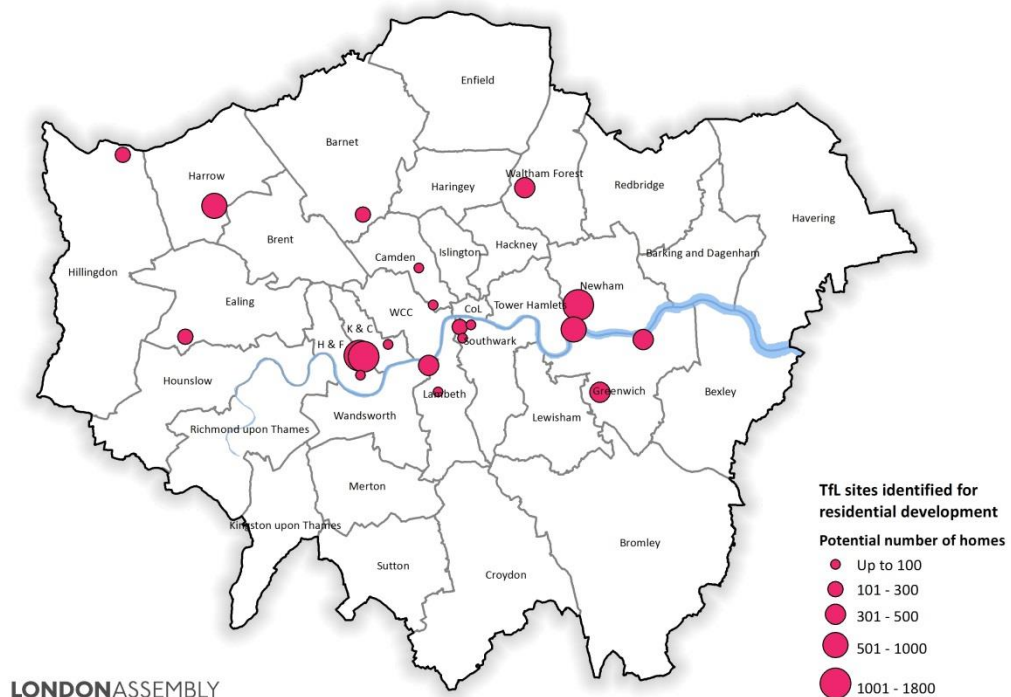
## Key findings

- Although TfL is one of London's largest landowners, many of its sites are small in size, especially those in inner London. However, there is a clear opportunity to use the bigger sites, and those in the outer boroughs, to deliver large numbers of affordable homes.
- The proximity of the sites to transport interchanges makes them highly desirable. But developing them will also be complex, working around operational transport requirements. Work needs to be meticulously planned to avoid building in expensive and time-consuming delays.
- The Mayor, the relevant borough(s) and TfL must work closely together from the outset, actively engaging with the local community, to commit to a clear and achievable vision for each development. Moving the goalposts partway through ratchets up risk and cost, detracting from the number of homes, especially affordable homes, which TfL's schemes can deliver.

## Locating TfL's sites

- 2.1 TfL owns some 5,700 acres of London's land. This is about 1.5 per cent of London's land area, or 16 times the size of Hyde Park.
- 2.2 Most of TfL's land assets lie north of the river, reflecting the concentration of London's Tube lines. See Appendix 1 for an indicative map of key TfL land assets.
- 2.3 TfL has now identified 100 priority sites it wishes to develop, out of more than 400 with the potential for development. Most of these are in zones 1 and 2 (of the 75 sites originally identified, two thirds were in inner London). Many are situated close to stations and other transport hubs, spaces which the London Plan and existing Housing Strategy have targeted as eminently suitable for densification. Such locations should therefore prove very attractive to developers, in principle. Because of their relatively central locations and proximity to transport connections, homes built on these sites could typically command high market prices.
- 2.4 So far, 20 of these sites are publicly identified for some residential development. See Appendix 2 for a list of these sites. Figure 1 shows that only three of the sites currently planned to come forward offer more than 1,000 homes (two at Earls Court and one at Canning Town).

**Figure 1: Many of the currently identified sites are relatively small**



- 2.5 While the majority of TfL's sites are small, those with the greatest capacity tend, unsurprisingly, to be in the outer boroughs. There is a clear opportunity

to use these larger sites outside central London to deliver a significant number of homes at lower rents or sale values.

## Recognising the development trade-offs

- 2.6 TfL faces a range of significant trade-offs in seeking to get right the balance between the numbers and types of homes it can build, and the speed with which they are delivered, while also maintaining and improving London's transport system.

### Opportunity costs for the investor/developer

- 2.7 TfL's own priority for its property development programme is to obtain best value, so that the revenues received can be utilised to improve London's transport system, such as installing step-free access in stations. Its need to support revenue funding has been heightened recently, both by the Government's removal of revenue grant, and by the Mayor's announced fares freeze to May 2020.

- 2.8 However, the Mayor has said that his single biggest priority is housebuilding, particularly of "genuinely affordable homes." He needs to capitalise on TfL's sites to fulfil this commitment and soon after his election, he said:

"One of the first things we can do is work with Transport for London to fast track their numerous surplus sites for development."<sup>6</sup>

- 2.9 As shown in Figure 1, many of the sites TfL has planned to bring forward first are located in central London, around transport nodes. There is a trade-off to be made between the level of rents which can be offered for any new homes built, and the amount of revenue a scheme will generate. In broad terms, the financial value foregone in delivering affordable homes increases as the rent level falls and the land value rises. The financial value foregone in delivering affordable housing, as opposed to homes for full market value, on such prime sites tends, therefore, to be at its highest in such locations.

