Acknowledgements

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Cover: King’s Cross

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INTRODUCTION

In the quest to deliver housing and regeneration more effectively, cross-sector partnerships are on the rise again. The emphasis now is on structures that give local government agencies more control and help them retain assets for long-term revenue. Most models, from joint ventures through council-owned companies to direct Council delivery, are relatively new; gathering best practice from concept to delivery is difficult at best.

What is clear is that these relationships will deliver the most for London if they can be balanced better. Local authorities bring valuable assets to the table, along with planning and community experience and an understanding of local priorities. The enabling cash and expertise needed to get deals and development moving usually come from the private sector. Optimising that match means identifying the most appropriate delivery structures, balancing skill sets, and the partners understanding each other’s drivers and processes.

Further, despite the appetite for joint ventures and other partnerships, there’s been a scattershot approach to date, with organisations sometimes making choices that aren’t the right fit. There has been research on council-owned companies, but there’s not yet been a London-wide quantitative/qualitative analysis of the scale, suitability and evolution of the models being used for housing delivery, or of public-sector direction in this area.

To help, Future of London and GVA – supported by Oak Foundation, BLP Insurance and Lewis Silkin LLP – combined research, interviews and three roundtables to assess which models are being used across the capital, what they’re delivering, and where we go next.
DEFINITIONS

Several housing delivery models are being used in London, with characteristics varying based on the parties and assets involved; the appetite and capacity for risk; and broader model objectives. Table 1 defines commonly used models, ranging from public sector-led through contractual partnerships to public/private joint ventures.

Table 1: Commonly used models

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Public Sector Delivery</td>
<td>The delivery of new housing through on-balance-sheet development projects, usually but not exclusively on council-owned land. The project sizes are typically two- to 10-dwelling infill developments, though some councils are delivering schemes over 100 homes. Example: LB Camden has a well-established direct delivery programme with 14 projects delivering more than 2,000 new homes.</td>
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<tr>
<td>Wholly-Owned Public Vehicle</td>
<td>A company with the specific aim of undertaking property development, usually but not exclusively on council-owned land. These vehicles are generally in the form of a Limited Company in which 100% of the shares are held by the council. Example: LB Croydon's Brick by Brick, with a pipeline of 30 development projects delivering ~1,000 new homes.</td>
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<tr>
<td>Development Agreement - Master/ Strategic Development Partner</td>
<td>A legal agreement with a strategic partner to prepare sites for development, usually by installing infrastructure and obtaining planning. Whilst the strategic partner may also develop, some or all of the serviced parcels of land are then sold on to housing developers. Example: ASF Group Ltd and LB Barking &amp; Dagenham are working together to deliver a major infrastructure and development project in the Castle Green area of Barking, including ~15,000 new homes.</td>
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</tr>
<tr>
<td>Development Agreement - Direct Development Partner</td>
<td>A legal agreement between a land owner and a developer to develop housing and ancillary uses directly. Example: LB Haringey selected Lendlease as preferred development partner for its High Road West development in Tottenham. Lendlease will deliver more than 2,500 new homes including at least 750 affordable.</td>
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<tr>
<td>Public/Private Corporate Joint Venture (JV)</td>
<td>A new development company, typically set up for a specific development project, owned by a developer and a public body, usually on a 50/50 basis. It is common for the public body to contribute land and the private partner to contribute development expertise and finance. Example: Barking Riverside Ltd is a JV development company owned by the GLA (49%) and L&amp;Q (51%), scheduled to deliver 10,800 new homes.</td>
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<tr>
<td>Public/Private Contractual Joint Venture (JV)</td>
<td>A legal agreement which enables a sharing of development risk between the parties. Typically made between a public body and a developer, it seeks to copy many of the advantages of a corporate JV but without creating a new corporate entity. Example: LB Hammersmith &amp; Fulham has a de facto contractual JV with CapCo at Earl’s Court (Land Sale Agreement with overage clauses), set to deliver ~7,500 new homes.</td>
<td></td>
</tr>
<tr>
<td>Community-Led Housing Development</td>
<td>A community benefit entity, developing affordable, intermediate &amp; market homes, either self-developed or participating in any of the above as part of an S.106 requirement. These can be on a turnkey basis with an enabling developer partner, or direct-funded, via grants, loans, community share issues or purchasers’ equity. Examples: Turnkey: Intermediate limited equity as part of S.106 at St. Clement’s Hospital in Bow with Linden Homes. Self-developed: RUSS Self -build mixed tenure on council-owned site in Lewisham.</td>
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</tbody>
</table>
Historically, local authorities and related entities have tended to sell surplus housing land to the highest bidder as the quickest and easiest way to realise asset value. Now, responding to tightening budgets and the implications of fiscal devolution, they want to make better, longer-term use of their assets.

