



Best estimates suggest that London needs to be creating between 42,000 and 52,000 homes each year to keep up with demand. But with only 17,000 built in the last year, what chance is there of closing the gap? **Joey Gardiner** reports

The UK housing crisis has been top of the domestic political agenda in the last month. Concerns have been focused by the apparent signs of a housing bubble, raised not least by Bank of England governor Mark Carney, leading many to question whether the government should scrap its continued multibillion-pound stimulus to the market.

Nowhere is this strain felt more than in the capital. Indeed the problems of soaring prices are so concentrated in London's 32 boroughs, it is fair to question whether the "crisis" of affordability really exists in a general sense outside the capital. In London the average price of a home is £459k, which is more than nine times average earnings. This average, obviously, hides the extremes: in Kensington and Chelsea house prices are over 31 times median earnings.

Carney - alongside Ed Miliband, Vince Cable, David Cameron and almost everyone else to publicly comment on the issue - says we need to double the rate of housebuilding nationwide. But in London, unsurprisingly, this supply-demand shortfall is even more severe. According to the most up-to-date government figures, just under 17,000 homes were built in the capital in the year to March 2014. The mayor's draft housing strategy, in contrast, calls for 42,000 to be built every year. But the Greater London Authority's (GLA) own assessment found the need is in fact far higher - 49,000 homes a year. A collection of housing academics, led by the London School of Economics, said in response to the strategy that 52,000 homes will be needed each year to meet demand. Others have called for even more.

Therefore the construction of homes in London is running at around a third of the level most experts estimate is needed, and actually fell last year as affordable housing completions dropped. And despite everyone from the prime minister downwards recognising the severity of the problem, and front page headlines screaming for action, the reality is that few believe the actions being mooted - either by current mayor Boris Johnson or his Labour opponents - will come close to meeting the problem. So what impact will the draft strategy have, if implemented, and are there realistic solutions to the problem?

THE GLA, THE HOUSING ASSOCIATIONS, THE LOCAL AUTHORITIES - WE ALL NEED TO GET ON THE SAME PAGE, BECAUSE AT THE MOMENT WE'RE NOT, AND I THINK LONDONERS NEED US TO BE

BRENDAN SANSFIELD, FAMILY MOSAIC

The situation in Croydon is a perfect example of the challenge facing London in trying to meet demand. The borough is ambitious about both economic and housing growth, and last year published a target to see 9,500 homes built in the borough in the next five years, all to high quality standards. The council's director of development, Jo Negrini, says the target is achievable given the availability of development sites - the centre of Croydon alone has capacity for 7,500. But just 4,280 homes have been built in the previous five years, so meeting the target will require a doubling of output.

"Developers are coming here," she says. "We're looking to create a place people want to live. And if the developers see that opportunity, then people will too."

However, ask Negrini if there's a clear delivery plan to create this huge development uplift, beyond identifying suitable areas and the council helping where it can to enable development, and the answer is less clear. What happens if the target is not being met? "We're clear 9,500 is the number we'll work towards, but the other big factor is what is the market going to say."

Ultimately, will the council sacrifice its quality ambitions to deliver the target? "It's a better argument to say you're creating a great place to live, than that you're hitting numbers through permitted development office conversions and 70-storey towers." In other words - for understandable reasons - the answer is no.

At a city-wide scale the problem is just the same: London's draft housing strategy sets out a »

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EMMA REYNOLDS MP, SHADOW HOUSING MINISTER

» target well over double the current output, and then a range of policy measures designed to increase output. Boris Johnson's deputy mayor for housing, Rick Blakeway, says: "This year you'll start to see a lot more activity on the ground in terms of housebuilding. The current numbers from NHBC [National House Building Council] data on starts look robust. But we're in a cycle and we accept that isn't enough. We need a structural change in how the market operates in London."

But the draft strategy isn't a genuine plan for delivery. There are few numbers set against specific measures and no milestones for reaching the target. The housing academics' response spells it out. "Although the document is called a 'strategy', it seems to lack exactly that - a strategy for bringing about genuinely radical change," it says.

In fact, despite Blakeway's assertions that the target is realistic, it is understood that senior officials in the GLA are privately sceptical about the likelihood of even its 42,000 target being met, let alone the 52,000 academics believe necessary. One source said: "All these measures are right and valid, but taken together they can only add a few thousand to output."