- 2.10 So, from the landowner's perspective, in inner London, where land values are high, delivering 50 per cent or more affordable homes on a scheme is a relatively costly option, compared with delivering the same proportion of affordable homes in an outer borough. In supply terms, more units can be delivered for the same investment if affordable homes are built in areas with cheaper land values. But affordable homes are needed across London, and the London Plan places great emphasis on developing 'mixed and balanced communities,' rather than consigning affordable delivery to the suburbs.

- 2.11 There are other factors too which will tend to constrain the number of affordable homes TfL can develop:

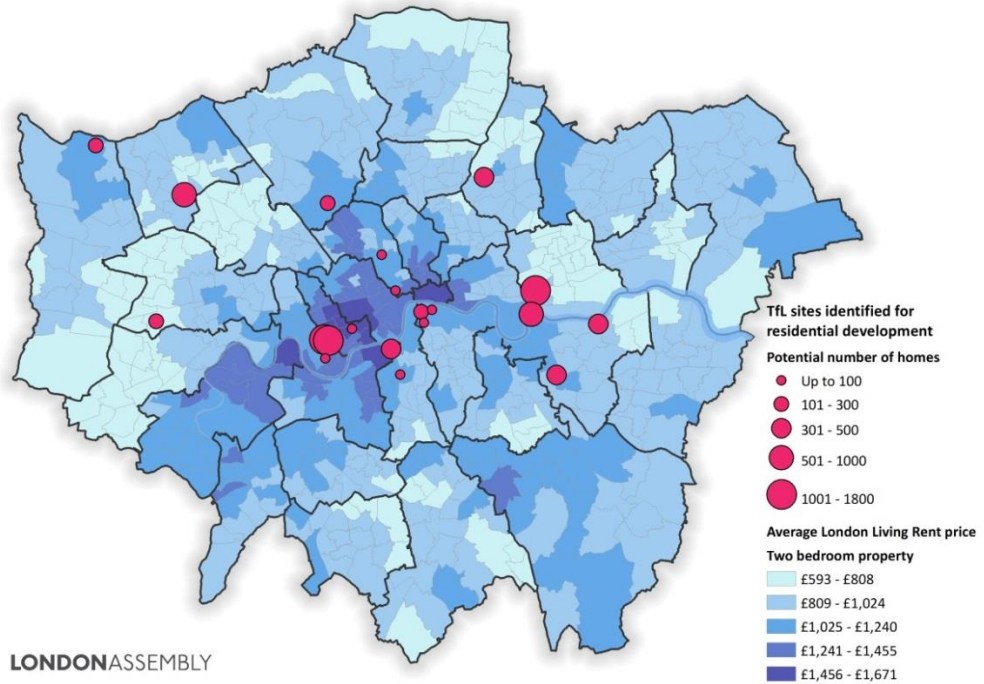
2.11.1 The majority of TfL's sites are smaller sites, which tend to have a more limited capacity to deliver affordable homes than larger ones.

- 2.11.2 TfL sites are almost exclusively brownfield (although most are far from surplus, accommodating, for example, essential transport infrastructure or equipment, but which perhaps could be more efficiently configured or sited). Some sites are heavily contaminated, requiring major (expensive and time-consuming) remedial works before they can be built out.
- 2.11.3 Developers argue that the viable proportion of affordable homes on a site can reduce as the development period increases, because their outgoings accumulate, reducing the profit or surplus within which affordable homes are built.
- 2.11.4 The sites TfL owns are normally around, adjacent to, or above stations or other operational rail facilities. Many restrictions apply to work undertaken on these sites, in terms of what can be done and when. These can have a significant impact on site preparation and construction works (as well as ongoing maintenance and access implications). Over Station Development (OSD) usually requires decking – the insertion of a deck surface above the station or tracks to support the new development. All this adds to complexity and cost, as well as time, in delivering housing on these sites.<sup>7</sup> There is a risk that if TfL’s operational and property development arms are not completely in sync, costly delays will ensue, with implications for affordable housing levels.
- 2.11.5 Finally, TfL’s capacity to bring sites to market and manage and control the development process is constrained by the relatively small size of its property development team.

