Background

With London’s housing market in an era of chronic undersupply, both public and private sectors are welcoming the emergence of Build to Rent. Still in its infancy, the sector is in learning mode, as developers, investors, local authorities and housing associations develop planning agreements, delivery models, and design and management strategies to build the new homes they need.

Future of London published Making the Most of Build to Rent in early 2017, following a six-month programme of senior roundtables, field trips, interviews and desk research. The report, co-written by Future of London and LSE London Research Fellow Kath Scanlon, provides an overview of the evolving policy landscape and burgeoning development activity in London, with recommendations for local, pan-London and national government, housing associations, developers and investors. It also includes detailed case studies of borough-, housing association- and developer-led schemes.

Build to Rent in London

How many: Since 2009, 41,900 new-build PRS units on 303 schemes have been completed, are under construction or have planning permission in London. This includes conversions.

Where: Both inner and outer London boroughs are developing high volumes of PRS stock – Southwark, Tower Hamlets, Hackney, Croydon, Ealing, Brent and Harrow each have over 3,000 units in development, while Newham has over 5,000. Institutional investors are favouring zones 3-6 near travel hubs; this is where the majority of the US-influenced, amenity-rich schemes are being developed.

By whom: A mixed picture including: foreign investors (e.g. Qatari Diar) and developer-operators (e.g. Greystar); housing associations (e.g. A2 dominion)/subsidiaries (e.g. L&Q PRS); pension funds (e.g. M&G Real Estate); local authorities (e.g. LB Lewisham) and council-owned companies (e.g. LB Ealing’s Broadway Living).
**Summary**

Build to Rent isn't a panacea for the housing crisis, but both public and private-sector practitioners recognise its potential. This new housing tenure offers homes for the ‘squeezed middle’, often with standards of design, management and tenure security that set it apart from the rest of the private rented sector.

Some of these properties are the products of a new wave of developer-operators, keen to establish Build to Rent as the housing of choice for mid- to higher-income young workers. Essential Living’s Vantage Point in Archway and Be:here’s Aberfeldy Village in Poplar offer facilities and communal services on challenging sites; while Greystar has planning permission for a major mixed-use development in Greenford, including nearly 1,500 homes for private rent.

Responding to London’s lack of affordable housing, housing associations and local authorities are developing their own PRS stock using an array of private and public funds. There are a number of models: some develop through wholly-owned council companies or subsidiaries, using funds from the market-rent offer to subsidise the affordable housing. Other boroughs such as Lewisham are establishing joint ventures with private developers or investors to develop schemes collaboratively, securing a long-term revenue stream from their land.

Viability is the sector’s biggest challenge – standard property economics make it difficult for rented developments to compete with sale. This has implications on rent levels, affordable housing contributions and local authority revenue potential – and on whether schemes get built at all.

Central government is responding – Communities and Local Government (CLG) expressed clear support for Build to Rent in the Housing White Paper and is reviewing consultation responses on speeding up Build to Rent development and agreeing a definition of affordable housing on these schemes.2

In terms of pan-London planning and strategy, the GLA has also been proactive. Its supplementary planning guidance aims to strike a balance between facilitating viability and ensuring genuinely affordable housing contributions set at London Living Rent levels.3 The logical next step would be building evidence of success and incorporating policies into the London Plan.4

**Updates**

Since the release of Future of London’s full report in January 2017, there have been a number of significant updates and announcements, including:

- **LB Harrow** has embarked on its £1.75m regeneration programme, which will include direct delivery of 600 Build to Rent homes across a range of sites.6
- **LB Hounslow** has selected Wilmott Partnership Homes as Lampton 360’s JV partner on 11 development sites across the borough. 20% of the 1,500 homes planned are Build to Rent.7
- **LB Lewisham** is finalising the shortlist of bidders for its Besson Street PRS scheme, and aims to announce the selected partner in autumn 2017.
- **Network Homes** is delivering a further 270 units in Harrow with a £20.8m GLA loan funding, with all units at 80% of market rent.8
- **Folio**, Notting Hill Housing Group’s PRS subsidiary, invested in 112 Build to Rent units at New Garden Quarter in Stratford through a JV with Telford Homes. They will be available in 2018.9
- **Greystar’s** Greenford Green, a mixed-use scheme including nearly 1,500 homes for private rent, gained planning consent from LB Ealing in March 2017. The Mayor of London will make a final decision.10

Developer **Hub** completed the Rehearsal Rooms in May 2017, having collaborated with LB Ealing to maximise numbers of genuinely affordable units.
Recommendations

Local authorities and housing associations

• **Agree local PRS/Build to Rent strategy.** Local authorities and housing associations need to decide the role or roles they wish to play in Build to Rent development. Local authorities can take advantage of their low cost of borrowing to build market and affordable homes, and developing Build to Rent through a council-owned company avoids Housing Revenue Account constraints.