When set up and run well, emerging delivery models can be far more effective than straight sale at delivering local objectives such as housing numbers, capital and/or revenue income, influencing the quality of development or broader regeneration goals. These models – from council-owned companies to joint ventures – all provide more public-sector control in the development process and of the ultimate output.

Table 2 shows the distribution of active housing delivery models in London at the time of publication, with the number of homes linked to each.

The Development Agreement model is currently the most widely used, with 61% of tracked schemes taking place via a direct development partner and a further 2% through a master/strategic development partner. The DA model is due to deliver 105,000 homes, enough to meet London’s housing need for 18 months.

<table>
<thead>
<tr>
<th>Models</th>
<th>% of total models</th>
<th>Homes*</th>
<th>Homes per model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Agreement - Direct Development Partner</td>
<td>88</td>
<td>61%</td>
<td>77,500</td>
</tr>
<tr>
<td>Development Agreement - Master/Strategic Development Partner</td>
<td>3</td>
<td>2%</td>
<td>26,300</td>
</tr>
<tr>
<td>Direct public sector delivery</td>
<td>8</td>
<td>6%</td>
<td>9,900</td>
</tr>
<tr>
<td>Public/Private Contractual Joint Venture</td>
<td>2</td>
<td>1%</td>
<td>7,100</td>
</tr>
<tr>
<td>Public/Private Corporate Joint Venture</td>
<td>32</td>
<td>22%</td>
<td>47,200</td>
</tr>
<tr>
<td>Wholly Owned Public Vehicle</td>
<td>12</td>
<td>8%</td>
<td>11,800</td>
</tr>
</tbody>
</table>
| **145** | **179,800** | *Includes schemes that are proposed but not yet in development

Note: Community-led Housing datasets are collected and collated differently. In brief, some 3,600 homes (social, intermediate and market) are planned within current schemes. Contact Future of London for more info.

The next most prevalent model is corporate JVs, with 32 schemes (22% of the total) and plans for 47,200 homes (26% of the total). GVA findings indicate that some 90% of those schemes are still some way from starting, showing how new this model is.

Also of note, only eight boroughs to date are investing directly in housing development, but they’re still contributing 9,700 new homes to London, at an average of 1,200 homes per programme.
INVESTMENT

“Public bodies are under two pressures at the moment: the delivery pressure to build homes and the financial pressure to realise income. Lots of the models are trying to score a lot of goals, but these are often in conflict with each other.”

In contemplating risk-sharing housing delivery models, councils and other public entities must consider private-sector investor or developer appetite and capacity. Aside from underlying project appeal, that appetite will vary according to:

- macro-economic and property market cycles
- the availability of more traditional opportunity sites/projects
- competing housing models available in the market
- unforeseen macro-events such as Brexit, major policy announcements, etc.

The three Delivery Model research roundtables showed that, whilst adapting to this growing market opportunity, the private sector remains cautious. Joint venture procurement processes don’t always draw strong competition, which can threaten the quality of the agreement – and the scheme. Understanding perceived or forecast interest is critical, and one reason so many entities are trying soft-market testing.

There is a variety of funding methods available to enable these delivery models. No matter what the housing and community aims, these are commercial vehicles, and for private investors, the fundamentals are clear: an identifiable and robust exit strategy. This can be through market sales, pre-sales (of both Build to Rent or affordable homes) or the provision of a public-sector guarantee or lease.

The public sector in turn can enable the early-stage funding and delivery of challenging projects. Whilst requiring a return on its investment, the public sector can take a longer-term perspective on funding risk.

The sector should also better promote the fact that it can provide a credible source of funding (ideally before marketing a scheme), e.g. through the Public Works Loan Board, to unlock development activity.

Finally, simplifying the number of public funding streams and the process of applying would allow developers better access to public finance. However, public sector funding investment must have a realistic chance of being returned with interest.

**From the Roundtables:**

- Where State Aid and other procurement restrictions aren’t a block, the best option for public-sector or cross-sector housing delivery is often low-interest prudential borrowing via the Public Works Loan Board (PWLB), which is invariably cheaper and less restrictive than traditional commercial lending.
- Find the best response for the objective, whether that’s housing, infrastructure or other local need: sometimes the best answer isn’t financially viable, and must be cross-subsidised or otherwise funded. A portfolio approach to development (e.g. housing associations, TfL and the GLA) is well suited to this.
- One proposed approach was boroughs using their borrowing power to directly fund schemes brought forward by partners (e.g. Muse in Lambeth), since well-considered loan contracts “can provide almost as much control” as partnerships, and can be simpler and faster to deliver.
- Increase the focus on integrating older people’s housing options – at mixed incomes and values – with varying levels of care. This is a prime area for cross-subsidy.
- Politics is one of the top investment risks in public-private delivery models; partly addressing opposition or negotiating changes in leadership, and partly educating private-sector partners.