#### Affordability from Londoners’ perspective

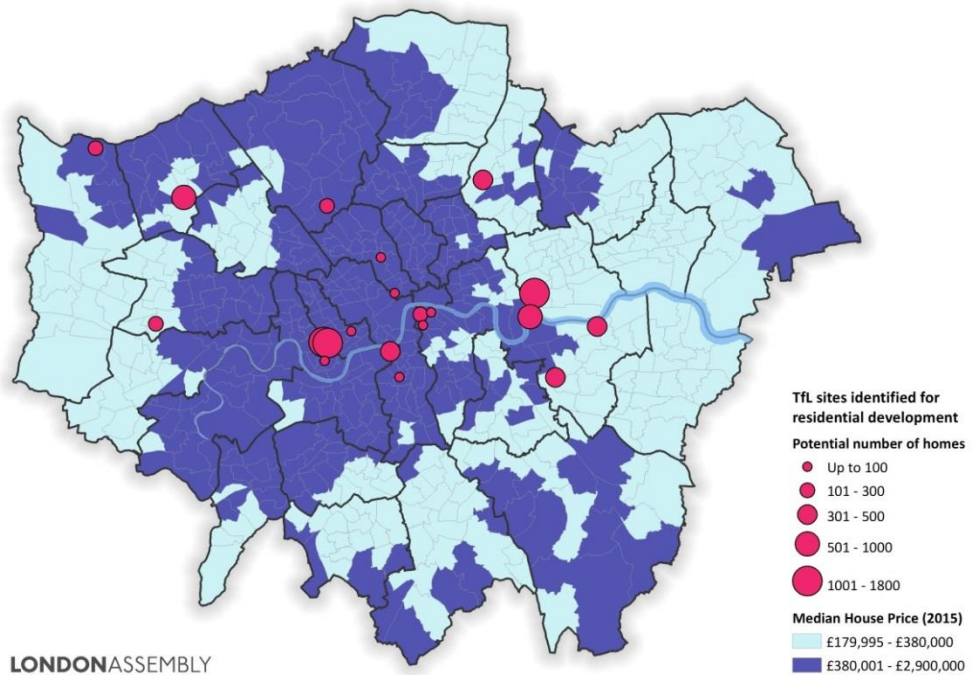
- 2.12 Clearly there are potential issues of affordability, too, from the perspective of the Londoners the Mayor hopes to house on TfL schemes.
- 2.13 The Mayor’s new Funding Guide for Affordable Housing sets out a range of affordable products which he will support. In terms of renting, funding will be available for London Affordable Rent (LAR – targeted at low-income renters and capped at traditional social rent levels) and London Living Rent (LLR – an intermediate rent-to-buy product on a time-limited tenancy). LLR will be available to households earning up to a maximum of £60k per annum. The level of rent for these homes will be based on one third of median gross household income for the local borough. However, it will vary by up to 20 per cent, in line with house prices for the ward. So in more expensive home ownership areas, rent levels will be higher, and potentially amount to more than one third of household income.
- 2.14 Figure 2 confirms that the first batch of sites TfL intends to develop are located mainly in areas (the darker shades) where relatively high levels of LLR are likely to be charged. The opportunity cost of delivering even more subsidised rents in these locations will probably be very significant.

**Figure 2: Even with the Mayor's subsidy, London Living Rent on many early sites will still be relatively high**



2.15 Similar considerations apply to the delivery of affordable homes for ownership. London Shared Ownership (the shared ownership product which the Mayor will support with capital grant) will be relatively expensive in many of the first sites TfL plans to build out.

**Figure 3: Median house prices around many early sites are also above the London-wide median of £380,000<sup>8</sup>**





- 2.16 The Mayor’s strategic objective is to deliver more affordable housing in London. If he is seeking to deliver “genuinely affordable homes” on TfL land, he will either need to forego significant value on (or inject substantial capital investment into) many of the existing sites, or wait until a further batch of suitable sites are prepared and taken to market.

## Agreeing clear development goals

- 2.17 To expedite the development process, it is important to have completed the necessary preparatory work before taking sites to market. This includes procedural tasks, such as having clear title, but also carefully defining what is required, for example in a clear design brief.
- 2.18 Notably, TfL needs itself to be clear upfront about its public value objectives for each site, agree these with the boroughs and stick to them – is it affordable housing, improved public realm, or station upgrades (or, indeed, maximising financial value)? Developers note that public landowners and boroughs have a tendency to move the goalposts as schemes progress, resulting in delays and disagreements, which in turn ratchet down the public value ultimately delivered by the site. On a medium-sized site of 100-499 homes, gaining planning consent typically takes about two years; priorities can change over this time and if the politics change over the development period, decisions risk being put on hold or even reversed.
- 2.19 Clarity from the boroughs is particularly problematic where sites cross borough boundaries, as development objectives may additionally be misaligned between adjacent boroughs.

## Recommendation 2

The Mayor needs to work with the boroughs and TfL to align development objectives (such as increasing density, the proportion of affordable homes required or maximising financial return) for each site, and stick to them, to reduce complexity for developers.

## Recommendation 3

TfL also needs to develop and resource a strong relationship with each relevant borough to accelerate delivery and create certainty wherever possible.

- 2.20 Alignment with the Mayor’s priorities should also be considered early. At Kidbrooke,<sup>9</sup> the discrepancy between the borough’s 35 per cent affordable and the Mayor’s 50 per cent targets, combined with TfL’s obligation to act commercially (i.e. maximise revenue), had to be resolved through a Mayoral Direction.<sup>10</sup> Other boroughs targeting below 50 per cent affordable may likewise need to flex their targets upwards to accommodate this, and further Mayoral Directions will likely be needed.

# 3. Delivering TfL homes

## Key findings

- TfL has an attractive portfolio of sites with development potential, but is only beginning to acquire property development expertise. It may need to consider adjustments to its culture and ways of working if it is to deliver the best housing deal for Londoners from its land.
- Property development is a long haul business and a risky one. TfL has set itself the target of starting by 2020 on sites which will eventually deliver 10,000 homes. But we need homes now to deal with London's housing crisis. TfL should be considering more radical solutions, at least in the early stages of its development programme, to kick-start delivery.
- London needs to re-engage its smaller builders in development. TfL has the opportunity to play an important role in galvanising this process, as well as in harnessing small builders in pursuit of its delivery target.



## TfL as property developer

- 3.1 Development land, especially London development land, is hard to come by. TfL's large portfolio of London sites make it an attractive partner for a property developer. However, some of the risks for a developer of working with public landowners have already been noted. Moreover, it needs to be remembered that TfL is primarily a transport provider, whose focus, and the backbone of whose operations, is engineering and service maintenance. It is a large public sector organisation, which was not set up for the agility and tolerance of risk which the business of property development requires. In order to manage and deliver these new types of activity effectively, TfL needs to change its culture and develop new expertise, which takes time, motivation and graft, up and down the organisation.
- 3.2 Public contracts over a certain value are subject to EU procurement rules.<sup>11</sup> The usual route to comply with these regulations is known as the 'OJEU' process. Many public landowners have chosen to set up their own panels of developers, prequalified through the OJEU process, in the hope of speeding up development. Establishing such a panel takes time at the outset, but can save time later when sites are taken to market, and also tends to mean the parties establish a closer partner relationship, which can be beneficial in working through the complexities of property development.

