Homes fit for Londoners: Solving London’s housing crisis
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Foreword

London is a leading global metropolis supporting the success of the nation. Its success relies on attracting and retaining great talent to support its activities—whether building new businesses or protecting communities. As a global city, London also draws in excess demand, and these factors fuel the need for more housing. Where supply does not meet demand, this drives the soaring costs of housing. This conundrum is seen across the world.

We now see the consequences of the long-term failure for London to build enough homes to house its residents. Increasing market rents, increasing levels of homelessness, and ongoing demand for affordable housing all stand as pressing challenges, underscoring the need for a comprehensive and strategic approach to rethinking housing delivery. What this approach looks like is a subject of much debate amongst a wide variety of stakeholders. With this report, Centre for London offers another perspective for consideration. Homes fit for Londoners seeks to navigate the intricate tapestry supporting urban living and unravel the complexities surrounding housing delivery in the heart of England’s capital.

London, a city of rich history and cultural vibrancy, grapples with various housing challenges that affect its diverse communities. Skyrocketing property prices, coupled with a growing population, have given rise to an acute shortage of homes and an affordability crisis. This scarcity not only strains the pockets of the city’s residents but also jeopardises its productivity and the social fabric that binds its neighbourhoods together.

The crisis is created through policy failures. Policy failure in this area has a profound impact on individuals and families striving for stability. A home is not merely a shelter; it is the cornerstone upon which lives are built. Recognising this, the report explores adopting a strategic, systematic, and long-term approach to tackle the affordability conundrum and overcome current failures. This will require collaboration between government, private enterprises, not-for-profits and community organisations, and society.

The report advocates for the formulation of policies that incentivise the progressive increase in all homes of all tenures, supported by a long-term approach to strategy, policy making and funding. If adopted, this approach will need to bridge beyond the normal 5-year political term as a collective societal endeavour, as has been the case in coming together to address climate change. This will be a hard battle, but essential.

Through crisis, we become more driven and focussed to deliver solutions. There are solutions to London’s housing challenges, all of which are deliverable and can pave the way for a capital where affordable housing is no longer a rationed resource, but instead an integral part of the city’s narrative. The path ahead is challenging, but the consequences of inaction are far more profound. Through this paper, Centre for London invites policymakers, industry leaders, and community advocates to consider how they, independently or in collaboration, can reshape a more inclusive and accessible London—a London where every resident, regardless of income, has a place to call home.

Ben Denton, Chief Executive Officer, Legal & General Affordable Homes
Fiona Fletcher-Smith – Chair, Centre for London; Chair, G15
London’s housing crisis is only getting worse, but the upcoming general and mayoral elections create an opportunity for the parties to implement new ideas and change course.

**London is experiencing a housing crisis**

The cost of housing is much higher in London than elsewhere in the UK. So high that millions are left in poverty after they have paid their rent or mortgage, and still more once they have paid energy bills, or high commuting costs because they can’t afford to live near work. After considering how much people pay for housing, London has one of the highest rates of poverty of the UK’s regions.

Many live in homes which are cold, damp, unsafe or overcrowded – and this worsens their physical and mental health, while harming London’s transition to net-zero carbon emissions. Most private renters have very little security, and risk having to find a new home with little or no notice. This makes it hard for them to build community where they live, and to get the best from schools and healthcare. There are over 300,000 households on the waiting list for social housing in London.

London has more households in temporary accommodation than the rest of England combined, while the number of people sleeping rough in London has increased by nearly 50 per cent in the last decade.

And the problem is getting worse. In 1997 the average house in London cost the equivalent of about four years’ salary: in 2022, it had risen to 12 years’ salary, peeling away from the rest of the UK.

Our previous report, on London’s Homes Today, sets out these issues in more detail.

**What happens if we don’t fix this**

If policymakers don’t act to improve London’s housing market, the consequences will make Londoners and London poorer. To name just some of the possible outcomes:

- High costs may push people out of London. This would make it more difficult to attract and retain skilled workers.
- Rising housing costs could erode households’ spending power, leading businesses to lose out.
- More Londoners may become homeless.
- Paying for temporary accommodation may bankrupt councils.
- Pressure on social housing providers could mean fewer and worse quality homes.
- More older Londoners may find themselves living in homes that don’t meet their needs, risking their health and meaning they may need adult social care services which they otherwise could have avoided.

This is not a hypothetical possibility. San Francisco, in California, has one of the most acute housing shortages of any city on Earth, with average rents at more than $3,100 (£2,500) a month, caused by extremely restricted supply and high local wages. As a result, homelessness has spiked, with 38,000 people without shelter on any given night in the Bay Area. Since early 2020, the city has seen the largest net outflow of residents of any US metropolitan area.

London has systematically underbuilt new homes for decades, creating a backlog of people who need homes, in both the market and social sectors. With high demand for housing and supply that doesn’t always respond to rising prices, house prices in London are very high compared to other parts of the country, increasing housing costs and forcing many residents into overcrowded homes.
What housing can be
Living in the right home brings huge benefits. These go beyond the individuals who live in any particular house or flat. Too often we treat housing policy, and housing decisions, as being about consumer choices - and we miss the wider economic and social benefits that good, affordable homes can bring. Instead, we prefer to think about homes as infrastructure, like the electricity grid or railway network, rather than individual units. That is why this report calls for a long-term approach to housing policy and investment, with longer time frames for funding and decision-making.

We think that everyone in London should have access to affordable, safe, and good quality homes, that provide stability and offer access to essential amenities.

We have taken action before
To build enough homes in London, we need to double annual housebuilding from the 37,000 homes built in 2021/22 to approximately 74,000 a year for 15 years. We think this will require a large expansion of the grant available to build affordable homes and accepting new, sustainable development on low-quality areas of Green Belt land. One estimate found that, using less than 2 per cent of England’s Green Belt land could deliver between 1.7 and 2.1 million new homes, while creating thousands of hectares of new public green space.

This is not an impossible goal – we have achieved it in England before. In just the ten years after the Second World War (1946-1956), English local authorities and housing associations built over 1.4 million social homes, an average of more than 140,000 a year – more than 50 per cent more than we are proposing.

London’s housing crisis is the result of policy failures – it is within our gift to solve it. The reconstruction efforts following the Second World War show us that a coordinated, multi-pronged approach that focuses on fairness, growth, and long-termism can impact such a deep-rooted crisis.

Key recommendations
Addressing London’s housing crisis will require responses from policymakers at all levels of government and from different angles, from investing directly in building more homes to improving renters’ rights.

The cost of fixing this is high, but the cost of inaction will be higher. To meet the investment in homes our capital and country need, we describe throughout the report a variety of ways that addressing this challenge could increase tax revenues, make government investment more efficient, and raise capital from the private sector. For example:

- Increasing private housing delivery and properly resourcing planning departments would increase money raised through Section 106 contributions.
- Abolishing ‘hope value’ and creating Development Corporations on low-quality Green Belt land would let the government capture increases in land value from development.
- Committing to long-term public funding for affordable homes would increase the impact of government investment, while ending Right to Buy would reduce existing subsidy.
- Providing clarity about how public bodies and institutional investors can work together would bring about more private investment in homes.

Throughout this report we explore several policy areas in detail, centred around the following three ambitions. A full list of policy recommendations made in this report is given in the Appendix. Here we summarise our top ten recommendations for policy makers.
London’s housing stock has not kept up with its growing population, and more affordable homes will need to be built to improve affordability and to reduce overcrowding and homelessness. We need to build more homes to accommodate our growing population. Although densifying the city will be an important part of the solution, London will also need to expand, sustainably and equitably.

Homes across the UK, and particularly in London, are unaffordable for too many people, while over 300,000 London households are on the waiting list for the most affordable homes, social housing.

1. National government should increase its investment in the Affordable Homes Programme to £15.1 billion a year to fund the building of 90,000 social homes a year in England. More than 30,000 of those should be built in London.

Local authorities have seen funding for planning departments cut by 60 per cent since 2010, restricting their ability to carry out meaningful consultation and facilitate sustainable growth. Increasing the supply of homes will require a substantial increase in their capacity.

2. National government should adequately resource local authority planning departments, both through expanding grants and tying planning fees to inflation.

Unlocking a small fraction of poor-quality land in the Green Belt surrounding public transport stations could allow for hundreds of thousands of high-quality homes to be built. The Green Belt contains many areas of low ecological quality, the loss of which would not necessarily harm our climate goals or people’s access to high-quality natural spaces. But any change needs to be managed to ensure that new development meets London’s housing needs while making rational use of the space.

3. The Mayor and national government should set up Development Corporations to build on strategically defined areas of the Green Belt, and ensure they compensate for any loss of nature.
4. National government should commit to annually indexing the Local Housing Allowance (the part of the benefits system which helps with rent) to rent levels.

There are serious problems with how we currently tax land and properties, which are adding to the dysfunction of London’s housing market.

5. National government should devolve control over property taxes to London, and the Mayor should introduce a proportional property tax to replace council tax and stamp duty.

Council tenants on social rents have a Right to Buy their property at a significant discount. This has led to an erosion of the housing stock, while some 40 per cent of those homes bought through the scheme are later rented privately.

6. National government should end the Right to Buy for council tenants, to retain homes in the social sector and allow the stock to grow.
Housing policy is plagued by institutional short-termism and frequent announcements of destabilising reforms. There have been 16 housing ministers since 2010. Although the system does need change, it equally needs stability. Delivering more investment into new homes requires consistency to build confidence. This will require longer timeframes for funding and a new expert body to set levels of grant for affordable housing: an Affordable Housing Commission.

Local authorities and housing associations need certainty about how much money they will have, so they can improve existing homes and build new ones.

7. **National government should create 10 year rent settlements from 2025 so that local authorities and housing associations can build new homes and improve existing ones, with a review if inflation exceeds a certain level.**

Many homes in the social rented sector need repairs and maintenance to improve their energy efficiency and their safety for residents, but social housing providers lack the funding necessary.

8. **National government should create a £4.45 billion Net Zero Fund, to fund retrofits and renovations of social housing, £766 million of which should be spent in London. If private investment can be crowded in, this figure could be significantly reduced.**

Funding from national government for building more homes is delivered in short time frames which reduces housing providers’ ability to plan their investments, reducing the efficiency of the funding.

9. **National government should extend the term of each Affordable Homes Programme to 10 years.**

To treat housing like the essential infrastructure it is, we need to ensure that appropriate levels of investment into affordable housing over the long-term are maintained.

