

Increasing the supply of homes – the role of the City of London Corporation

1 Context

- 1.1 Housing shortage in London is one of the most pressing economic and social issues that the capital faces. Growing population and reducing average household size is driving an exponential increase in demand for housing. London has both more people living there and a growth in people living alone or in smaller households – meaning any given number of people will now occupy more homes than in previous generations. Forecast growth in the capital over the next ten years will see London absorbing an additional population that is greater than that of Birmingham.¹ The Greater London Authority estimates this growth, combined with an existing backlog of demand, will require the delivery of 49,000 new homes each year for ten years.²
- 1.2 Despite this, supply has not kept pace. Issues of infrastructure investment, planning policy, skills and material shortages, site ownership and control, and the availability of debt financing have all contributed to constrained supply, and therefore the effective response of the market. Some local authorities with ambition to develop homes have also been constrained by borrowing caps imposed by government, and concerns about the impact of right to buy.
- 1.3 Capacity for homes has been identified on brownfield³ sites, but such sites often need investment in remediation or infrastructure to unlock their development potential. Other more viable development opportunities are stymied by local opposition, and local and national politicians have been reluctant to consider contentious issues such as reviewing the scope and scale of some planning constraints.
- 1.4 This imbalance of supply and demand has seen house prices and rents rise significantly faster than wage inflation, resulting in issues of affordability or households having to allocate very high proportions of income to meet housing costs.
- 1.5 The relationship between house prices in London and the incomes of the majority places the purchase of a home out of reach for many not already on the housing ladder. In 2014 the cheapest ten per cent of homes were sold at a price that was greater than four times the salary earned by three quarters of those in full time employment. The resulting inability to buy has seen a transfer to private renting and the growth of that sector to the point that it is now, at 27 per cent of homes, larger than the capital's social housing sector.

¹ *Homes for London: The London Housing Strategy 2014*, Greater London Authority, April 2014

² *Housing in London 2014*, Greater London Authority, April 2014

³ Brownfield is a term used in urban planning to describe land previously used for industrial purposes or some commercial uses.

- 1.6 While the social sector represents almost a quarter of homes, access to them is limited and many local policies, such as that of the City Corporation, exclude households on incomes that are high in relation to social rents, but would not buy a family home in the capital.
- 1.7 The scale of exclusion from housing – particularly home ownership – requires a response that is beyond the means and role of publicly funded subsidised housing. It is necessary for the market to meet the needs of the majority. To achieve this requires the delivery of a significantly increased supply of homes to bring market prices within the range of those currently excluded.
- 1.8 The impact of housing shortage is not just an issue for London’s residential communities, but for its economy. Recent research undertaken and reported by London First⁴ illustrates the scale of concern among both businesses and employees. Three quarters of London businesses surveyed thought that housing supply and costs are a significant risk to the capital’s economy. This concern is underlined by the experience of employees, particularly those aged 25-39, 70 per cent of whom find the cost of their rent/mortgage makes it difficult to work in London – and half of whom would consider leaving London to work in another region.
- 1.9 The implications of such research is that London businesses may fail to recruit and retain the skilled workforce it will continue to need to compete internationally, and fail to house those of all skill levels whose work sustains the functioning of a large and diverse economy. In response the London Chamber of Commerce and Industry has called for increased supply within London, with a particular emphasis on delivering market homes to meet the needs of those with an annual income of less than £50,000 – an ambition achievable only through significant change in the balance of supply and demand.⁵
- 1.10 Housing in London is now a political priority for national, regional and local government. Policy responses have to date failed to deliver the quantum of supply needed, with many initiatives focussed on stimulating demand for market homes rather than driving delivery. Some initiatives have subsidised homes for a narrow section of the population on the lowest incomes, and done little for those on low and middle incomes. Those initiatives that have targeted specific “keyworker”⁶ groups have subsidised housing for some, without meeting the needs of those employed in the range of roles essential to the functioning of public and private sectors.
- 1.11 The government is responding to this priority. In its recently published productivity plan⁷ the government recognised the importance of an effective land and housing market to the nation’s economic productivity and prosperity. It reflected that the UK has been incapable of building enough homes to keep up with growing demand, and has set out plans to tackle this by addressing the “excessively strict planning system”,

⁴ *Moving Out – How London’s housing shortage is threatening the capital’s competitiveness*, London First, September 2014

⁵ *Getting our house in order: The impact of housing undersupply on London businesses*, London Chamber of Commerce and industry, May 2014

⁶ A key worker is a public sector employee who is considered to provide an essential service. The term is often used in the context of those who may find it difficult to buy property in the area where they work.