### TfL's Property Partnership Framework

- 3.3 TfL has established its own 13-member property development panel, prequalified through the OJEU process, the Property Partnership Framework. This includes major private housebuilders as well as four housing association and private sector partnerships. See Appendix 3 for a full list. There were over 50 applicants for a place on the Framework.
- 3.4 But although initial interest was high, the processes involved in engaging with TfL are quite burdensome, according to developers both on and off the Framework, causing delays and incurring costs which will detract from the public value TfL's schemes can deliver.
- 3.5 Developers usually consider investment using an internal rate of return measure (a means to compare alternative potential investments, based on their yield over time, taking into account the time value of money). In general, the longer capital is tied up, the greater the cashflows a scheme must generate to compensate. So schemes which have built into them the risk of significant delays are likely, on the whole, to require greater cash generation, that is, they need to be more profitable. Time is money, and the ability to take decisions quickly, as they arise, is therefore important, especially for schemes on the margins of viability. As profits are squeezed, the financial envelope, within which public infrastructure and affordable housing are delivered, also shrinks. But the democratic and accountability processes important in the public sector can result in slow decision-making. This is a key

reason why developers can be nervous about engaging in large-scale projects with public sector organisations.

### TfL's property team

- 3.6 TfL seems to be moving ahead more purposefully in the business of property development than other public landowners. It has now been actively involved in property development for a number of years, and thinking about it for longer. It has begun identifying and analysing landholdings in earnest (and has done so in much greater detail than the LLC has yet been able to do). It is beginning to bring sites to market.
- 3.7 TfL wishes to maintain a long-term interest in its property assets, so does not intend to sell many of its sites (except to joint ventures – JVs – in which it retains a minority stake). In the main it will retain freehold, entering leasehold arrangements to create a longer-term revenue stream. This suits the nature of the sites, which are usually adjacent to, or over, an operational facility, so there will often be an ongoing access requirement.
- 3.8 TfL has brought in specialist staff and advisers. It has set up a non-executive Commercial Development Advisory Group, which will provide specialist support and strategic advice to senior Commercial Development management, Chief Officers and the TfL Board. It has expanded its property development team substantially, from five staff to around thirty, recruiting, in the main, from the private sector. It says it operates with the same financial and programme disciplines that a private sector developer would.
- 3.9 However, it faces a daunting challenge in terms of the speed with which it hopes to process and manage sites. It has expanded its team further to enable it to bring more sites to market more quickly, since Mayor Khan has raised the bar to an aspiration of delivering 50 per cent affordable homes on new developments. However, its team may still be under-resourced to meet its target by 2020. It is more than two years since the Property Partnership Framework tender was launched, yet only three TfL sites have actually come forward so far for Framework Partners.
- 3.10 TfL has operational representation in its property development team. It is confident that this will mean both sides of the organisation will work together to get things done. However, developers' experience so far suggests that other organisations starting out in property development, such as Network Rail, have struggled with this. The interface between the property and transport arms has always created tensions, which slow and frustrate the pace of development. There are, for sound reasons, complex rail regulatory procedures to be followed. Pre-booked possession orders are needed if the line must be closed for work. If the relevant windows are missed, for example, due to planning delays, a further process is required to reschedule. Asset protection orders must be drawn up and approved, detailing operating constraints, designed to ensure contractors understand and minimise the risks of damage to the track and other assets, or to those using and operating

them, while they are working on or around them. One developer described to us the five years it had taken them to put in place 15 asset protection agreements on a single railway scheme, despite being a pre-approved panel contractor. This was not a TfL development, but TfL surely must do much better, to help its trusted Framework partners to smooth the process.

## Recommendation 4

TfL needs to ensure effective joint working between its property development and operational and technical staff, to minimise and resolve early the inevitable frictions which will arise for each scheme. There may be value in introducing an escalation process within each JV up to TfL senior management, to unblock approvals mechanisms.

- 3.11 Furthermore, it is not clear TfL has appropriate governance for this new and significant role – with no property professionals on its board. The only board member with relevant experience is Nelson Ogunshakin OBE, an engineer with experience in infrastructure and property investment. TfL’s experienced Commercial Development Advisory Group only has oversight, with no formal governance role.

## Recommendation 5

TfL should consider whether it needs to add a property professional to its board membership to ensure effective oversight of its property development activities.

## Meeting the target

- 3.12 TfL has set itself the target of ‘starts on sites’ by 2020 which will deliver 10,000 homes. This does not mean it will build 10,000 homes by 2020. It may, in fact, only complete a few hundred by then. Moreover, it appears to include in this target sites at Earls Court, on which preparatory works had already started long before the target was set.
- 3.13 In pursuance of its aim, so far TfL has made public its intention to develop 20 sites, with a total capacity of some 9,000 homes. It has said it will bring a total of 33 sites to market by April 2020, adding at least a further 13 to those currently in the public domain.