10. **National government should create an Affordable Housing Commission that sets levels of grant for affordable housing based on expert projections.**
Chapter 1
A vision for what housing is and can be
What homes should be

We think that all homes in London should be affordable, safe and good quality, provide stability to the people who live there and offer access to important amenities.

**When are homes affordable?** One commonly used rule of thumb is that rent is affordable when a household spends 30 per cent or less of their income on it. Another is that house prices are affordable when the average home is no more than three times more than the average household income. Today in London, average rents equate to 70 per cent of income for a household in the 30th percentile of earnings, and more than 80 per cent of income for a household in the 20th percentile. Meanwhile, the average house price is equivalent to approximately 12 years of average household income in London. Whatever measure of affordable housing that we use, housing today is unaffordable for many Londoners.

**When are homes safe and good quality?** There are minimum design standards for new housing in London, set by legislation at the national level and by the Mayor’s London Plan. These set out, for instance, the minimum size of each home, adjusted for the number of bedrooms. Quality isn’t only determined by design, but also by maintenance: a well-designed home can come into disrepair over time. While there’s no perfect definition of a safe and high-quality home, as a minimum, all homes should meet the Government’s Decent Homes Standard. At present a third of homes in the UK fail to meet this standard.

**When are homes a secure place to live?** When you are at risk of eviction or repossession only if you break certain clear and reasonable rules. Those who own their home or who rent in the social housing sector are afforded protections that mean they generally can’t be evicted without good reason. However, currently those renting in the private sector can be evicted without a reason with just two months’ notice.

Homes as infrastructure

Having the right home brings huge benefits. These go beyond benefits to the individuals who live in any particular house or flat. However, too often we treat housing policy, and housing decisions, as being about consumer choices. In doing so, we miss the wider economic and social benefits that good, affordable homes can bring. Just like the railway network and the electricity grid, homes are the backbone of the economy and make economic growth possible.

Why we must do better

With more, better and cheaper homes, London would be a better city. Better for Londoners, who would be healthier and happier, with clean air and space to relax inside, and space for fun and exercise outside. Better for the environment, as homes would be more energy efficient, and fewer people would have to travel by car to get to them. Better for communities, because people would have more time and money for the places and groups that they care about. Better for the economy, because businesses would be able to find the right people for the right jobs. And better for the country, because higher productivity in London means more taxes to pay for public services.

What does a functioning housing system look like?

London has systematically underbuilt new homes for decades, creating a backlog of unfulfilled housing need, in both the market and social sectors. This has forced many residents into overcrowded homes – London has the
highest levels of overcrowding of anywhere in the UK – and has created many ‘concealed households’, in which people are forced to share accommodation with another household. On a country-wide level, England has fewer dwellings per person than other developed countries – 434 per thousand inhabitants, against the Organisation for Economic Co-operation and Development (OECD) average of 487.

Combined with historically low interest rates, growing demand for properties from investors, and stagnant wages, the backlog of building has led to rising rents and prices in the private sector, a growing need for temporary accommodation, and extremely high competition for social homes. Many of those whose income, disability-related needs, or current overcrowded living conditions mean they would be best suited to social housing are trapped in the private rented sector. Around 10 per cent of London households in the private sector are defined by the National Housing Federation as having unmet housing need and requiring social rented housing as the most appropriate tenure.

There have been various estimates of the required scale of building. Traditionally, housing targets have been set based on household projections – forecasts of how many new households will form in each region if demographic trends continue. However, it has been argued that these projections do not reflect the need for extra new housing to improve affordability, and cut homelessness, overcrowding, and the prevalence of concealed households.

Therefore, this report uses Professor Glen Bramley’s estimates of housing requirements, calculated for Crisis and the National Housing Federation, which modify demographic frameworks to account for the need to address affordability, poverty, housing need and homelessness. His projections estimated a backlog of housing need of 4 million households in 2018 across England. This includes households in overcrowded homes, those experiencing homelessness, and those whose housing costs are unaffordable, among many other groups.

Correcting this backlog will require an increase in completion rates above and beyond simply meeting current demand. This entails expanding yearly completions to just under 340,000 across England. In London, this would mean achieving over 74,000 new homes a year, just under 33,000 of which would be for social rent, around 2,300 for shared ownership, and over 10,000 for intermediate rent. Given these estimates were first made in 2018, they are likely to have grown amid rising rents and mortgage costs. However, we continue to use these figures as they are the most robust currently available.

The current London Plan, by contrast, lists a baseline requirement of just over 52,000 new homes a year from 2019/20-2028/29 in the capital. This is a figure that has not been achieved in London in living memory. For comparison, 2021/22 saw just over 37,000 completions, meaning that delivering the 74,000 homes a year needed in London will entail a doubling of annual housebuilding.

All available evidence indicates that new supply is vital to controlling the growth of property prices – however, it is equally clear that this only works over the long-term. It is the sustained backlog of housing supply that has created the foundations of the housing crisis. This can only be rectified by a sustained increase in new supply, particularly in the social sector, where the shortfall is most severe.

How we can do better

Working together, central and local government and the Mayor of London could make this happen. The obstacles are formidable, but the benefits would be huge. This report sets out what we think London’s next Mayor, and the UK’s next government, should do to get us there. It builds on our report Homes fit for Londoners: London’s homes today, published in August, which sets out where we are now.

Much has been written about how we should do better with housing, with
many brilliant ideas. This report isn’t about coming up with new ideas, but about bringing together others’ work to create a single blueprint for London.

What’s stopping us now
Londoners aren’t getting the homes they need – and many people in campaign groups, businesses, local government, housing associations, the Greater London Authority (GLA) and central government are trying to make things better. But they struggle because the market for homes in London, both new-build and existing, is highly complex and full of misaligned incentives:

- Local politicians – at all levels – are incentivised to oppose new development if they believe their voters will oppose it. But there’s no mechanism for people who might move to new homes to get their voices heard, and local authorities have little financial motivation to support growth, due to extreme fiscal centralisation.

- Housebuilders and developers will usually only build new homes if they can make a profit on them – so if house prices fall but input prices do not, or if new supply in an area begins to cut prices, they will stop building. Housing associations rely on private development to cross-subsidise affordable housing, so also experience this effect.

- People who own a home, especially if they have a mortgage, are likely to oppose policy changes which might cause the value of their home to drop.

- The public sector may want to spend more money on building homes, but instead has to spend it on housing benefit (much of which is paid to private landlords) and temporary accommodation.
Chapter 2
What happens if we don’t fix this
What if it gets worse?

Londoners are already facing real hardship because their homes are expensive and poor quality. Millions are left in poverty after they have paid their rent or mortgage, and many more once they have paid energy bills, or high commute costs because they can’t afford to live near their place of work. Many live in homes which are cold, damp, unsafe or overcrowded – and this worsens their physical and mental health. Most private renters have very little security and risk having to find a new home with little or no notice. This makes it hard for them to build community where they live, and to get the best from schools and healthcare. Our previous report, on London’s Homes Today, sets out these issues in more detail.

There is a real risk that if we don’t intervene, London’s housing situation could get worse, as the threats we face now worsen and new ones emerge. In this chapter we have summarised what we think are some of the biggest risks.

High costs push lower-income people out of London

Higher rents and mortgages could push more Londoners on low to moderate incomes to move outside the capital, leading to the following:

- London organisations find it even harder to hire, especially for relatively low paid key worker roles. As a result, they are forced to increase their pay offer, which will raise prices in the private sector and require more government spending in the public sector. If they can’t afford staff, some schools and nurseries will close – making these areas unattractive to live in even for people who can afford housing costs.
- Passenger numbers on public transport fall, further endangering TfL’s already fragile operating model and possibly leading to service cuts.
- More Londoners on low incomes move to relatively inexpensive areas of the wider South East, either because they choose to buy or rent elsewhere or are placed there by local authorities. This puts pressure on housing supply in these areas (which is already tightly constrained), and on public services, perhaps causing local tensions with existing communities.
- It becomes harder for economically and socially diverse communities to survive. This undermines London’s cultural offer, and ultimately its desirability as a place to live. Its competitiveness for international companies declines as a result.

Temporary accommodation bankrupts councils

Local authorities have to provide homeless families with temporary accommodation until they can get a social or private rented property that they can afford. In London, the shortage of affordable homes and the inadequacy of benefits means this sometimes takes years. As a result, local authorities spend millions of pounds on temporary accommodation, and the bill is rising as the rented sector retrenches, with landlords exiting the rental market, fewer new Buy to Let landlords joining, and reduced supply resulting in rents rises. There is a real risk that some local authorities will be forced to issue Section 114 notices – effectively declaring bankruptcy – as a result, severely limiting the services they can offer to residents and making their areas less attractive places to live and work.

Pressure on social housing providers means fewer and worse quality homes

Social housing providers (local authorities and housing associations) already face severe financial problems. They need to pay for fire safety improvements, fixing damp and mould, better insulation and other energy-efficiency
requirements to meet net-zero requirements, and the rents they can charge have been capped. Sooner rather than later, it’s likely that some postwar blocks, which provide much of London’s social housing, will reach the end of their safe lives and need to be rebuilt. The financial strain that this causes, together with rising borrowing costs, is making it increasingly hard for them to build new homes. Without new sources of funding, it’s likely that building will slow even further. Residents will have to endure low quality housing, along with higher fuel bills and worse health, for even longer. And as energy efficiency standards for social housing increase, there is a risk that providers will be forced to sell off homes that are too expensive to remediate, reducing the number of social homes at a time of desperate need.

More older Londoners live in homes that don’t meet their needs

In the next decades, the number of Londoners aged over 70 is expected to increase. Many of these people may prefer to live in specialist or supported housing, but there is not much available in London, particularly for the mid-market, and little sign that supply will increase to meet rising need. Staying in existing, un-adapted homes can make it harder for people to live independently. As a result, they may need more health and social care, which is expensive and could worsen an already very tough situation for the National Health Service (NHS) in London. It also makes it harder to free up larger homes for families who may be overcrowded. A landmark review estimated that each bedroom added to the stock of retirement housing would free up two to three bedrooms in mainstream housing.
Chapter 3
How policymakers should respond
3.1 Public funding for homes
As we haven’t been building enough social and affordable housing, millions of Londoners are living in homes which are poor quality or too expensive. This makes their lives worse and risks economic decline.

How London builds affordable homes now
Affordable housebuilding is funded in a number of ways, which have changed over time.