⁷ *Fixing the foundations: Creating a more prosperous nation*, HM Treasury, July 2015

delivering higher density housing, improving co-operation between local authorities and releasing unneeded commercial land for housing.

2 Role of the City of London Corporation

- 2.1 The City of London Corporation has a role that goes beyond that of an ordinary local authority. The City Corporation works to support and promote London as the world's leading international financial and business centre and attract new business to the capital and the UK as a whole. It also works in partnership with public, private and voluntary sectors to improve long-term economic, social and environmental well-being across London.
- 2.2 It is for these reasons that the City Corporation wants to support the continuing development of an infrastructure, including housing, in which the City and the wider capital can continue to thrive.
- 2.3 For the City of London, the capital and the nation it is crucial that the right homes are delivered in the right places. The Square Mile has been granted exemption from the permitted development rights allowing the conversion of office space to residential units without planning permission. This exemption does not undermine the City Corporation's commitment to delivering more homes: it recognises instead that the economy is best served by supporting the agglomeration of the financial sector, and that the capital's housing needs will not be met by selective developments in the prime commercial market.
- 2.4 The City Corporation will build on its presence and partnerships beyond the boundaries of the Square Mile to deliver its commitment to increasing housing supply in the capital.

3 Housing vision

- 3.1 The City Corporation's vision is to deliver an ambitious programme of housing development, providing homes of mixed tenures for those on a range of incomes. Within our social housing estates this programme will be funded through planning gain receipts, grant funding, borrowing within the Housing Revenue Account⁸ and cross subsidy from market sale of some new homes. On development sites outside of the HRA the City will explore the potential of private financing, joint ventures, borrowing or disposal to support the development of new homes.
- 3.2 The City Corporation will use its close relationship with the finance sector and stability to enable partnership across the private and public sectors to maximise supply, and share innovation and best practice. The City Corporation will also work to shape and influence policy change that will enable supply and unlock opportunities.
- 3.3 By 2025 the City Corporation will deliver 3,700 new homes on sites across the capital.

⁸ The Housing Revenue Account (HRA) is a "ring-fenced" account held by the City Corporation and all local authorities that own council homes. It contains all the spending and income related to the dwellings owned by the City Corporation acting as social landlord.

4 Principles

4.1 The delivery of the City Corporation's vision for housing will be guided by five principles:

A focus on supply

4.2 London needs more homes. Delivering these homes requires all of the capital's local authorities to support delivery and maximise the opportunities for supply through their enabling role, their local plans and the formation of constructive partnerships. The City Corporation will play its role in meeting this challenge, identifying sites and partnerships through which new homes can be delivered.

Delivering a range of tenures to meet needs across the income scale

4.3 London needs to house a range of households, delivering the diversity of skills and labour required by the capital. Subsidised housing meets the needs of a limited group, while the failure of supply has locked those on low and middle incomes out of homes ownership. The City Corporation will deliver a range of homes – those that are social rented, homes that offer shared ownership and homes for market sale and rent.

Maximising site potential whilst delivering improved amenity

4.4 Delivering higher density housing is essential to meeting the capital's housing needs, and has been at the heart of the City Corporation's historic housing programme. Many of London's most desirable and affluent neighbourhoods are those that have the highest densities. Brownfield sites, surplus land, infill opportunities and the changing nature of town centres offer chances to intensify housing supply within the reach of transport hubs and other services. The City Corporation will continue to deliver high density homes in high quality environments, and use opportunities to intensify housing supply to deliver improved amenity.

Unlocking opportunities and partnerships

4.5 London housing issues cannot be tackled in isolation. The City Corporation will maximise the delivery of new homes by fostering and developing partnerships across the public and private sectors. It will build on the Corporation's existing experience of working in a number of London boroughs and leading partnerships that add value to local communities.