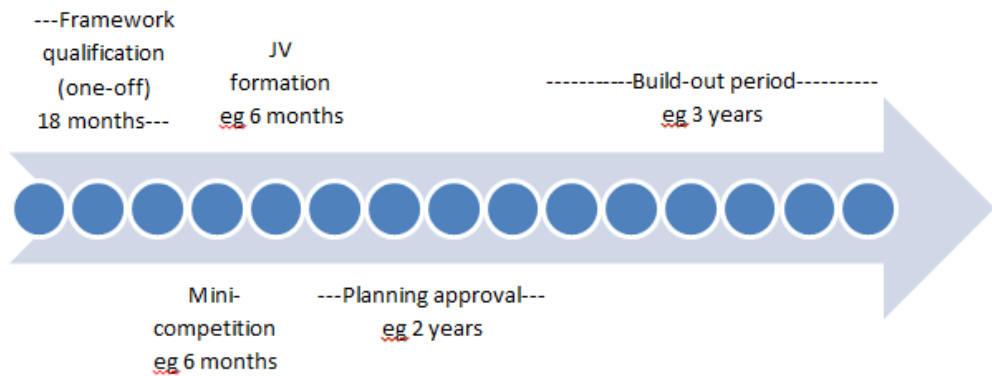
### The procurement and development process

- 3.14 One advantage of pre-qualifying a panel of developers, such as TfL’s Property Partnership Framework, is to speed up contracting procedures. However, for each site taken to market through the Framework, a mini-competition process, managed by its property development team, still follows, and the successful partner(s) then need to work with TfL to form a JV. Cultural

differences, such as differing motivations, assumptions, attitudes to risk, and working practices, mean that this is not always straightforward.

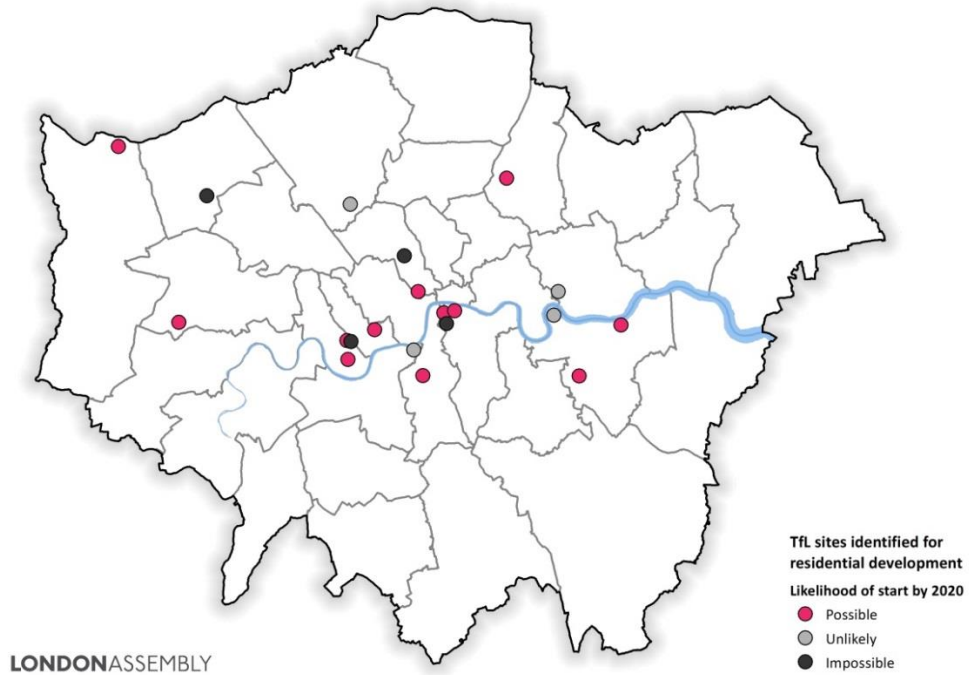
3.15 Once the JV is formed, gaining local buy-in through proactive consultation and navigating the planning approval process is likely to take around two years for a typical site of up to 500 homes. Pre-commencement planning conditions then need to be discharged and any preparatory work completed before a start can be made on the build-out itself. Figure 4 offers an indicative minimal expected timeline for a smaller site of up to 500 homes. This does not assume any substantial operational delays of the type described in paragraph 3.10 above.

**Figure 4: There’s usually a long wait between sites coming to market and delivery of homes**



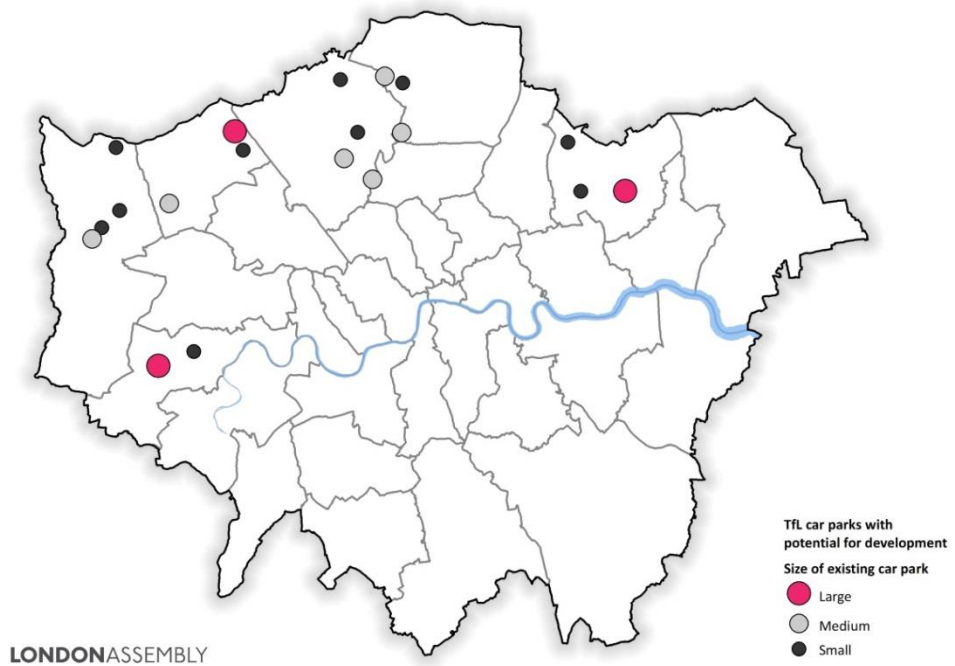
3.16 On this basis, as shown in Figure 5, available data indicates only around 13 of the 20 sites currently identified, ultimately delivering some 4,500 homes, less than half of the 10,000 targeted, will actually start by the 2020 deadline.