- The GLA is distributing £4 billion from the Affordable Homes Programme to housing associations and councils for building social and affordable homes in the years 2021-2026.
- Councils can build new social homes by borrowing against their Housing Revenue Account, with no borrowing cap since 2018.
- Housing associations fund affordable homes by cross-subsidising from building homes for private rent and sale and shared ownership, thus accessing private finance.
- Private investors partially fund for-profit Registered Providers, contributing to affordable housing through equity and debt investments.
- Public money’s role has declined, now covering less than 30% of housing associations’ gross investment expenditure, when before the 1998 Housing Act public money almost always funded the entire cost of new affordable homes.
- Developers pay Section 106 contributions, which directly or indirectly (via cash-in-lieu) fund the construction of new affordable homes. In 2021-22, 44 per cent of all new affordable homes in England were partly or entirely funded by Section 106 contributions.

Social housing providers’ capacity to build
Current levels of investment are insufficient to produce enough affordable homes to meet London’s needs. In 2021-22, London built 3,440 new affordable homes, below its five-year average of 4,338 homes a year, and significantly below its ten-year average of 6,197 homes a year, though this was likely affected by the aftereffects of the pandemic. As stated above, estimates for just the number of new social homes – a subcategory of all affordable homes – required each year in London exceeds the 30,000 mark.

Without new government funding, it is unlikely that the situation can be significantly improved. The British Property Federation and Legal and General estimated that across England in 2019, the sector received £5.1 billion in subsidy from section 106, capital grants, and internal investment. This model indicates that building 145,000 affordable homes, at the tenure mix specified in by Glen Bramley in his 2018 estimates, could require a total yearly subsidy of £19.3 billion across England – £14.2 billion higher than the sector currently receives.

Even maintaining current (insufficient) levels of output of affordable homes will be a challenge – analysis by Octopus Real Estate found that nearly half of the housing associations they surveyed were ‘not confident’ of maintaining development at 2021/22 levels. Partially, this is an economic result of rising costs for construction and debt. It also comes out of the new legislative reputational pressures to focus on improving the quality of their existing homes and services because of problems with damp, mould and fire safety.

Social rent levels also affect the delivery of affordable homes. Whereas affordable rents are required to be below 80 per cent of local market rents, social rents are set using a nationally determined formula. In recent years, levels have been reduced and, recently, any increases have been capped by

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i. Network Homes, a large housing association, found that they received, on average, a third of the grant per affordable home in 2015-21 than they did in 2008-11 – less than 12 per cent of the total cost of each home.
central government. This year, providers were given a ceiling by government, by which they can increase their rents by 7 per cent, significantly below inflation. Compared to uprating based on consumer price inflation (+1%) as usual, councils are set to lose over £100 million in revenue over the year. The G15, which includes London’s largest housing associations, predicted that it would lose out on £800 million of re-investable income due to the cap.

Longer rent settlements, with review clauses if inflation exceeds a set figure, could reduce risk levels, and improve councils’ and housing associations’ ability to plan and invest over the long-term. This could also be supported by the reintroduction of rent convergence: a 2000s-era policy that ensured that homes which were being rented out at levels below the ‘target rents’ set by the social rent formula could be slowly increased to meet those levels. 29 per cent of social homes owned by members of the G15 are under target rent, costing nearly £70 million a year in lost income. Reintroducing rent convergence would mean that residents of identical social homes would pay the same rent and, if combined with reforms to the housing benefit system (see Chapter 3.2), this move could sustainably rebuild social providers’ finances.

After the 2025 rent standard ends, national government should consult on creating 10-year social rent settlements, with review clauses for excess inflation.

Central government should reintroduce rent convergence if Local Housing Allowance rates are relinked to the 30th percentile of local market rents.

The costs faced by social providers to build new homes are often prohibitive. When councils and other public bodies want to build large new schemes, they often have to compulsorily buy land from existing owners. This is to enable the land assembly process – a single public landowner across a large site is often key to successful regeneration projects, like those at King’s Cross or the Olympic Park. Land costs in London are uniquely high. However, when compulsorily buying land not currently used for housing, councils and others often also have to pay a premium called ‘hope value’ on land prices, which includes some of the value increases the landowner could expect if they had planning permission. This inflates the cost of land for would-be housing providers, holding up the land assembly process and reducing supply.

The Government’s Levelling Up and Regeneration Act plans to remove the need to pay hope value where it is justified in the public interest, decided by the Secretary of State for Levelling Up, Housing and Communities on a case-by-case basis. The Labour Party has called for hope value to be scrapped in its entirety, so that local authorities can proactively assemble land for important schemes and plan into the future, without the uncertainty of Secretary of State permission.

National government should amend the 1961 Land Compensation Act to allow public bodies to buy land at closer to existing use value.
The loss of affordable homes

London’s problem is not just insufficient completions, however. Demolitions, and the Right to Buy scheme have significantly eroded the stock of social homes in London. Although nearly 30,000 homes were completed for social rent from 2011-12 to 2021-22, more than 45,000 were demolished or sold to existing tenants. Many of those demolished will have been beyond their intended life and may have had safety issues, but the vast majority have not been replaced on a one-to-one basis with similar homes.

London has seen a net loss of social housing over the last 30 years

Figure 1: London, net social rent completions, minus demolitions and Right to Buy sales, 1991/92 - 2021/22

One 2017 estimate from Inside Housing using Freedom of Information requests found that in over 40 per cent of cases, homes bought under the Right to Buy scheme have later been rented out in the private rented sector. Where those properties have been rented by those receiving housing benefit at market rents, this represents an inefficient transfer of public money to private landlords. One forecast found that between 2021/22 and 2025/26, housing benefit would cost five times more than the entire Affordable Homes Programme, without creating any new public sector assets.

Because every new social home built can be sold at a discount without councils needing to give permission, the Right to Buy scheme disincentivises councils from investing into building social homes. In London, the discounts provided to tenants can reach nearly £130,000 per property, up to 70 per cent of its total value.
In the 2000s, these discounts were cut sharply. The average discount fell from 53 per cent in 1998/99 to just 12 per cent in 2008/09. Partially as a result, sales fell dramatically – though this will also have been impacted by the Great Recession. However, this method would not fully halt the loss of stock and would mean that in future, if interest rates were to fall or social rent became a larger tenure that included more affluent residents than it does currently, sales could rise again.

A government with a long-term aspiration to grow social housing as a major tenure should preclude this by ending the Right to Buy scheme, allowing councils to invest into new social stock for the long-term.

National government should end the Right to Buy scheme.
Quality of social homes

The quality of social stock, particularly on postwar estates, also presents a serious challenge, particularly in the wake of the Grenfell Fire and the recent death of a toddler, Awaab Ishak, who died from living in a housing association home plagued by damp and mould. These tragedies have focused policy attention on the issue, one consequence of which is the Social Housing (Regulation) Act, which will make regulation of social providers more stringent and proactive. While compiling this report, we heard that many providers will require extra funding in order to meet the standards required by this regulatory framework.

Although social rented accommodation has the highest energy efficiency rating of any tenure in London, due to a greater proportion of flats, 43 per cent of London’s social housing doesn’t meet the Decent Homes Standard (DHS) and have an EPC rating of C. The Regulator of Social Housing estimated that in 2023/24, capitalised repairs and maintenance spending would rise to nearly £3.5 billion, from £2.7 billion in 2022/23. This has negatively impacted the development of new affordable housing. Leaving homes unrenovated can seriously harm residents’ health. One reason to focus policy efforts on improving social homes, even though the private rented sector has worse overall energy efficiency, is that failure to tackle the issue in the social sector will delay the construction of new homes. This is because social providers are generally both landlords and housebuilders – devoting funding to retrofits means less money for new construction. Social providers are also more likely to be able to conduct mass retrofits, on a large scale, stimulating the market for suppliers and creating a guaranteed client base for future installers and renovators.

Addressing the quality of social housing demands the creation of a Net Zero Fund, to pay for the upgrading of all social homes to an EPC rating of C and for all social homes to meet the DHS. This would cut bills for tenants, reduce strain on the benefits system, and reduce carbon emissions. Emissions from homes make up around 14 per cent of the national total, and hitting our legally binding targets requires us to cut these emissions 6 times faster than we have over the last 30 years.

Taking action to improve the energy efficiency of social homes would have positive economic consequences, in addition to their initial cost. The Social Market Foundation and WPI Economics calculated that bringing all social homes in London from EPC D up to C would create £935 million in additional economic output. Furthermore, ensuring all social homes meet the Decent Homes Standard would create some £207 million in output through increased construction activity and demand for materials.

Given a total cost of around £2.3 billion to bring all social homes below the DHS up to standard and £11 billion over 3 years to bring all EPC D homes to C level, the national Net Zero Fund would stand at £4.45 billion a year to achieve both goals. In London, an estimated £478 million is required to take all non-decent social homes to decency, and just over £1.3 billion to improve their energy efficiency. It is possible that some of these costs are overlapping, so investment in one may benefit both. This would replace the Social Housing Decarbonisation Fund, which is worth a total of £3.8 billion over 10 years.

Further, Government could provide partial grants to bring in private long-term investors. Part of the savings in energy costs brought about by improving the efficiency of homes could be redirected back to the investor, repaying the debt.

National government should create a £4.45 billion Net Zero Fund to fund retrofits and renovations of social housing, £766 million of which should be spent in London. If private investment can be crowded in, this figure could be significantly reduced.
Building enough affordable housing

The housing need projections described in Chapter 1 call for affordable completions to rise to 45,300 a year in London, of which 33,000 would be for social rent.

Meeting London’s need for affordable housing would bring many benefits. On a social level, it would reduce homelessness and provide security to many currently living in insecure housing. It would improve low-income residents’ quality of life and in some cases their health. Reducing the need for temporary accommodation would benefit both residents and councils’ budgets, freeing up spending for other social services. It would also have large economic benefits. Studies suggest that building socially rented homes generates significant economic output as well as providing substantial net revenue for the government by reducing spending on homelessness, housing benefit, and the NHS, and that the benefits stack up against the costs better than for any other kind of home built under the Affordable Homes Programme. There’s also evidence that building more affordable housing would improve the delivery rate of all kinds of housing in London by reducing the homogeneity of the types and tenures of homes delivered in large developments.

This doesn’t mean that there’s no role for other sub-market tenures – Bramley, 2018, acknowledged the need for these kinds of homes. Delivering homes at Affordable rents and in intermediate tenures, like shared ownership, can also increase the ‘absorption rate’ of new homes, enabling faster build-out rates. In particular, if shared ownership were reformed to have lower and more stable service charges, it could play a significant role in reducing reliance on the private rented sector. But it is undeniable that the greatest need in London is for socially rented housing (or similar-cost tenures, like London Affordable Rent).