This is perhaps why, when speaking at the annual Alan Cherry memorial lecture, the GLA's executive director of housing and land, David Lunts, last week described housing as arguably the "single greatest unresolved policy dilemma" that the UK as a whole faces.

Certainly opposition politicians are critical of mayor Johnson's strategy. Emma Reynolds MP, Labour shadow housing minister, says: "The housing crisis in London is more acute than anywhere else in the country. Boris has said that he will prioritise this sector, but he hasn't

taken any bold action."

At the heart of this lack of supply is a dysfunctional land market, as pinpointed by an influential recent report by KPMG and housing charity Shelter. Because of the shortage of homes, the report found there is little competitive pressure on housebuilders at the point they sell to consumers. Instead, competition between housebuilders is concentrated in the land market, driving up land prices and putting barriers to entry in to new entrants. Dick Mortimer, development director at housing association Family Mosaic, says: "Land value in London is escalating out of control."

The report recommended greater transparency over land ownership, a policy which is also supported by Labour. But it is unclear whether openness on its own will be enough to make a difference. Reynolds says: "I don't think Boris takes account of the particularly bad problem of land-banking in London, where promoters sit on land waiting for values to increase." She favours charging developers who do not build on land with planning permission, with beefed up compulsory purchase powers to take land off them in the worst cases.

On a practical level the issue of land availability is also tricky, as in London most of the large development sites are not located in the areas where there is the most demand. Lunts says:

"The strategic housing land assessment tells us there is enough land in London to build 42,000 homes a year every year for at least five to six years. The trouble is a lot of that land is in pretty lousy bits of London. It's not in Kensington and Chelsea. A lot of it sits in places like Tower Hamlets, Newham, Barking or Havering. That means regeneration demands are going to grow."

Regeneration, of course, normally requires investment above and beyond what private developers are willing to provide. And in the age of public spending austerity, government regeneration funding has also been slashed. One example is the Barking Riverside scheme, which has potential for over 10,000 homes in east London. However, the scheme is about to grind to a halt because the planning permission stipulates no more than 1,500 homes can be built there without the construction of a rail link. The original idea for this link, a £500m extension to the Docklands Light Railway, was ditched in 2008 as too expensive, and an alternative proposal costing £200m has been sitting on the chancellor's desk awaiting approval, meaning there is no solution in sight.

Of course, land is just one part of the problem. Funding for affordable housing, which makes up about a third of homes built in the capital, was slashed by over 60% in 2011 and a new model for funding introduced. In his second election

campaign Johnson promised 55,000 affordable homes in London between 2011-15. With three of four years gone, more than 38,000 have been built, leaving around 17,000 to be finished by next March - double the number completed last year.

Nevertheless, the GLA insists it is on course to hit this target, along with its wider pledge to have built 100,000 homes over Johnson's two mayoral terms, of which 75,000 have been completed. Blakeway says: "These are massive numbers. You have to go back 25 years to get this level of affordable output. Yes, there is a stop-startness to affordable housing delivery, but we're expecting a significant number of completions this year."

The challenge is that, even if this is managed, the housing strategy promises that the high output of homes required this year will have to be sustained until 2018. The GLA, though, is already running into trouble in keeping this level of supply going. The funding model does make it possible for housing associations to build new affordable homes, but grant levels are so low that many are limiting their programmes.

Mortimer's boss at Family Mosaic, chief executive Brendan Sarsfield, says this is because not only does his organisation lose £100k per house with the reduced funding, but benefit cuts have also put rental streams from those homes under threat. In addition, he says, accepting the grant puts the housing association in the middle of an argument between the GLA and London boroughs over the type of homes to be built and the type of tenants who occupy them.

"The offer on the table doesn't make sense from a business point of view," he says. "The GLA, the housing associations, the local authorities - we all need to get on the same page, because at the moment we're not, and I think Londoners need us to be."

The upshot is that the GLA, which launched its prospectus for the £1bn 2015-18 funding round in December, has had to go back to a number of major housing associations to ask them to make larger bids. The GLA said in a statement that this activity should "not be interpreted as having any implications for the programme as a whole", but many associations say bids have been far lower than in previous years. It isn't apparent whether any other party would take a different approach, though - Labour has criticised the cuts to affordable housing funding, but has not pledged to reinstate previous grant levels.