**Figure 5: TfL looks unlikely to start on enough sites by 2020 to meet its target**



3.17 TfL does own more than 70 car parks (only one of which is on its current list of sites in the public domain), which could be relatively quick to build out. But our initial analysis (see Figure 6) suggests that none of these is likely to accommodate more than 400 homes.

**Figure 6: Car parks could be quick to build out but probably wouldn't increase delivery substantially**



- 3.18 So if it is to meet its target, TfL will need to accelerate the current pace of work substantially. It is therefore far from certain that the target will be met. Moreover, starts on site are of little interest to Londoners; it is completions, that is, habitable homes, which matter.
- 3.19 TfL expects to deliver its first completed homes at Fenwick South (London Borough of Lambeth) and Kidbrooke (London Borough of Greenwich), targeting 500 homes between them. Plans are now for a start on site towards the end of 2017 (delayed from early 2017) at Fenwick. At Kidbrooke, start on site is now planned for 2018, with first homes delivered during 2020 (already delayed from the 2019 completion date we were offered in November 2016). However, even if TfL is able to stick to these revised schedules, current evidence suggests it will be some long while before a critical mass of homes are delivered on what are often complex small sites.

## Recommendation 6

TfL and the Mayor should consider an alternative and more rapid approach to procurement on a first set of sites, to speed up initial delivery. For example, they could dispense with the mini-competition stage for a few sites now, offering them to pre-qualified Framework developers provided they complete within a given timeframe (or risk TfL taking back the site at pre-planning value) and with full overage provision. This would give Framework developers certainty over a few sites, on which they could start straight away.

## Harnessing the power of smaller and community builders

- 3.20 In 2014, the Housing Committee wrote to the then Mayor, urging him to help new and small developers enter the housebuilding market. London's volume builders have increased their housing output in recent years, but London also needs to harness the capacity of smaller builders if we are to see a step-change in new housing supply. Deputy Mayor James Murray agrees. He said on 1 November 2016:

"It is only by having every possible route to delivering more homes that we are actually going to get the overall supply up."<sup>12</sup>

- 3.21 This is in part due to a lack of competition in the housebuilding industry. The market for housebuilding is currently more concentrated than in recent history, due to the detrimental impact on smaller firms of the financial crisis, hard-to-access finance, and the limited supply of developable land.
- 3.22 The plight of smaller building businesses is illustrated by some basic data. Prior to the financial crash, close to half of all homes (44 per cent) nationally were built by smaller builders,<sup>13</sup> but by 2016 their market share was down to

around one quarter (26 per cent).<sup>14</sup> The share of the smallest builders (building up to 100 homes each year) has more than halved, from 28 per cent in 2008 to 12 per cent in 2015.<sup>15</sup>

- 3.23 Many small builders would like to get back to building houses but are currently working mainly on secondary work such as loft conversions and extensions, because market conditions are so unfavourable.
- 3.24 In parallel, over recent years, London has become heavily dependent on larger sites to meet its housing need. These sites often take years to build out, due, for example, to the need for infrastructure development, the way construction is phased, and 'absorption rates' (sales practices catering to local demand, not need). The Outer London Commission suggested that individual private sector London sites might on average build out around 150 homes per annum;<sup>16</sup> so to accelerate the pace of housebuilding now, we need more sites, in a range of sizes, which are geographically spread, to come forward.
- 3.25 TfL has a pipeline of sites and the longer-term perspective required to support market development of this sort (which would benefit London's wider housing market, not just the delivery of homes on TfL land).
- 3.26 But the £100m net asset qualification threshold for TfL's Property Partnership Framework means that it excludes smaller developers, and requires even medium-sized players to operate in partnership (which can complicate decision-making and delivery) to develop its land assets.
- 3.27 TfL has been focusing first on larger sites with volume builders to drive starts. These businesses also tend to have more experience of working on complex sites. It is possible that many smaller businesses would not have the technical expertise required to manage the operational complexity on some of TfL's sites (although some medium-sized businesses, at least, do).
- 3.28 Nonetheless, the majority of TfL sites are small: TfL told us they have "scores" of sites to accommodate up to 25 homes. These would be of little interest to the volume builders, or even the g15 housing associations (the largest in London), because they are uneconomic for their model. They would, however, potentially be of considerable interest to smaller and community builders and TfL has said it is happy to work with these smaller partners. However, it told us at the beginning of November 2016 that it was still "thinking aloud" about how to engage with small builders in any meaningful way. It has also been promising to develop a register of small sites, although in November this was only promised "over the course of the next year."
- 3.29 Following our November 2016 meeting, we are pleased to note that TfL is at last working with the Mayor through the London Land Commission and the GLA Regeneration Team to draw up a tailored programme to bring forward small sites and engage with SMEs. Given the operational constraints of many TfL sites, it might take years to unlock some of them. TfL must get working now on preparing numbers of these sites, to develop a pipeline of such



opportunities which could be fed to smaller and community builders on a rolling basis.