Currently, housing associations’ building programmes are tied to the wider housing market – their reliance on cross-subsidy and private finance means they have to slow development when market conditions worsen. A greater proportion of public grant in the funding for affordable housing could also enable housing associations to build ‘counter-cyclically’ once again, as they did after the Great Recession. This means that housing associations’ building programmes could stimulate the housing market and wider economy when it is in a slump, by using public funding.

Savills, commissioned by the GLA, calculated in 2022 that achieving the current London Plan’s target for 26,000 new affordable homes a year would require £3.3 billion per year more than is provided the current Affordable Homes Programme (AHP), adding up to a total of £3.8 billion. These costs are likely higher today, following substantial inflation, particularly in construction.

However, to meet the housing need demonstrated in Bramley, 2018, the Joseph Rowntree Foundation calculated in late 2021 that government would need to increase the Affordable Homes Programme from £12.2 billion over 5 years by £11 billion a year, assuming that 20% of the total number of social homes are delivered through Section 106 contributions (mirroring 2019 delivery numbers). Given significant inflation since the report, at the time of writing, this would entail an increase of £12.7 billion a year, requiring an estimated total sum of between £15.1 billion a year.

This would represent a large increase in funding. However, this is, according to best estimates, a realistic assessment of the scale of the problem. If Government is going to tackle London’s housing crisis in a sustainable, long-term fashion, this is how much it will cost.

National government should increase the Affordable Homes Programme to £15.1 billion, to fund the building of 90,000 social homes a year in England. More than 30,000 of those should be built in London.
High costs are exacerbated by short-term, inflexible funding packages that restrict how councils and housing associations can spend their grants. The AHP is delivered on 5-year terms, administered by the GLA through its Homes for Londoners programme. These short timeframes harm providers’ ability to plan their investment for the long-term and therefore reduce the efficiency of the AHP. Analysis from University College London (UCL) found that the system’s unpredictability makes housing associations’ purchasing behaviour more cautious, limiting the amount of pre-planning permission land they can purchase, the kinds of sites they can take on, and the number of homes they can deliver. Completions were also found to bunch around the end of each AHP term, causing costs for development to rise due to concentrated demand and inflexible supply.

National government should extend the term of each Affordable Homes Programme to 10 years.

Recent analysis has found that Britain’s public investment is both weak and unusually volatile, compared to other OECD countries. This is due to fiscal rules that encourage raiding capital budgets to avoid cuts to service delivery, and excessive Treasury control of investment spending.

To treat housing like the essential infrastructure it is, policy needs to maintain appropriate levels of investment over the long term and provide certainty to social and affordable providers. To do so, there could be a role for an Affordable Housing Commission. This would be an expert body that uses local housing need projections that account for the need to improve affordability and reduce homelessness to set the required levels of grant for affordable housebuilding.

National government should explore creating an Affordable Housing Commission (AHC), that sets levels of grant for affordable housing based on expert projections. This could be modelled on the NHS pay review body, which recommends the level of NHS worker pay to government, in order to maintain staff recruitment, regional variation, and other factors. As in the case of the NHS, this could introduce a degree of evidence into the decision-making process around affordable housing grant.

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ii. The Affordable Housing Commission could build on the model of the widely acclaimed National Housing and Planning Advice Unit, an independent public body that advised government on addressing affordability through housebuilding from 2007 to 2010.
3.2 Supporting people to afford homes

Housing costs are very high in London. In our first report, we showed that private and social rents are substantially higher in London than any other part of England.\textsuperscript{31} We also found that this was true with respect to income, with the average London household spending 40 per cent of their income to afford the average private rent. This means that many people in London need support to be able to afford their homes. The state subsidises the cost of rental housing in two ways: the benefits system (discussed in this section) and through the provision of affordable housing (discussed in Chapter 3.1: Public funding for homes).

Affordability is not just an issue in the rental sector—house prices in London are also much less affordable compared to any other region. Government interventions to support house purchases are typically aimed at supporting first time buyers, but regulations around mortgage finance can affect affordability for all homeowners.

Support for renters

The government provides direct financial support for renters on Universal Credit in the private rental sector in the form of the Local Housing Allowance (LHA, also known as ‘housing benefit’). The amount of LHA that a household receives depends on individual factors such as the number of people living in the home and the number of bedrooms that they need. The amount of support is also connected to local rent prices—having been periodically linked to the 30th percentile of rents in broad market areas. This was last done in 2020, but the government recently announced that they would be re-linking the LHA to 30th percentile rents from April 2024. This means that recipients will in theory be able to afford the cheapest 30 per cent of homes using just their LHA payments, although many recipients find themselves living in more expensive homes—making up the difference from their remaining income.

The announced increase follows a four-year freeze, during which time rental prices in London skyrocketed. Analysis from LSE and Savills found that in 2022/23 just 2.3 per cent of properties listed for rent in London were affordable on the LHA.\textsuperscript{64} The shortfall between LHA and rental prices was unsustainable. With many Londoners being pushed into homelessness by their inability to pay rent as a result of the LHA-rent gap—a causal relationship proven in 2020 by Policy in Practice.\textsuperscript{65} Coupled with increasing costs of living, many renters found themselves desperate situations as a result of the LHA freeze.

Whilst the announced increase is a step in the right direction, it is essential that the LHA is not frozen again. For housing benefits to provide stability for the people that rely on it, and to ease pressures on local councils who are spending billions on temporary accommodation, it needs to continue to reflect actual rent prices.

National government should commit to annually indexing the Local Housing Allowance rates for Housing Benefit to rent levels.

Increasing the LHA is only one part of the solution as many households in London receiving housing benefit are subject to the benefit cap. The benefit cap is a limit on the total benefits that a household can receive. It was introduced in 2013 and reduced in 2015 to £23,000 per year in London. The benefit cap has also been frozen and hasn’t increased in line with inflation.

In 2022, over 40,000 households in London were affected by the benefit cap—which is more than double the number in 2019.\textsuperscript{66} The vast majority (85 per cent) of those affected by the benefit cap families with children.\textsuperscript{67} Analysis
from the Child Poverty Action Group estimated in March 2022 that 28,000 families with children in London were seeing the real value of their benefits fall by £1,840 per month.68

The benefit cap should be increased to reflect the increases in the costs of living since 2015 or, preferably, removed entirely. Otherwise, increasing the LHA will push more households to the cap threshold and those already affected by the cap will not benefit from the increase.

**UK Government should raise or remove the benefit cap.**

Support for people to buy homes

Home ownership has benefits, including providing people with secure and stable tenure, giving them more control over the maintenance and decoration of their home, as well as allowing people to grow their wealth – though it can be difficult to extract that wealth so long as it is needed to be invested in owning a home. There are many people in London who rent who would like to own a home.

Higher house prices in London mean that London has lower rates of home ownership than in the rest of the country (47 per cent in London vs 62 per cent across England).69

In order to get a mortgage, households need both a lump sum of cash to put down as a deposit and a high enough salary to afford monthly mortgage payments. The deposit for an average first house in London is £144,500 – but even a 15 per cent deposit on the average first home would be £63,750. This is 85 per cent higher than the deposit for an average first house across the UK of £34,500.70 Analysis from the Bank of England in 2021 found that for 75 per cent of renters, their deposit and not their income is the limiting factor on how much they can borrow on a mortgage.71

The government supports people to buy homes in the following ways:

- **Right to buy** – allows tenants of socially rented homes to buy their home at a discounted price. Discussed fully in Chapter 3.1.
- **Stamp duty relief for first time buyers** – gives first time buyers a break on stamp duty up to a threshold, beyond which stamp duty starts to apply. The threshold for first time buyers is £425,000 on properties up to £625,000 in value.
- **Lifetime ISA** – enables people to save up to £4,000 each year and receive a 25 per cent bonus from the state. This can then be used either towards a first home, or towards retirement.
- **Mortgage guarantee scheme** – aims to encourage lenders to offer mortgages to buyers with a small deposit (as low as 5 per cent).
- **Shared ownership** – allows buyers to purchase a share (typically 25 per cent to 75 per cent) of a property and pay rent on the remaining share, then gradually increase their share over time.
- **Help to Buy** – scheme is an equity loan is a government backed scheme to get an equity loan of up to 40 per cent of the value of a newly built home. The scheme ran from 2021-23 and has not been renewed. House builders were reported to like it because it helped to support demand for new homes. However, there is evidence that the scheme significantly increased house prices in London and had no detectable effect on new housing supply.72
• **First Homes scheme** – enables first time buyers to purchase a new build home for 30-50 per cent of its market value. The home can’t cost more than £420,000 in London after the discount and can only be sold with the same proportion of discount to someone also eligible for the scheme. A quarter of all affordable homes provided through S106 now have to be First Homes, but the Chartered Institute of Housing have raised concerns that the scheme will inflate prices in a similar way to the Help to Buy scheme.23

House prices in London are significantly higher than elsewhere in the UK. Previous policies have reflected this – for instance, Help to Buy provided a loan equivalent to 40 per cent of the value of a newly built home in London compared to 20 per cent elsewhere. At present, the LISA is capped at first time homes to the value of £450,000. In London, the average property price already stood above the maximum value eligible for the LISA when it launched in 2017 (£480,000), and have since risen to £542,000 in November 2022.

The UK Government should increase the Lifetime ISA limit on a first time home in London to reflect house prices.
3.3 Local decision making

The delivery of new homes is closely connected to decisions made at a local level: from big picture decisions about where to build in the Local Plan, down to case-by-case decisions to approve a given housing scheme.

How the planning system works now

The policies that influence planning decisions come from many different parts of local, regional and central government.

- National government is responsible for the National Planning Policy Framework (NPPF) which sets out economic, environmental and social planning policies for England and provides a framework for the development of local and neighbourhood plans.

- The Mayor of London develops the London Plan which sets out strategic policy across London and sets housing targets for each borough.

- Each local authority has to produce a Local Plan that provides a framework for addressing housing needs, setting out what types of development will be permitted in which locations.

- Local communities can also choose to produce Neighbourhood Plans which lays out their vision for their neighbourhood and can enable new housing by designating additional sites.

Alongside each of these plans, there are a range of other documents that influence planning decisions, such as the 16 London Plan Guidance documents (LPGs) produced by the GLA and supplementary planning documents (SPDs) that local authorities can produce.