Growing the private rented sector has been seen as one potential answer to upping build rates, given that financial institutions potentially represent a new source of funding for the housing sector. The GLA has been successful in securing deals on public land at Barking Riverside and Elephant & Castle, and the sector is a key part of its strategy. However, the booming sales market is making it harder for developers interested in building for rent to compete in the land market against housebuilders set on the higher, more

THE STRATEGIC HOUSING LAND ASSESSMENT TELLS US THERE IS ENOUGH LAND IN LONDON TO BUILD 42,000 HOMES A YEAR. THE TROUBLE IS A LOT OF THAT LAND IS IN LOUSY BITS OF LONDON

DAVID LUNTS, GLA

THE DRAFT STRATEGY IN SHORT

A revised version of the draft London housing strategy was published for consultation on 2 April. It commits to building **42,000** homes a year for the next decade, including **5,000** for "long term" private rent. It also commits to **45,000** affordable homes between 2015-18. It says these objectives can be achieved by:

- **£1.25bn** in funding for affordable homes
- Introduction of a London Housing Bank, designed to accelerate development on large sites
- Lobbying government to relax GLA and council borrowing rules to fund new housing
- Lobbying government to provide guarantees to sit behind development finance
- Working with mortgage lenders to extend in principle mortgages to help forward fund developments with sales to UK buyers

immediate returns from private sales.

Pat Hayes, executive director of regeneration at the London borough of Ealing, says his borough is trying to promote developments for rent, but is struggling to get schemes off the ground. "We are in a two-speed economy and there are viability and cost issues around sites," he says. "The strength of the retail [private sale] market is such that you are in difficulty doing anything other than outright sales on the majority of London borough sites."

So what can be done to tackle this confluence of issues? Most of the suggestions in the draft strategy (see box, above) have widespread support. The problem is they are not seen as enough to create the vast change needed. A major issue is clearly funding, but no political party has committed to a publicly-funded programme of housebuilding sufficient to meet demand. However, despite this, Lunts is optimistic more money will be forthcoming because the government has found a form of funding - first utilised with the Help to Buy scheme - which doesn't increase the public debt. "We're very excited about this in London," he says, but adds it will change the way public money will be able to

be used. "It means we need to be smarter about using public money, or cheap public loans as is often the case, to get projects moving and get that money recycled."

Similarly, Lunts says that the ability to borrow against future tax receipts generated by new developments, known as tax increment financing and already being deployed to fund the Northern Line extension to Battersea, will be a new source of revenue. Local authorities are campaigning to be allowed to borrow more against existing housing stock, a move they say could produce 60,000 homes, but the Treasury has, so far, largely blocked this.

Academics have also called for radical reform of property taxation, designed to over time reduce the incentives for people to treat their homes as a financial investment, and thereby break the cycle of land speculation. Family Mosaic's Sarsfield says: "We've got into a mess over property tax. We've got stamp duty, inheritance tax, council tax and capital gains, and none of those fit into a strategy. How those taxes are used to achieve economic or housing aims is a loss to me."

However, the political impact of any policy change that attempts to break the UK's love affair with house-buying makes such a change difficult to enact. Ultimately, though, developers are calling for a housing strategy that is a genuine plan of action, rather than a list of policies. Rob Perrins, managing director at housebuilder Berkeley Group, says: "In London, the GLA needs to treat the target of 42,000 homes per annum as a city-wide project, not a policy objective. Normal supply isn't delivering enough so we need around 20,000 more. Identify the sites - 80 delivering 250 homes a year - and then manage the process of bringing them forward."

"The structures are already in place. They have the London Development Panel. It's a question of political leadership and project management."

Whether the political will to do this exists, however, remains the biggest question.

To read James Wates's column on home ownership turn to P28

COUNTRYSIDE PLACEMAKING AWARD

The funding and provision of new affordable housing was the main topic of a half-day conference hosted by Countryside in conjunction with Building magazine on 16 May. Secretary of state Eric Pickles was the keynote speaker with other contributors including David Lunts, executive director of housing at the GLA, and Christine Whitehead, professor of housing at the LSE. Jonathan Speed, former director of Barking Riverside, was named the winner of Countryside's annual Alan Cherry Award for Placemaking.