## Recommendation 7

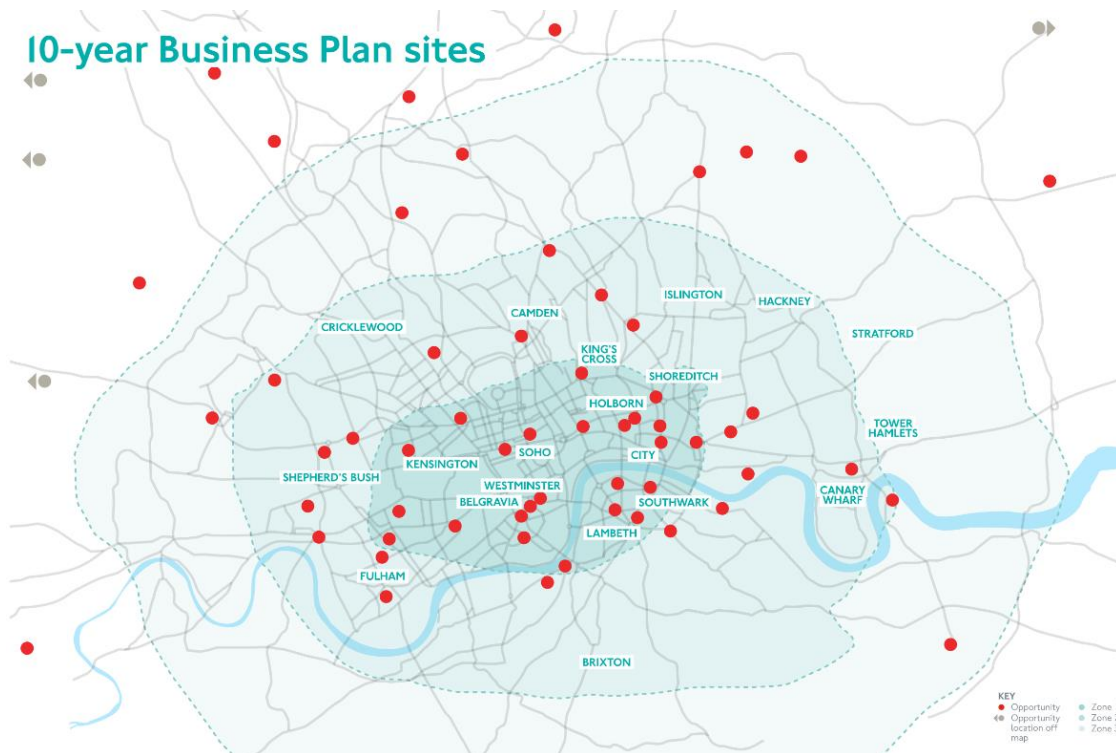
TfL should prioritise identifying and analysing smaller sites so that more of them come forward quickly. By the end of 2017, it should identify a borough where there are a number of appropriate sites, and with whom it could work well, to put together a pilot approach to working with smaller builders, perhaps via a tailored local pre-qualification framework. This could deliver two or three 'quick win' sites as demonstration projects.

- 3.30 However, there are downsides to working with smaller builders. For example, they can be less risk-tolerant, both in terms of planning and financial risks.
- 3.31 Since the financial crash, banks have been particularly reluctant to lend to smaller builders. Their limited access to finance, combined with generally weaker balance sheets than their larger counterparts, leave them less wriggle room to manage unforeseen events. Planning delays therefore become even more costly, as their capital is tied up and the period before a return is realised grows longer, in turn rendering them more vulnerable to shocks. The Government has put in place a number of measures aimed at supporting smaller builders,<sup>17</sup> but more clearly needs to be done to realise their full potential. TfL could help advance this agenda if it had appropriate expertise.

## Recommendation 8

TfL should appoint a small builder champion to its property development team. This champion would be familiar with how smaller builders work. They would understand the barriers to the engagement of smaller businesses and seek out creative ways to overcome them.

# Appendix 1 – Indicative map of TfL’s London land assets



Source: [TfL Portfolio Brochure Feb 2015](#)

# Appendix 2 – Current list of TfL sites identified for residential development

Site	Borough	Potential homes
Golders Green Bus Station	Barnet	150-200
Camden Town Station	Camden	60
Southall Sidings	Ealing	200
Kidbrooke	Greenwich	400
North Greenwich	Greenwich	800
Woolwich	Greenwich	392
Lillie Bridge Depot	Hammersmith & Fulham	1800
Parsons Green Depot	Hammersmith & Fulham	100
Earls Court 1 and 2	Kensington & Chelsea	1800
Harrow-on-the-Hill	Harrow	600
Northwood Town	Hillingdon	120
South Kensington	Kensington & Chelsea	10
Fenwick South	Lambeth	55
Nine Elms Station	Lambeth	332
Limmo, Canning Town	Newham	1000-1500
Bermondsey Station	Southwark	40
Landmark Court	Southwark	up to 100
Southwark Station	Southwark	200
Blackhorse Road	Waltham Forest	350
Tottenham Court Road Station West	Westminster/Camden	92
<b>Total</b>		<b>9151 max</b>

# Appendix 3 – TfL's Property Partnership Framework membership

Balfour Beatty PLC  
Barratt Development PLC / London and Quadrant Housing Association  
(Consortium)  
Berkeley Group PLC  
The British Land Company PLC  
Canary Wharf Group PLC  
Capital and Counties PLC  
Land Securities Group PLC  
Mace Limited / Peabody Trust / DV4 Limited (Consortium)  
Mount Anvil Group Limited / Hyde Housing Association Limited  
Redrow Homes Ltd  
Stanhope PLC / Mitsui Fudosan Company Limited  
Taylor Wimpey UK Ltd  
U+I / Notting Hill Housing Group (Consortium)

# Our approach

The Housing Committee agreed the following terms and conditions for this investigation:

- To review lessons learned from the previous disposal of London's public land for housing

- To establish the particular features of TfL sites which might hinder their development for housing

- To consider what the Mayor should do to ensure we get the best housing deal for London from TfL land.