Planning decisions are typically made by the local authority. For small schemes, decisions are made by local authority officers, but for larger or more contentious schemes decisions are made by a committee of local councillors. In London, the Mayor can also ‘call in’ applications of strategic importance, for example if they include more than 150 homes, are over 30 metres in height (outside of the City of London) or are on Green Belt or Metropolitan Open Land. The Secretary of State can do the same if an application conflicts with national policy or is nationally significant.

When developing Local Plans, local authorities undertake consultations, inviting feedback from the public, businesses, and other key stakeholders on the proposed strategies for housing and other land uses. This is to ensure that the plan reflects local needs and aspirations. At the application stage of specific developments, local planning authorities then consult with both statutory consultees (like the Environment Agency or Highways England) and invite comments from the local community. This is supposed to ensure that potential issues are identified early and that the views of those potentially affected by a development are considered before a planning decision is made.

It is often argued that too much emphasis in the current system is put on consultation with the public at the point of assessing an application – which lends itself to oppositional comments. But greater consultation in the plan-making stage could combat this.

Uncertainty in the planning system

The planning system is often blamed for the shortage of housing supply. At the core of many of these criticisms is the idea that the current system builds in too much uncertainty – both in terms of whether permission for a scheme will be granted, and how long the process will take. House builders don’t like uncertainty – they want to know that the money they put into developing a scheme will translate into profit at the end. So to cope with uncertainty, house builders are more risk averse and factor in high planning costs – this is most prominent in the early stages of the development process.
the planning system has also been linked to ‘landbanking’ behaviours – where developers hold onto land with planning permission, without building on it.74

But what is driving uncertainty in the planning system? To a certain extent, uncertainty is a fundamental part of England’s discretionary system. Because decisions are made on a case-by-case basis, there is no absolute guarantee of approval when compared to rules-based zoning systems seen elsewhere. Moreover, the inherent political nature of planning decisions often amplifies uncertainty within the planning system. Elected officials commonly oversee major planning decisions, and they can be swayed by electoral considerations, local opposition, or changing governmental priorities.

The problems associated with planning uncertainty are widely recognised, and so over the years instruments and policies have been introduced to try to reduce this. Mechanisms such as outline planning permission for large schemes, pre-application consultations and local development orders when used appropriately can be effective at reducing planning risk for developers.75

The government have also created pathways for the development of new housing outside of the usual planning system – in 2013 permitted development rights were extended to cover the conversion of offices to housing. While this was estimated to have created around 64,000 homes between 2015 and 2020,76 research has found that these homes are typically of much lower quality than those delivered through the usual system.77 As a result, minimum light and space standards were introduced for homes created through permitted development rights in 2020.

Some people would like to see reform go further to eliminate uncertainty by changing the current discretionary system to a zonal-based system. Zonal planning systems, which exist in countries such as the US and Japan, frontload decision making into the formation of the zonal plan and then automatically grant permission to planning proposals that comply with that plan, for that area. Centre for Cities have advocated that a rules-based flexible zoning system would improve both the supply and affordability of homes.78 In the 2020 Planning for the Future White Paper, the government consulted on this idea, proposing automatic permission granted for schemes in line with plans.79

Many changes to the planning system have since been announced in the Levelling Up and Regeneration Bill (LURB) which was introduced to Parliament in May 2022. Proposed changes include amendments to the NPPF aimed at tackling problems of slow build out, clearer expectations about what a local plan should contain (including design codes) and the introduction of National Development Management Policies (NDMPs). Yet the LURB doesn’t include any proposals for zonal planning reforms.80

Uncertainty in planning is also being driven by ongoing changes to the system itself. In interviews, we heard from housing associations that changing policy landscapes make it harder for them to plan more housing. And for under-resourced local authorities, keeping up with continuous changes is also challenging – analysis from the consultancy Lichfields has found that the ongoing consultations for the LURB have been responsible for delaying plan making in more than 30 local authorities across the country.81

It is essential that future changes to planning policy are communicated and delivered in a way that minimises uncertainty for house builders and local authorities.

Resourcing for planning

Local authority planning departments have seen significant cuts to their funding over the past decade, restricting their ability to carry out meaningful consultation in plan-making and to keep up with changes to policy. One estimate suggests that the planning system’s funding from central government has been cut by 60 per cent per capita compared to 2010 – the most severely cut local government service.82 At the same time, local authorities are limited from raising revenue through planning application fees by statute. This fall in funding has ramifications for the ability of local authorities to recruit and

“there is just a continual conveyor belt of planning reform, which also makes it difficult for local authorities [and] all stakeholders to just keep track of and operationalize the system as effectively as they could”
retain skilled and motivated staff, and keep abreast of changes in planning policy whilst carrying out statutory duties.

If we are to deliver significantly more homes each year, reaching the 340,000 yearly target laid out in Bramley, 2018, planning departments will not only need to return to functionality but grow significantly in capacity.

National government should adequately resource local authority planning departments, both through expanding grants and tying planning fees to inflation, so they can clear the backlog of planning cases and facilitate sustainable growth.
3.4 Where to build new homes

Just as important as how we decide to build homes is where we decide to build them. On a local level, this is a matter for the Local Plan. On a London level, the Mayor has strategic planning authority through their London Plan.

But people cross London’s administrative boundaries every day to commute, visit family, and for leisure. And many argue that London simply does not have enough developable land to accommodate all of its housing needs within its borders, without significantly changing the density of its built environment (on which more below). This means that London’s housing need has, whether intended or not, seeped out into neighbouring areas – the question is how this is planned for and accommodated.

A body for strategic planning

Since 2011, local authorities have been under the Duty to Cooperate. This required local planning authorities and other public bodies to engage with one another when setting housing targets through their Local Plans. This particularly applies to planning issues that cross administrative boundaries, like those regarding strategic infrastructure, but also relates to housing targets. However, it is widely considered to have failed. Despite creating a duty to cooperate, it consciously did not create a duty to agree, and it is considered to have caused conflicts between local authorities, competing to offload their housing targets to one another. When previous Mayors of London have suggested that London’s housing need might be accommodated in surrounding counties, conflicts have been even more severe.

The Levelling up and Regeneration Bill, when passed, will abolish the Duty to Cooperate, without introducing any substantial replacement to coordinate strategic housing need. Therefore, there is a strong case for the reintroduction of strategic planning at the level of the wider South East. Centre for London and the Southern Policy Centre explored this issue in depth in 2018, and concluded that there was a need for a shared vision between London and its neighbouring regions and more formalised institutions to reflect this. The London and Wider South East Strategic Planning Network, a group of strategic planning experts, proposed a Joint Planning Advisory Unit for the region, which would advise on the distribution of growth and housing requirements across the area. Catriona Riddell, an expert in spatial planning, made a similar recommendation for Strategic Planning Advisory Boards in 2021.

The GLA and Wider South East local authorities should conduct a review to propose a new body for strategic planning across the region.

However, given London’s immediate need for greater housing, strategic regional planning should be considered a medium-to-long-term part of the solution to the crisis. To expand supply as quickly as possible, we argue that London should think strategically about the Metropolitan Green Belt, both within and surrounding the city, to accommodate its growth.

A brief history of the Metropolitan Green Belt

The concept of a ‘Green Belt’ became central to British planning after the Second World War. It was intended to counter urban sprawl, stop cities and towns merging into each other, and encourage the recycling of urban land. It was inextricably tied to the policy of exporting the housing demand of major cities, like London, to New Towns in surrounding counties, through the New Towns Act 1946.
New Towns exported housing demand outside of London and other cities

Figure 3: Map produced for the Commission for New Towns

London’s Green Belt has expanded significantly since the 1940s, when it was first designated.

Figure 4: The growth of the Metropolitan Green Belt over time.

- Abercrombie’s green belt boundary
- GLA boundary
- MGB

However, even after the last New Town was designated in 1970, England’s Green Belts remained in place. In fact, after its initial piecemeal creation in the 1940s and early 1950s, the belt expanded significantly. This has restricted London’s land supply for housing while restricting its ability to export its housing demand. It is now around 3 times the size of the city itself.

Densification

It is commonly argued that new developments should be concentrated, where possible, within existing cities. This can take place by densifying already existing buildings or by building on ‘brownfield’ land. In an era of climate crisis, densification reduces emissions from buildings, as flats are more efficient than houses in their energy use, and from transport, as densely populated areas support extensive public transport networks and people may be able to walk or cycle to the places they need to go.\(^\text{21}\)

Households in more densely populated areas are less likely to own a car or van

Figure 5: Proportion of households that do not own a car or van by population density (people per km\(^2\)), for all Lower Layer Super Output Areas in London\(^\text{22}\)


Economically, too, densification can benefit cities. Greater population density is thought to increase wages, innovation, and productivity\(^\text{23}\) partially through enabling ‘agglomeration’ effects that come from deep, specialised labour markets and ‘knowledge spillovers’ between high-skill workers. In recent history, development on brownfield land has been prioritised to encourage densification. But these attempts throughout the 2000s are thought to have reduced housebuilding, as some local authorities held back greenfield sites in favour of brownfield schemes, some of which were not deliverable in reality.\(^\text{24}\)

This was echoed by a review of densification by the GLA in the 2017 draft London
Plan which found that increases in density were not leading to increases in overall housing delivery. A renewed attempt to put even greater pressure on brownfield delivery, as the Secretary of State promised in his ‘Long-term plan for housing’, is likely to reduce the amount of development brought forward.

The Mayor of London should re-introduce minimum densities to the London Plan for strategic locations.

The problem is that there is simply not enough brownfield land available to meet housing needs in England, or in London. Lichfields, the planning consultancy, assessed councils’ brownfield registers of land and found that only 29 per cent of London’s 15-year housing need could be met using brownfield land. What’s more, much of the land on such registers already has planning permission or is financially or physically unviable to build on – much of it requires remediation from industrial waste.

Suburban densification, by which low-rise houses in Outer London are replaced with higher density flats, is another viable option. There have been a variety of models suggested to achieve this kind of densification – the most well-known being Policy Exchange’s ‘street votes’ proposal, which would allow residents of a street that unanimously votes for densification to gain planning permission for upward extensions within a strict design code. Partially integrated into the Levelling Up and Regeneration Bill, the idea could enable a small number of extra homes to be built, alongside larger individual properties, but it is unlikely to produce large uplifts, given the high levels of agreement it requires from neighbours.

