

M29 Would Policy H13 provide a justified and effective approach to build to rent housing to meet housing need?

In particular:

a) Would the criteria to define build for rent set out in Policy H13B be justified and would they be effective in supporting delivery?

- 29.1 Private rented homes can meet the housing needs of a range of households. Purpose-built rented housing, known as Build to Rent (BtR), is a relatively recent approach to delivering new homes. As such, the approach was not directly addressed in the 2012 NPPF. BtR provides an opportunity to meet a proportion of market housing need through providing high-quality and stable rented homes.
- 29.2 In 2016, the Government committed to supporting the BtR model, noting the demand for private rented homes had doubled over the preceding decade.¹ The Government noted that, alongside providing an opportunity to increase overall housing output (discussed in the Mayor’s statements in response to M18 Housing Strategy and M19 Housing Supply and Targets), the BtR model provides an opportunity to increase choice and improve standards for households in privately rented homes. Furthermore, it was noted that BtR has the potential to help provide more stable rented accommodation for families.
- 29.3 The criteria in Policy H13 B are justified and will ensure that BtR schemes offer tenancies of at least three years and that they provide high-quality management and other services to tenants. The criteria only apply to BtR schemes progressed under the BtR pathway, as set out in H13 A. This allows BtR providers to satisfy affordable housing requirements by providing genuinely affordable Discount Market Rent (DMR) homes, rather than adhering to the tenure mix requirements in Policy H7. The additional flexibility of Policy H13 A cannot be availed without taking on the responsibilities of Policy H13 B. For this reason, the benefits of H13 B must be secured by covenant to deter short-term investment in notionally BtR schemes. This safeguards against developers bringing forward schemes under the BtR pathway to circumvent the tenure mix requirements in Policy H7 and subsequently selling the private rented homes for owner-occupation, rather than managing the development as a genuine BtR product.
- 29.4 Several BtR providers that responded to the 2017/18 draft London Plan consultation were supportive of Policy H13. They welcomed the additional flexibility it allowed to satisfy affordable housing requirements through the provision of DMR homes and the criteria in H13 B, which ensures high-quality rental standards are upheld. The criteria of H13 B are broadly similar to the rental offer many genuine providers already offer private tenants, with reputable providers already providing these high standards because it is in their commercial interests to ensure that high quality standards are maintained across the sector to foster public trust in the product. Moreover, given that Policy H13 B allows a tenure mix specifically for bona fide BtR development, it is important that safeguards exist to ensure that the product is maintained as BtR for a minimum period and that the product is of a high quality and is well managed and maintained. If a BtR provider chooses not to adhere to the requirements of Policy H13 A then they must satisfy the requirements of Policies H6 and H7.

¹ DCLG, [Fixing Our Broken Housing Market](#), February 2017

b) Would the approach to affordable housing requirements be justified and effective?

- 29.5 A central requirement of the BtR model is that the development remains under the stewardship of a single landlord and a single management company. Policy H5 sets a clear expectation that affordable homes should be provided on-site and integrated into the development. DMR homes should be the default affordable housing tenure provided on BtR schemes because they can be provided within the main development and benefit from the use of the same services and management provided by the BtR landlord, which need not be a separate registered provider (as would be the case for social rent or Affordable Rent).
- 29.6 While this is the preferred approach, in response to concerns from boroughs about the potential impact of the policy on their ability to secure low cost rented accommodation to meet their priority needs, particularly in the event of BtR becoming the dominant tenure being delivered, the Mayor proposes further suggested changes to the supporting text of Policy H13 in Appendix 1. This clarifies that boroughs may, through a development plan, establish local affordable housing requirements for low cost rent (social rent or London Affordable Rent) where this is justified. The amendment also seeks to ensure that boroughs do not seek to secure DMR at social rent levels. This is because DMR is an intermediate product and is not subject to the same allocation requirements or regulation as social rent or Affordable Rent and thus will not meet the same needs.
- 29.7 The default approach being taken on affordable housing responds to the distinct economic circumstances of BtR development. Unlike conventional homes built for sale (BfS), BtR relies on rental income over a number of years, rather than an upfront return upon sale. In some circumstances BtR proposals may not be able to compete for land on an equal footing with speculative BfS proposals, as it may generate lower initial land values.
- 29.8 Policy H13 provides for BtR development proposals to access the Fast Track Route (FTR) where the relevant threshold level of affordable housing is proposed. Development proposals assessed under the FTR do not need to provide a viability assessment. Applications that do not meet the relevant threshold level will be assessed under the Viability Tested Route (VTR). As with the threshold approach for BfS schemes, the aim of the threshold is to provide greater consistency and certainty, increase the overall amount of affordable housing delivered and speed up decision making.
- 29.9 The threshold levels of affordable housing for BtR schemes mirrors those for conventional BfS schemes by requiring 35 per cent affordable housing in most scenarios and 50 per cent in some specific cases, as set out in the Policy. However, the affordable housing requirements are distinct from BfS schemes as affordable homes can be provided entirely in the form of DMR as oppose to the required affordable housing tenure split set out in Policy H7. The thresholds are considered to strike an appropriate balance between the objective of incentivising the provision of affordable housing that meets the relevant threshold and not foregoing potential further contributions that could viably be provided. The threshold levels have been informed by the London Plan Viability Study. This identified that most BtR case studies can support the relevant threshold level of affordable housing with a combination of DMR,

with at least 30 per cent of the rents pegged to London Living Rent levels, and the remainder at a level of discount that would be genuinely affordable².