• **Establish a more socially-minded version of Build to Rent.** Councils and housing associations developing PRS schemes provide lower-cost housing than many of the major Build to Rent developer-operators. Using simple designs and providing fewer add-ons might allow for greater affordability without build quality or space standards being sacrificed. They could also be exemplars of community-focused amenity spaces, designing ground floor uses that provide for the wider community, such as GP surgeries, community centres and shops.

• **Consider business models and branding.** Many housing associations and local authorities already provide some PRS housing as part of a mixed-tenure approach, though business models vary. Some blend PRS units into existing blocks or schemes at a range of rents, which can be integrated into the existing corporate identity; others are developing market products to cross-subsidise their traditional business, which may call for a new brand. The National Housing Federation and GLA could support decision-making by disseminating evidence and best practice.

• **Include PRS/Build to Rent clauses in planning policy.** If a local planning authority has chosen to support Build to Rent, writing it into policy will signal to investors and developers that it is open for business, as well as guiding decision-making and reducing delays in getting schemes off the ground.

Developers and investors

• **Seek to understand the wider housing context of a borough.** Local authorities are essential to enabling Build to Rent development, from granting planning permission to leasing their land. On mixed-tenure schemes, they will have a long-term vested interest. In all cases, they face significant and urgent challenges with housing their communities and need all developments to play their part in reducing these challenges. Local authorities will want to work with developers who understand this context.

• **Accept the role of covenants.** Covenants may dis incentivise some investors, who argue that they are not required. However, if these developments are being publicly subsidised (including provision of land), they should be protected as blocks of units for long-term rent. Without a covenant, individual units within a scheme may be sold, arguably making them less worthy public investments. It is reasonable to expect this level of protection.

National policy-makers

• **Clarify the Build to Rent policy landscape.** Build to Rent can be an effective way to bridge the gap between social housing and home ownership – a gap which is particularly wide in London. Since the 2012 Montague Review, the UK government has developed policy and financial support for new PRS development, but there is arguably a conflict with the focus on home ownership. CLG should recognise the value of Build to Rent and clarify the policy landscape, to provide more certainty to investors.
Ensure that permitted development schemes contribute affordable housing through S106. Currently, schemes with permitted development rights are exempt from S106 contributions. This gives them an unfair market advantage, while limiting their contribution to the wider housing market.

Empower London local authorities to improve their existing PRS. All new-build housing is, and will remain, a tiny fraction of the PRS, with limited influence. As London’s only growing tenure, and more families with children and vulnerable communities living in private-rented accommodation, CLG should not hinder local authority enforcement and intelligence gathering, such as licensing schemes and civil penalties. CLG should give more power to local authorities and the GLA to improve the existing PRS through enforcement and borough-wide licensing.

GLA

Monitor success of London Living Rent. Discount Market Rents need to be truly affordable – FoL research suggests that this is not always the case. The GLA supplementary planning guidance favouring use of ward-level London Living Rents is a considerable step forwards, even if it decreases the number of ‘affordable’ homes on a scheme. Incorporating London Living Rent into the London Plan would bring certainty, though the GLA will need to ensure that the guidance is working as expected first.

Produce case studies of public-private PRS delivery models. Many London councils are seeking, or planning to seek, developer and investor partners for delivering new PRS housing. These arrangements provide scale and capacity with real understanding of local need.

Ensure the GLA track these partnerships’ efficiency, risk/return and the quality of the final product they deliver, and share best practice with all boroughs. This will benefit all sectors and accelerate delivery.

Do not move further away from space standards without evidence. Many in the industry would like space standards changed to reflect that Build to Rent development provides a lot of communal and amenity space in addition to the individual units. However, there is already some flex: the 2016 London Plan states that exceptions can be made if the design is right, and this is reiterated in GLA affordable housing supplementary planning guidance. It is up to developers and local authorities to utilise this flexibility where appropriate. Before considering any further deviation from space standards, the GLA should research experiences of living in smaller homes and use of communal spaces.

Contributors

Future of London is an independent not-for-profit urban policy network focused on the challenges facing regeneration, housing, infrastructure and economic development practitioners in the capital. We are a borough-led membership organisation with a number of external partners, which provides top career development, expert-led policy research, and topical networking and speaker-led events.

LSE London is a centre of research excellence on the economic and social issues of the London region, as well as the problems and possibilities of other urban and metropolitan regions. The centre has a strong international reputation particularly in the fields of labour markets, social and demographic change, housing, finance and governance, and is the leading academic centre for analyses of city-wide developments in London.

Endnotes


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