What’s more, an analysis from Quod calculated that meeting London’s housing targets by replacing single homes with three homes would require 13,000 demolitions a year, the equivalent of rebuilding every semi-detached home sold in outer London each year. This is unlikely to be delivered by hyper-local consensus. This doesn’t mean that street votes or suburban densification aren’t worth pursuing – it just means that policymakers will have to keep all options open to meet the city’s housing targets. Brownfield regeneration and densification in the inner city will both be vital to ending London’s housing crisis, but they are not sufficient on their own.

Lichfields assessed London boroughs’ forecasts of housing supply against the current London Plan target of 52,000 new homes a year (significantly below the number of homes required to improve affordability in London, described in Chapter 1). The boroughs’ own predicted land supply met this target – however, the three years since the report was written have seen delivery fall, rather than grow sharply as required. When the consultancy applied assumptions based on previous delivery to counteract ‘optimism bias’ of local authority land supply figures, it found that additional land would be required for 86,000 homes over the 10-year period of the London Plan. Given that even more homes than this need to be built to improve affordability, it is clear that there is not enough land available in London to meet its housing needs.

Urban extensions

Despite its name, the Green Belt contains many areas of low ecological quality, the loss of which would not necessarily harm our climate goals or people’s access to high-quality natural spaces. Over 10 per cent of London’s Green Belt is already used for residential and commercial uses, but the vast majority of this land is used for agriculture, while there is a significant amount of previously developed and ex-industrial land in the belt. 24 per cent of London’s Green Belt is designated as Areas of Outstanding Natural Beauty and 4 per cent as Sites of Special Scientific Interest – designations designed to preserve high quality natural land.
There is a good case for a compromise, in which strategically designated sections of poor-quality Green Belt land (which has recently been labelled ‘grey belt’ in public commentary) are assigned for development, in return for investment into environmental improvements in nearby areas. New developments could then be surrounded by high-quality green space and wildlife habitats, securing both an improvement in housing and ecological outcomes. Some London boroughs have already begun to plan for homes on Green Belt land to meet expanded housing targets – Enfield Council’s latest Local Plan version proposes releasing some 13% of the borough’s Green Belt land for new housing – but there is no coordinated, pan-London strategic approach to Green Belt release.

It would be essential for any new developments in the Green Belt to be designed around existing or new public transport links, to avoid baking in car dependency to new settlements. There have been several estimates of the number of homes that could be built around rail stations in London’s Green Belt. A Centre for Cities analysis from 2019 estimated that nearly 25,000 hectares of Green Belt land could be released for housing within walking distance of stations under 45 minutes away from central London. This land could accommodate 891,600 new homes, without building on any land recorded as being of public benefit and while reserving 10 per cent of the allocated land for new green space. 

Funding for new settlements could be given on the proviso that developments are net carbon negative, once nature recovery investment and transport patterns are factored in.

The 2014 winning Wolfson Prize proposal from David Rudlin and the consultancy URBED offers a potential model for these urban extensions. Based on the premise that new settlements are more likely to be successful if they are built as extensions to an existing settlement, the renowned ‘Uxcester Garden City’ model calls for a ‘snowflake’ of new developments branching off into the Green Belt of an existing city. Rather than developing Green Belt land in a piece-meal way, the model proposes a taking a strategic, considered portion of protected land for the new settlement. Building on the Uxcester model, along with the European case studies that inspired it, like Vauban, an eco-friendly urban extension near Freiburg in Germany, offers a path forward for London.

Development corporations

Development Corporations (DCs) are public bodies with enhanced planning and land purchasing powers. They were first designed in 1946 to build England’s New Towns but have since been used successfully in many contexts. Most famously, the London Docklands Development Corporation was created to develop what would become Canary Wharf. Currently, there are two DCs operating in London set up by the Mayor – the London Legacy Development Corporation on the Olympic Park site and the Old Oak and Park Royal Development Corporation, in West London.
How urban extension development corporations would work

The delivery bodies for these new developments would be Development Corporations (DCs), with the legal powers to purchase land and masterplan sites. In this case, given the need for a diversity of housing types on large developments and the current distribution of development skills, the Development Corporations would have the ability to form joint ventures with institutional investors, developers and housing associations.

These DCs would have long-term, ringfenced funding settlements with the Treasury to allow them to hire experienced staff, skilled in land assembly and master development. Officers told us that local authorities’ previous building programmes have suffered from skills shortages, which made ramping up delivery difficult. A recent Joseph Rowntree Paper calling for a public sector master developer, operated out of Homes England, proposed that such a body would be able to recruit outside Civil Service frameworks, so that it can hire private sector talent competitively. This would be key for London’s urban extensions, given the complexity of land assembly, masterplanning, and compulsory purchasing.

They would have access to low-cost loans from the Public Works Loan Board and be able to borrow based on future land value capture revenues to fund development. Crucially, they would have to be able to compulsorily purchase land at close to existing use values. This would leave financial space for providing infrastructure up-front and enabling 50 per cent of homes to be affordable, similarly to what the Mayor’s London Plan demands from developments on public land.

The DCs could then masterplan across their chosen sites, deliver infrastructure, and either deliver development themselves or form joint ventures with housing associations, private developers and investors. This would enable them to deliver mixed-tenures developments, centred around public transport and high-quality green space.

The Mayor of London should set up an expert commission to decide on 10 sites in London’s Green Belt near rail stations for new development corporations. This should include representatives of any future strategic planning bodies for the Wider South East.

Homes England and the GLA should conduct exploratory work on suggested sites to establish viability.

Homes England and the Mayor should create Development Corporations (DCs) on chosen sites, with HM Treasury providing long-term funding settlements of 10 years. As a condition of financing, DCs would have to show that they have remediated and invested into an equal area of Green Belt land to create high quality, accessible green space in walking distance of extensions.
3.5 Taxation and value capture

There are serious problems with how we currently tax land and properties, which are adding to the dysfunction of London’s housing market. London has the highest land values of any part of England, values which are particularly elevated in inner London.\textsuperscript{109} And the 10 per cent of local authorities with the highest land prices are home to 73 per cent of households living in temporary accommodation.\textsuperscript{110}

Taxes and charges on land and property in London

- **Council tax**: a tax on domestic property, paid by households. Its size is set by a home’s value as of 1 April 1991, which is placed into a band between A and H in England.

- **Stamp duty land tax**: a tax on land and property purchases above £250,000 for residential property (or £425,000 for first-time buyers buying below £625,000).

- **S106**: a planning requirement for developers to mitigate the impacts of developments, such as by building a percentage of their scheme as affordable housing, funding investments into the local public realm, or paying cash-in-lieu to the planning authority.

- **CIL and MCIL**: a levy voluntarily charged by councils on developments above 100m\textsuperscript{2} of net additional floorspace to fund new infrastructure. All but two councils in London use it. MCIL is a Mayoral CIL created to fund the Elizabeth Line.

Council tax and SDLT

In 2019/20, 52 per cent of local authorities in England’s funding came from council tax.\textsuperscript{111} Households, whether owner-occupiers or tenants, are charged an annual fee set depending on which value band their property sits within. Payments do not rise proportionally with the value of a property, so the tax is, by design, regressive, even after council tax support payments are factored in.

The bands are based on the estimated value of properties in 1991, and do not account for the house price inflation of the intervening three decades. As a result, the distribution of tax burdens have become more arbitrary and regressive with regard to house prices and incomes. Places with lower property prices pay more, on average, as a share of property prices in council tax. Much of this inequality is national – in 2021, London and the South East contained 45 per cent of England’s housing stock by value but paid 33 per cent of its council tax.\textsuperscript{112} But it is also unfair within London. A 2019 IPPR analysis found that a household in the tax band for the lowest value properties in the capital would pay more than 0.5 per cent of its value on average, while a household in the highest band would pay around 0.1 per cent.\textsuperscript{113}

Stamp Duty Land Tax is a progressive tax on property values, charged when a property worth more than £250,000 is bought (unless the purchaser is a first-time buyer). Despite its progressive nature, it is a flawed tax which discourages residential mobility and adds barriers to moving for both first time buyers and downsizers.\textsuperscript{114}

Both taxes encourage an unequal distribution of housing space across different ages and demographics. Nearly 50 per cent of households in London are classified as under-occupying their home, meaning they have more bedrooms than required, including nearly 73 per cent of households that own their own home.\textsuperscript{115} Across England, more than 86 per cent of households where all residents were aged 65 or older were under-occupying.\textsuperscript{116} In London, homes headed by someone aged 65 or over have substantially more floorspace per person than other homes. This is not a fault on the part of older people or homeowners – they are incentivised to stay in their homes for as long as possible by our systems of council tax and stamp duty, and the lack of appropriate ‘downsizing’ housing.
Older households have more floorspace per person than younger households

Figure 6: Floorspace per person, by age of Household Representative Person, London

As laid out by the Institute for Fiscal Studies, a potential trajectory for policy reform could start with the addition of extra bands for homes of high property values to reflect the increases in prices at the top end of the market. This could be followed by updating the house price values structuring the band system to improve its relationship to modern prices. Eventually, policymakers could replace the bands with a fully proportional tax, paid by owners as a fixed proportion of their property value each year. IPPR’s modelling finds that a 0.25 per cent rate would be sufficient to raise the same overall funding as council tax currently does, while a 0.48 per cent rate would replace council tax, stamp duty, and the bedroom tax on social housing tenants.

Reforming this broken system will not be easy and presents particular challenges for London. All modelling of more proportional systems sees bills for most Londoners rise, due to disproportionate increases in property values in the city in recent decades. The city also includes many asset-rich residents who are, nonetheless, cash-poor, due to extraordinary rises in house prices over the last several decades. Without additional support, introducing a proportional property tax could make housing costs either unaffordable or more unaffordable for 11 per cent of owner occupiers in London. However, it would only cost £150 million to provide support to low income owner-occupier households in this situation in London. This could be accompanied by measures such as allowing residents to defer payment until the point of sale.
The UK government should devolve control over property taxes to London government.

If property taxes are devolved, the Mayor and London local authorities should update the values underlying council tax bands and add extra bands, to account for house price increases over the last 30 years.

If property taxes are devolved, the Mayor should review introducing a proportional property tax to replace council tax and stamp duty, with mitigation for those pushed into unaffordability and the possibility of deferral.

Land value capture

Section 106

In Section 1, we described Section 106 as a means of funding social housing by requiring developers to build (or fund) affordable homes and infrastructure as a prerequisite to obtaining planning permission. However, it has been criticised for increasing the time taken by the planning process.