Securing value, assets and returns

4.6 Through delivering more social homes the City Corporation will increase the asset base within its Housing Revenue Account. It will deliver homes funded through Section 106 receipts, and cross subsidy from shared ownership sales and the provision of market homes. It will explore partnership ventures that unlock private funding while allowing the City to retain land assets. Where investment offers competitive long term returns, the City Corporation will explore the potential to fund new homes.

5 Objectives

25 per cent increase in homes on City Corporation housing estates

- 5.1 The City Corporation will deliver a 25 per cent increase in homes on its Housing Revenue Account estates by 2025. The City Corporation has already resumed the development of social housing, delivering 70 new homes since 2012.
- 5.2 Further delivery will be achieved by identifying sites for new homes on the City Corporation's own housing estates. An assessment of opportunities to increase the housing density within these existing estates has identified sites offering the potential to deliver more than 700 additional homes.
- 5.3 New homes will be delivered at "lifetime homes" design standards to ensure they meet both a range of needs, and needs that change over time. High standards of design will also ensure energy efficiency measures which will contribute to reducing fuel poverty, and contribute to the creation of attractive, well designed, accessible neighbourhoods that promote wider economic, health and social wellbeing.
- 5.4 The development programme will be supported by funding drawn from Section 106 receipts, grant funding from the Mayor of London's housing investment programme, borrowing within the Housing Revenue Account and cross subsidy from shared ownership and market sales. This approach will deliver a range of tenures to meet a variety of needs and incomes.

3,000 additional new homes

- 5.5 The City Corporation holds sites across many parts of London. Many are protected green spaces that are safeguarded and maintained by the City Corporation for the benefit of London's communities. Other sites, however, offer the potential to provide quality homes with improved local amenity and green spaces. Sites owned by the City Corporation have already been identified offering the potential to deliver 3,000 new homes by 2025.
- 5.6 The City Corporation will work with partner local authorities where it identifies potential sites and, where necessary and appropriate, discuss the re-designation of land where it has previously served other uses.
- 5.7 To deliver these new homes the City Corporation will explore the potential to partner with developers and housing associations. It will also explore the potential to establish a local housing company, either wholly owned by the City of London or in partnership with others, as a vehicle that could attract investment and deliver returns through the delivery of housing.
- 5.8 These homes will provide opportunities for home ownership and market rent, with additional affordable homes being provided in line with local planning requirements. The intention of this supply will be to contribute to meeting the needs of the vast majority of working households for whom subsidised housing is not and cannot be available.

Enabling private/public partnerships to maximise delivery of new homes

- 5.9 In the last parliament the government commissioned a review of the role of local authorities in delivering housing.⁹ One of the central recommendations, supported by government, is the development of closer partnerships between business and local authorities to unlock development opportunities and financing.
- 5.10 The City Corporation will support this work, building its own partnerships, and helping to enable them among others. This enabling support will be delivered in part through the City Corporation's proposed role as a founding member of the Housing and Finance Initiative (HFI). The HFI is a body focused on increasing the pace and scale of delivery of housing across all tenures by helping public and private sector bodies more easily form joint ventures through better understanding of needs and risks.
- 5.11 The City Corporation will also explore partnership opportunities and models that deliver both additional homes and added value to local communities and Londoners.

Influence policy change to encourage supply

- 5.12 Unlocking the supply opportunities the Capital needs requires policy makers in national, regional and local government to re-examine the barriers and constraints that exist. Public funding alone cannot resource the scale of additional housing that is needed, and therefore policy must enable and support the market to meet this need.
- 5.13 For the City Corporation this will mean working with London Councils, central government and the Mayor of London to influence change and debate. The City is committed to protecting the capital's quality green spaces, but recognises the need to look at the potential of land that is of lower quality and proximate to existing transport hubs to provide homes needed by Londoners.
- 5.14 The City Corporation will also work with partners to explore the role new housing supply and policy can take in promoting the better use of London's existing housing stock.

6 Implementation

- 6.1 A Housing Steering Group, jointly chaired by the Director of Community and Children's Services and the City Surveyor, has been established to lead the delivery of the City Corporation's housing vision. This will provide the leadership alongside that of the City Corporation's Common Council to deliver this ambition.

⁹ *From statutory provider to housing delivery enabler: Review into the local authority role in housing supply*, Department of Communities and Local Government, January 2015.