Would it be effective in meeting local needs?

Would the approach to discounted market rent homes be effective?

Should the discount level be defined locally to take account of local circumstances?

29.10 Yes. The approach will be effective because it responds to the distinct economics of the BtR model. It will enable affordable homes to be fully integrated into a BtR block, which is a core objective of national policy and consistent with the objective of Policy GG4 C, to create mixed and inclusive communities. All DMR homes will be effective in meeting local affordable housing needs, because the homes must be ‘genuinely affordable’ and allocations to the homes would be determined through discussions between boroughs and providers.

29.11 A proposed additional paragraph (see Appendix 1) seeks to ensure that boroughs will have the flexibility to require low cost rent where this is justified at the local level, while keeping DMR as the default tenure. This responds to some boroughs’ concerns about their ability to meet identified needs.

29.12 Policy H13 secures high-quality private rented accommodation by means of a covenant. The policy requires the provision of affordable housing in the form of DMR that must be offered at a genuinely affordable rent level. The policy requires 30 per cent of DMR homes to be pegged to London Living Rent and the remainder to be provided at a discount that meets local affordable housing needs, having regard to local circumstances relating to viability.

c) Are there specific design requirements of this type of housing and would the policy be effective in delivering them?

29.13 No. BtR development is self-contained general needs housing (C3 use). All self-contained housing, irrespective of the model, is required to meet the minimum space standards set out in Policy D4. The Mayor will be publishing guidance on housing design, as set out in Policy D4, which will apply to all self-contained housing and will thus inform BtR development proposals. Some BtR providers may opt to provide additional facilities and spaces that are not typically provided in BfS development where the provider considers these may enhance the attractiveness and value of their product.

29.14 It is important to note that BtR and BfS homes meet the same housing needs and fall within the same use class. Although BtR schemes must be provided as such for at least a minimum period to prevent developers using the BtR route to avoid the obligations associated with BfS schemes, BtR and BfS developments can, in theory, transition between the two models over time to respond to changing market demands. Any covenant limiting transition from BtR to BfS will be time-limited and could, in any event, be broken early where the consequent obligations have been discharged.

² NLP/VI/001: Three Dragons/ Turner & Townsend Housing Futures Ltd, London Plan Viability Study, December 2017, Pages 28 & 29

d) Overall, would it meet the objective of Policy GG4 to delivering the homes Londoners need?

29.15 Yes. According to the research firm Molior (see Table 29.1), there were 6,690 BtR starts in 2017/18 across London. This is approximately one quarter of all new build private starts in 2017/18. It is also double the number of BtR starts in 2016/17 and approximately 12 times the number of BtR starts five years earlier. Molior's data also shows that there were 13,700 BTR units under construction in London at the end of September 2018, the highest figure on record, constituting 21 per cent of all private units under construction. This indicates that there is a growing consumer and investor demand for Build to Rent properties.

Table 29.1: Total housing starts and total BtR starts 2012/18³

Year	Total starts	Total BtR Starts	BtR Starts (%)
2012/13	14,640	530	3.6%
2013/14	21,830	1,780	8.2%
2014/15	29,150	4,820	16.5%
2015/16	30,400	5,950	19.6%
2016/17	24,450	3,240	13.3%
2017/18	27,460	6,690	24.4%

29.16 Policy H13 builds on the approach in the Mayor’s guidance that recognises that BtR developments can contribute towards increasing housing supply.⁴ The Policy will support Policy GG4 A by accelerating housing delivery. This is because it taps into a parallel market to BfS development and it is not subject to the same market absorption constraints. For example, the review of the market absorption levels of ‘Wembley Park’ in Brent identified that the disposal rate for BtR units was approximately 25 per month. This contrasts with a rate of one per month in the BfS element.⁵

29.17 The Policy will also help support the delivery of GG4 B and C by securing the delivery of genuinely affordable housing on-site, creating mixed and inclusive communities. Policy H13 Part A contributes to delivering Policy GG4 C by helping to ensure that homes are of good quality and are well managed. In line with Policy GG4 C, the product can also meet an identified need, as GLA analysis of the incomes and savings of potential movers shows that around half of private renters in London have little to no savings, and only 15 per cent have £10,000 or more.⁶ This indicates that the

³ Molior London, Residential Development Database, 2018

⁴ NLP/HOU/004: Affordable Housing and Viability Supplementary Planning Guidance, GLA, August 2017

⁵ MHCLG, [Independent Review of Build Out: Draft Analysis](#), 2018, Annexes

⁶ Department for Work and Pensions, [Family Resources survey: financial year 2016/17](#), March 2018

number of households with the savings required to buy homes is relatively limited compared to those who can afford to rent.

Appendix 1: M29 Further Suggested Changes

The Mayor is suggesting the following further changes to paragraph 0.0.24 and Policy H1 and supporting text:

- **Bold blue** – new text
- ~~Blue~~ – deleted original plan text
- ~~Purple~~ – deleted minor suggested change text

Change ref no	Policy/para /table/map	Further suggested change
M29.1	4.13.9A	Where justified in a Development Plan, boroughs can require a proportion of affordable housing as low cost rent (social rent or London Affordable Rent see 4.7.4) on Build to Rent schemes in accordance with Policy H7 A. Low cost rent homes must be managed by a registered provider. The low cost rent affordable housing would contribute towards the relevant threshold required to meet the fast track route, as set out in paragraph 4.13.6. DMR is an intermediate product and is managed and allocated as such, therefore it is not appropriate to seek DMR at or close to social rent levels.