After the 2012 National Planning Policy Framework, Section 106 also became controversial due to what was called by some the ‘viability loophole’. In these cases, developers used methods which some people considered unfair or unethical to reduce the amount of affordable housing they built. This was exacerbated by the differences in resources and expertise available to developers’ negotiators and their public sector counterparts.

After this came to public attention, local and national guidance was changed in 2018 to prohibit using prices paid to negotiate down affordable housing numbers, and in London, the GLA moved towards a ‘threshold approach’. Since 2017, applicants for large schemes in the capital have been able to use a ‘Fast Track’ route by agreeing to provide 35 per cent affordable housing (or 50 per cent on public and industrial land, where industrial floorspace is not re-provided), avoiding the viability negotiation process entirely. In 2022, 66 per cent of residential schemes referred to the Mayor used the Fast Track route. This has seen the proportion of affordable housing per scheme referred to the Mayor rise significantly, from 25 per cent by unit to 37 per cent from 2011 to 2022, and has reduced the time taken to progress applications by an average of 4 months, by comparison to schemes requiring viability testing. It is also widely understood to have increased certainty for developers.

However, serious concerns remain about the difference in resources between developers and planning authorities when negotiating contributions, particularly on smaller schemes, where the GLA is not involved. This is ultimately a question of resources and skills – as we recommend above, local planning authorities need more funding to get the best for their local areas. However, in London, where viability negotiations can be most fraught, there is a role for a shared resource of experts for boroughs to draw on when engaged in difficult negotiations.
The UK government should create and fund a ‘flying squad’ of viability experts, shared between London boroughs, to advise on complex planning cases. This could also be potentially funded by an increase to planning fees to fund a pot shared between the boroughs.

The Infrastructure Levy

In its 2020 White Paper, Planning for the Future, the Government proposed the replacement of Section 106 and CIL with an Infrastructure Levy on the final gross development value of a scheme. It was argued that this would simplify and standardise the process of obtaining developer contributions to affordable housing and infrastructure, ending the widely criticised process of viability negotiation that has dogged the existing system.

Although well-intentioned, the Levy has fundamental design flaws. Site viability varies significantly, particularly across London, so if councils set their levy rate at 35 per cent affordable housing, as the Mayor requires in the London Plan, many sites would immediately become unviable, due to high costs or insufficient values. The GLA warned that if it tried to achieve 35 per cent affordable housing, as currently policy does, the IL would have reduced the number of affordable homes delivered on large schemes by between 4,500 and 10,000. It also could have made between 10,000 and 30,000 homes unviable, across all tenures. Given that it would only be determined and paid after developments are finished based on final values, it would also make it harder for councils to plan for affordable housing, mean infrastructure is delivered later, and would be subject to just as much gaming and negotiation as Section 106.

The virtue of the Section 106 system, cumbersome as it is, is that it allows for an average of 35 per cent affordable housing to be obtained, even when some sites are unable to provide it, and others able to provide more, and remain viable. The Infrastructure Levy would not. Though much of the 2020 White Paper has been discarded, the IL has now been tabled as part of the Levelling Up and Regeneration Bill in a much-reduced form. This includes the use of a ‘test and learn’ mechanism for several years, by which it will be piloted. It is widely believed that the IL is not likely to be implemented in full before the time of the next General Election.

In London, both the Community Infrastructure Levy (CIL) and the Mayoral CIL (MCIL) have operated for some years and are far less controversial than Section 106. As a flat-rate, non-negotiable tax on net additional floorspace, there is little opportunity for ‘gaming’, and rates are low and certain. Their only disadvantages are that they tax space, rather than value, so more profitable developments pay relatively less than less profitable ones, and the need to maintain viability makes councils set their rates low, particularly affecting boroughs with lower property prices. TfL calculated that borough and Mayoral CILs extract between 4-12 per cent of planning gain caused by transport investment, leaving a great deal of windfall in remaining the hands of landowners.

Capturing a fair share of land value uplifts

More generally, we do not have a comprehensive means of capturing land value uplifts caused by public investment. Savills estimated that the Jubilee Line extension in 1999 created a proportional uplift of over 50 per cent in surrounding residential property, and led to nearly 250 per cent more home sales per km2 within 1km of its stations within five years after it was completed. They also predicted that the potential Crossrail 2 project would
generate a value uplift of 221 per cent of the cost of the project for existing and new properties.\textsuperscript{130}

There are strong arguments for the public to be able to recoup some of this value. Hong Kong was able to fund its extensive public transit system, the MTR, by selling development rights surrounding train tracks from 1975 onwards – similarly to how London’s Metropolitan Line was funded by developing land for housing around its rail lines. A report by Savills for TfL proposed several options for capturing this uplift for the public: zonal retention of stamp duty uplifts, zonal retention of business rate value growth, a potential transport premium charge on growth in residential property values, and several other options.\textsuperscript{131}

The UK government should devolve powers to capture land value to the Mayor of London.

The Mayor should trial the use of land value capture mechanisms on undeveloped land in the city.
3.6 Mobilising private investment for housing

This chapter sets out how private capital is brought into housebuilding at present, and how public policy could bring about more investment into the kinds of homes that Londoners need in the future.

The role of private investment in housing

There are a number of ways that private capital is invested into homes today, from an individual paying for a home through a mortgage with a bank, to investors financing developments to sell or lease properties, to housing associations funding new affordable homes. Capital can be used for a variety of purposes, from funding land acquisitions to increase the supply of new homes, to covering the upfront cost of upgrades to homes, such as those needed to improve energy efficiency. The Impact Investing Institute find that “around 70 per cent of capital raised by Private Registered Providers to invest in social and affordable housing is from private (predominantly debt) financing sources, up from 30-40 per cent in the 2000s, while there are increasing levels of equity investment from institutions in the sector”.

There has been a sharp rise in the number of social homes owned by for-profit registered providers, from 14,000 homes in 2020-21 to 29,000 in 2022-23.

Many of the most important factors affecting private investment in housebuilding are covered elsewhere in this report - including the planning system, developer contributions, and access to finance for individuals. In this section we focus on institutional investment in housebuilding.

The role of building owners in maintaining homes

Across the UK, many homes are in need of maintenance and upgrades, for instance for fire safety and to reduce the risk of damp and mould. There are ongoing debates about who should pay for the costs associated with some of these changes, including building remediation to ensure safety. We note that these debates are ongoing and that more needs to be done to ensure that all homes meet minimum safety standards. In this report, we focus on the role of private capital in building, rather than in maintaining homes. Many homes also need investment to improve their energy efficiency – for a discussion of how this should be funded for socially rented homes, see Chapter 3.1 Public funding for homes.

Over the past century, the proportion of investment into housebuilding that comes from the private sector and the public sector has varied considerably. As an indicator of this, in 1950 just 15 per cent of new homes were built by the private sector, with nearly all homes built by local authorities. Public housebuilding fell over time, and since the 1980s, at least 70 per cent of homes completed each year have been by the private sector. In 2022, 80 per cent of homes were built by the private sector, 18 per cent by housing associations and 2 per cent by local authorities. This shift has meant that private investment in housebuilding today plays a big role in shaping the number and type of new homes in the UK.

Institutional investors are often a source of ‘patient capital’, or capital that investors are willing to invest with a long time horizon – often of 30 years or more. Such investors are more willing than others to forego returns in the short term on the condition that over the longer run, their investment pays off. In public policy discussions, patient capital is often seen as a way to address gaps in financing housebuilding, especially those opened up by restrictions in access to finance following the Great Recession in 2007 when the delivery of new homes dropped substantially.
Patient capital is often invested into the professionalised rented sector, or Build To Rent (BTR) homes. Build to Rent (BTR) homes are purpose-built rental properties that are owned and managed by a single company or investor. These properties often offer additional amenities and services compared to other homes. BTR homes have gained popularity in recent years among investors as an investment in property, and among policymakers as a way to increase the supply of high-quality rental housing in urban areas. BTR homes have come to represent a significant proportion of new homes: 41 per cent of homes sold in Q2 of 2022 were sold to BTR providers.

Institutional investment into residential property has been growing across the UK, representing nearly £10bn in 2021 among respondents to a survey of institutional investors - or 15 per cent of the amount that institutional investors spend on all real estate (up from 8 per cent a decade ago). Following historic emphasis on investments in commercial property, this change is partly due to a public policy environment that has sought to encourage institutional investors to direct their capital towards funding gaps in housing supply.

It is worth noting that despite its upsides compared to other forms of investment, patient capital is not a panacea. Patient capital is often viewed as counter-cyclical, since its investors are willing to wait longer than other investors to see returns on their investments. However, when an economic downturn is unexpected, even patient capital investors are likely to require some government support, as found by a study on the behaviour of patient capital investors during the Covid pandemic. The study found that investors responded to the fall in demand by “advancing their lobbying efforts to secure a more supportive political environment” and “turning to a ‘reserve army’ of renters backed by the state – so-called Key Workers”.

**Challenges with the current system**

Many institutional investors and others who might partner with them (e.g. local authorities and non-profits, like housing associations) are uncertain about some of the risks involved in such investments. The Impact Investing Institute argued in 2021 that there is an investment case for social and affordable housing. They found that social and affordable rents were subject to government rate-setting regimes which made them resistant to market cycles, and that these sectors have relatively low vacancy rates and high rent-collection rates compared to retail, office, and industrial property assets. It is also arguable that these partnerships with public and non-profit bodies allow for value to be captured for the public good on a greater scale than through normal private development.

However, these opportunities are not taken up as much as they might be. This is due to a mix of uncertainty about the risks involved and characteristics of the existing system which provide disincentives for institutional investors and local authorities to partner with one another.

To improve the situation, policymakers need to address the uncertainty surrounding the risks of investing in housebuilding projects. This can be achieved by providing clearer guidelines and regulations that outline the potential risks and rewards associated with such investments. One way of increasing certainty about the returns on investments associated with investing in affordable housing is through setting rents in the social sector for 10 years at a time, with review clauses for excess inflation – see Chapter 3.1 Public funding for homes for more details.

One barrier preventing some institutional investors from investing in place-based projects such as home building is a lack of clarity about how their fiduciary duty would interact with such investments. A clear statement from the Department for Levelling Up, Housing & Communities could improve the information that authorities have to inform their decisions.
The Department for Levelling Up, Housing & Communities should update guidance governing fiduciary duties for Local Government Pension Schemes Guidance. The Local government pension scheme: guidance on preparing and maintaining an investment strategy statement – July 2017 should be updated to state explicitly that in selecting scheme investments, pension scheme administering authorities must consider the impact of those investments on society and the environment, alongside other factors deemed relevant to providing for the best long-term interests of members. The Department should further clarify that place-based investing with the intention to generate positive, measurable social value can be consistent with the fiduciary duties of LGPS funds.