At its public evidence session on 1 November 2016, the committee took oral evidence from:

- James Murray, Deputy Mayor for Housing and Residential Development

- Lester Hampson, Director of Property Development, TfL

- Simon Powell, Assistant Director – Strategic Projects and Property, GLA.

During the investigation, the committee also held informal sessions with a range of relevant private and public sector developers, property consultants and advisers, and trade bodies, as well as TfL itself.

# References

- <sup>1</sup> A little of it is greenbelt or Metropolitan Open Land, which is unlikely to be developed for political reasons
- <sup>2</sup> [New London Villages, London School of Economics, Jun 2016](#)
- <sup>3</sup> See for example [Disposal of Public Land for New Homes, National Audit Office, Jun 2015](#)
- <sup>4</sup> [Written Evidence to the House of Lords Select Committee on Economic Affairs, Department for Communities and Local Government, Jan 2016](#)
- <sup>5</sup> The Government's recent White Paper, [Fixing Our Broken Housing Market, Department for Communities and Local Government, Feb 2017](#), indicates that this is under review
- <sup>6</sup> [London housing: Mayor of London Sadiq Khan plans to fast-track scores of sites owned by Transport for London to build homes, City AM, 16 May 2016](#)
- <sup>7</sup> Use of innovative off-site manufacturing methods might help to counter this, because some such methods result in lighter construction products with the potential to accommodate extra floors, improving viability
- <sup>8</sup> Median price for a home sold in London in the year to June 2015. Source: [Towns and cities analysis, England and Wales, Office for National Statistics, 18 Mar 2016](#)
- <sup>9</sup> The first site TfL offered to its pre-qualified Property Partnership Framework of developers
- <sup>10</sup> In this case the Mayor directed that TfL ensure at least 50 per cent of the homes built on the Kidbrooke site would be affordable
- <sup>11</sup> Britain's exit from the EU is thought unlikely to imply major changes to procurement procedures
- <sup>12</sup> Deputy Mayor James Murray speaking to London Assembly Housing Committee on 1 Nov 2016
- <sup>13</sup> Those building fewer than 500 homes annually
- <sup>14</sup> National Housebuilding Council data cited by the Federation of Master Builders in [written evidence to the House of Lords Select Committee on Economic Affairs, December 2015](#) and in [Smaller house builders struggling to find land for new homes, The Telegraph, 20 Sept 2016](#)
- <sup>15</sup> National Housebuilding Council data cited by DCLG in the [Housing White Paper, Fixing our Broken Housing Market, Feb 2017](#)

<sup>16</sup> [Sixth Report: Removing the Barriers to Housing Delivery, Outer London Commission, Mar 2016](#)

<sup>17</sup> Such as the Builders' Finance Fund and the Housing Growth Partnership



# Other formats and languages

If you, or someone you know, needs a copy of this report in large print or braille, or a copy of the summary and main findings in another language, then please call us on: 020 7983 4100 or email: [assembly.translations@london.gov.uk](mailto:assembly.translations@london.gov.uk).

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## Vietnamese

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## Greek

*Εάν επιθυμείτε περίληψη αυτού του κειμένου στην γλώσσα σας, παρακαλώ καλέστε τον αριθμό ή επικοινωνήστε μαζί μας στην ανωτέρω ταχυδρομική ή την ηλεκτρονική διεύθυνση.*

## Turkish

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## Punjabi

ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਸੰਖੇਪ ਅਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਲੈਣਾ ਚਾਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਇਸ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਉਪਰ ਦਿੱਤੇ ਡਾਕ ਜਾਂ ਈਮੇਲ ਪਤੇ 'ਤੇ ਸਾਨੂੰ ਸੰਪਰਕ ਕਰੋ।

## Hindi

यदि आपको इस दस्तावेज का सारांश अपनी भाषा में चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये गये डाक पते या ई मेल पते पर हम से संपर्क करें।

## Bengali

আপনি যদি এই দলিলের একটা সারাংশ নিজের ভাষায় পেতে চান, তাহলে দয়া করে ফো করবেন অথবা উল্লেখিত ডাক ঠিকনায় বা ই-মেইল ঠিকনায় আমাদের সাথে যোগাযোগ করবেন।

## Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں درکار ہو تو، براہ کرم نمبر پر فون کریں یا مذکورہ بالا ڈاک کے پتے یا ای میل پتے پر ہم سے رابطہ کریں۔

## Arabic

الوصول على ملخص لهذا المبرتن بل غتك،  
فرجاء الاتصال بمرقم الهاتف أو الاتصال على  
العنوان البريدي العادي أو عنوان البريدي  
الالكتروني أعلاه.

## Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં જોઈતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો અથવા ઉપર આપેલ ટપાલ અથવા ઈ-મેઇલ સરનામા પર અમારો સંપર્ક કરો.



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