In addition, local authorities across the UK, including those in London, have limited resources across many of their functions. Their constrained funding, as well as the (related) undersupply of skilled professionals in a range of fields, including in planning, can make it difficult for some local authorities to secure strategic buy-in on working with private sector finance. As we recommend in Chapter 3.4: Local decision making, the UK Government should adequately resource local authority planning departments.
3.7 Regulation

Some people who rent from private landlords live in unsafe housing and could be evicted with just two months’ notice without a reason. Meanwhile, the number of homes available to rent or buy is being negatively affected by the rise of short-term lets such as Airbnb. Effective regulation, properly enforced, can address these and other issues.

Renters’ rights

Over a million households in London are privately renting - nearly 30 per cent, a proportion that has almost doubled in the past 20 years.

Many households who are renting privately in London are currently living in unsafe, poor-quality housing, yet are unable to afford alternatives and cannot access social housing. Private renters in London also have to deal with insecure conditions not faced by homeowners or social renters, as current legislation allows landlords to evict private tenants without fault. With the fear of eviction preventing many renters from addressing issues with their landlords, greater regulation of the sector is required to ensure that renters have decent, safe and secure homes to live in.

In June 2022, the UK government published a White Paper entitled A Fairer Private Rented Sector, which set out details of its plans for a Renters (Reform) Bill. Some of the main proposals for the bill include the abolition of Section 21 “no fault” evictions; the creation of a national register of landlords; the introduction of a private rented sector ombudsman to help enforce renters’ rights; and more power for local authorities to enforce and protect renters’ rights. In October 2023, the Bill received its Second Reading. However, the Secretary of State has stated that Section 21 will not be abolished until the government has reformed court processes necessary for evictions under the new grounds. Opposition spokespeople have claimed that this will delay its abolition indefinitely, given the non-specific timeframe of Michael Gove’s promise that it will not be abolished ‘until we judge sufficient progress has been made to improve the courts’. To improve the security available to private renting households in London, a third of which include children, Section 21 should be abolished as soon as possible – ideally, as soon as the Renters (Reform) Bill passes.

The Renters Reform Bill would be an important step forwards for improving the rights of renters in England, and we support its passing. However, enforcing renters’ rights often falls in practice to local authorities who, as we have discussed elsewhere in this report, are often under-resourced and are in some ways restricted in their powers by central government. Selective property licensing, whereby local authorities can require landlords to own a licence in order to rent out their property, with conditions that they need to follow in order to obtain it, can enable local authorities to improve standards in the private rented sector. However, central government currently places restrictions on when local authorities can introduce large schemes. Further, housing providers and others in the sector need certainty about incoming regulation to allow them to plan effectively for the future.
UK Government should reinstate local authorities’ ability to introduce selective licensing schemes independently, by revoking the provision of the 2015 General Approval that required confirmation from the Secretary of State for schemes covering 20 per cent or more of the borough. To complement this, the government should legislate an advisory role for combined authorities and the GLA to promote the good design, harmonisation, and rationalisation of schemes, and to protect local authorities from vexatious judicial reviews.

UK Government should invest in the local authority housing enforcement workforce to address the shortage of qualified personnel. This should include increasing funding for apprenticeships and graduate traineeships, as well as exploring the potential for a Housing Skills Centre to train future enforcement staff.

For more information about this complex topic, see Centre for London’s report Licence to Let, which explores the potential for selective property licensing to improve conditions in London’s private rented sector.

Short term lets

In London, demand for homes is very high compared to the rest of the country, but there isn’t enough supply and so prices are high. Where homes that were previously lived in by residents are converted to short-term lets, or places for visitors to stay for short periods, this reduces the supply of homes for Londoners.

Some landlords make a lot of money from short term lets. The incentive for property owners to offer short-term lets rather than long-term lets may be exacerbated by differences in taxation – the effects of the reversal of mortgage interest offsets for buy-to-let landlords have been widely noted in recent years.

In London, there are restrictions on short term lets: any property which is let short-term for more than 90 days per year must seek planning permission to do so. However, even with this restriction in place, short term lets appear to have grown substantially in recent years (fourfold between 2015 and 2019), and there are concerns that some landlords do not comply with the 90-day rule. In 2019, the number of short term lets in London stood at over 80,000 homes, and the entire home short term lets sector represented 1.2 per cent of all the capital’s dwelling stock. Unless landlords are letting their property short-term for more than 90 days per year, at present they do not need to register themselves nor seek planning permission, meaning that planning authorities lack reliable data about the short-term rental market and have limited powers to control it. Legislation currently before Parliament includes a power for the Secretary of State to establish a registration scheme for short-term rental properties in England, the details of which would be set out in regulations.
UK Government should introduce a register for properties that are short-term let with penalties for not registering or for providing false information so that planning authorities can monitor the sector. The Government should also grant planning authorities the power to restrict short term lets in their area.

**Conclusion**

London’s housing crisis means that people are being forced into poverty and out of London. Through this research, we have explored ways to create a sustainable system that delivers housing which feels like home to all Londoners.

While there’s no silver bullet, and no easy way out, our findings suggest that there is a path forward, but it will require action at every level of government. Solving London’s housing crisis will involve committing substantial public funding to building and maintaining homes in London.

Government will need to increase the affordable homes programme substantially, to between £15.1 billion a year, and introduce a Net Zero Fund to support social housing providers to improve the energy efficiency of their homes. Reinstating local authorities’ ability to autonomously introduce selective licensing schemes, and robustly investing in the housing enforcement workforce, could markedly improve housing quality for private renters. Enabling the Mayor of London to use land value capture mechanisms on undeveloped land, and potentially, revising property tax systems, could direct more resources into affordable, equitable, and sustainable housing.

We believe that together, the changes recommended in this report would make a significant contribution to creating a sustainable system that delivers housing which feels like home to all Londoners.
Full list of policy recommendations

This report sets out recommendations for public policy at the national, regional, and local level to solve London’s housing crisis, with a focus on what can be achieved in the term of government following the 2024 general and London Mayoral elections.

Throughout the report we describe the rationale behind each recommended change to public policy. A description of 10 priority recommendations is given in the summary at the top of this report. Below, we list every recommendation made in the report.

Homes for a growing London

National Government

- Adequately resource local authority planning departments, both through expanding grants and tying planning fees to inflation, so they can clear the backlog of planning cases and facilitate sustainable growth.

The Mayor of London

- Set up an expert commission to decide on 10 sites in London’s Green Belt near rail stations for new development corporations. This should include representatives of any future strategic planning bodies for the Wider South East.
- Re-introduce minimum densities to the London Plan for strategic locations.

Other public bodies

- Homes England and the Mayor should create Development Corporations (DCs) on chosen sites, with HM Treasury providing long-term funding settlements of 10 years. As a condition of financing, DCs would have to show that they have remediated and invested into an equal area of Green Belt land to create high quality, accessible green space in walking distance of extensions.
- Homes England and the GLA should conduct exploratory work on suggested sites to establish viability.
- The Greater London Authority (GLA) and Wider South East local authorities should conduct a review to propose a new body for strategic planning across the region.

A fairer London

National government

- Increase the Affordable Homes Programme to £15.1 billion, to fund the building of 90,000 social homes a year in England. More than 30,000 of those should be built in London.
- National government should commit to annually indexing the Local Housing Allowance rates for Housing Benefit to rent levels.
• Raise or remove the benefit cap.

• Devolve control over property taxes and powers to capture land value to the Mayor of London.

• Reinstate local authorities’ ability to introduce selective licensing schemes independently, by revoking the provision of the 2015 General Approval that required confirmation from the Secretary of State for schemes covering 20 per cent or more of the borough. To complement this, the government should legislate an advisory role for combined authorities and the GLA to promote the good design, harmonisation, and rationalisation of schemes, and to protect local authorities from vexatious judicial reviews.

• Amend the 1961 Land Compensation Act to allow public bodies to buy land at closer to existing use value.

• Increase the Lifetime ISA limit on a first time home in London to reflect house prices.

• Update guidance governing fiduciary duties for Local Government Pension Schemes Guidance. The Local government pension scheme: guidance on preparing and maintaining an investment strategy statement – July 2017 should be updated to state explicitly that in selecting scheme investments, pension scheme administering authorities must consider the impact of those investments on society and the environment, alongside other factors deemed relevant to providing for the best long-term interests of members. The Department should further clarify that place-based investing with the intention to generate positive, measurable social value can be consistent with the fiduciary duties of LGPS funds.

• Introduce a register for properties that are short-term let with penalties for not registering or for providing false information so that planning authorities can monitor the sector. The Government should also grant planning authorities the power to restrict short term lets in their area.

• Create and fund a ‘flying squad’ of viability experts, shared between London boroughs, to advise on complex planning cases. This could also be potentially funded by an increase to planning fees to fund a pot shared between the boroughs.

• Invest in the local authority housing enforcement workforce to address the shortage of qualified personnel. This should include increasing funding for apprenticeships and graduate traineeships, as well as exploring the potential for a Housing Skills Centre to train future enforcement staff.

The Mayor of London

• If property taxes are devolved, work with local authorities to update the values underlying council tax bands and add extra bands, to account for house price increases over the last 30 years.

• If property taxes are devolved, review introducing a proportional property tax to replace council tax and stamp duty, with mitigation for those pushed into unaffordability and the possibility of deferral.

• Trial the use of land value capture mechanisms on undeveloped land in the city.

A long-term vision for housing

National Government

• Create a £4.45 billion Net Zero Fund to fund retrofits and renovations of social housing, £766 million of which should be spent in London. If private investment can be crowded in, this figure could be significantly reduced.

• End the Right to Buy scheme.
• Extend the term of each Affordable Homes Programme to 10 years.

• Explore creating an Affordable Housing Commission (AHC), that sets levels of grant for affordable housing based on expert projections. This could be modelled on the NHS pay review body, which recommends the level of NHS worker pay to government, in order to maintain staff recruitment, regional variation, and other factors. As in the case of the NHS, this could introduce a degree of evidence into the decision-making process around affordable housing grant.

• After the 2025 rent standard ends, consult on creating 10-year social rent settlements, with review clauses for excess inflation.

• Reintroduce rent convergence if Local Housing Allowance rates are relinked to the 30th percentile of local market rents.
Endnotes


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