**Proposal:** Allocate a portion of stamp duty land tax receipts to homebuilding, especially affordable homes.

London (and other cities) needs a new and more flexible funding source that can cross-subsidise schemes and models with different value and risk profiles, support mixed-use schemes, etc. Roundtable participants proposed a London-focused debt-and-equity fund that might be seeded by the GLA or central government and possibly with council shares, which housing developers of all types and sizes – including hard-to-fund schemes – could apply for. The fund would have the potential to be self-sustaining, and could be more flexible than current market offers.

“There’s been a distinct upturn in partnering models being offered to market across all sorts of locations and contexts. Investors are increasingly selective about where they focus their time and money, and they’re paying particular attention to how the investment business case hangs together.”
DELIVERY

As shown in Fig 1, housing delivery models aren’t spread evenly across London. The former industrial and inner-city areas of central-east London have high levels of activity compared to the more suburban boroughs. The availability of development projects is a factor, but several outer London authorities are starting to innovate, to stimulate housing investment in a way that more directly meets local need.

**Fig 1. Total Homes to be delivered by area (active delivery models)**

Affordable Housing

Housing local people, managing waiting lists and capping the rising cost of temporary accommodation are top priorities for councils. Various delivery models can help supply more affordable housing; within that, the percentage of social rented housing varies considerably by model and borough (see Fig. 2). This may indicate different objectives or varying success rates.

**Fig 2. Average social rent % secured in planning, by area (active delivery models)**
Building Teams

A clear message from the research roundtables was local government’s fundamental need for adequate, consistent resource to manage these housing delivery vehicles. Given budget cuts, this is a serious challenge, and there are many examples of housing models faltering or collapsing altogether without sufficient staffing.

Continuity is also key; knowledgeable staff are often promoted or pulled off projects once the deal is done or delivery starts, leaving a resource vacuum as the work gets underway.

Managing a direct development programme, whether tied to existing activities or through wholly-owned vehicles, requires considerable resource investment. Examples include LB Hackney and Transport for London, where teams of 25 – 75 have been assembled over three to four years to achieve the critical mass and expertise needed to deliver these major housing programmes.

From the Roundtables:

- Improve awareness of delivery and investment models so stakeholders, especially local authorities, know what’s out there and can tailor options to local need.
- Invest in scoping and stress-testing scheme objectives and delivery before getting started.
- To defend against ‘silo’ working, make sure all stakeholders and departments are aligned, and know their materials; one participant said project leads often don’t know what they’re signing.
- A few participants pointed out that there is top-tier negotiation and delivery expertise in councils. Having cut the most experienced cadre in early cuts, though, boroughs are forced to move mid-level officers up too fast. Often overworked and with slashed training budgets, few have the knowledge to deliver housing deals with confidence. Supporting this middle tier is critical.

“‘The resource discussion is always focused on individual organisations, but as the housing challenge gets tougher, we must organise the resources we already have, in a more resourceful way, across the whole sector.’”

Figure 3 - Average affordable housing per model

Average affordable housing across all models is 33%. For comparison, net affordable housing completions averaged 24% of overall supply in the three years 2013-16 (GLA).

One proposal was to hire more graduates and allow for a five- to eight-year learning curve. Two challenges are that (1) housing – particularly affordable and/or complex projects – must be delivered now and (2) ‘as soon as people get good, they get poached’ by the private sector or other organisations. Within those challenges, options included:

- Move new hires between departments for broader knowledge and networks, e.g. every six months as one private-sector participant does. Some public-sector organisations do this, but more could be done at local level.
- Seasoned consultants should actively mentor younger colleagues. These day-rate professionals, often borough directors who took redundancy during the cuts – could be tasked with sharing their knowledge as part of their remit and the council’s investment.
- New ideas and education must be shared beyond single decision-makers. Workload and personnel churn make it hard for councils to absorb new ideas. Both a property consultant and a land trust champion said it took around a year to educate borough decision-makers on new initiatives – if/when that person goes, the work and sometimes the project is lost. More organisation- and sector-wide education must be sanctioned.

Finally, it was pointed out that other departments at all levels must be involved: finance, legal and strategy (plus assets, employment, care, education and so on) only touch on housing delivery at certain points, but have insight to share throughout.
An understanding of investment considerations and tools for building (and keeping) strong teams are key; in our third research roundtable, we invited participants to bring other factors to bear.

**Portfolio approach to affordable housing delivery:**

A proposal for assembling portfolio sites was heavily discussed at the roundtables. Borough officers thought the approach might not be reconcilable with local planning policy and/or able to accommodate political or market change; a developer countered that where they can be made to work, add-ons like skills support are easier to deliver.

Furthermore, a portfolio approach can allow for increased cross-subsidy of truly affordable housing; this can range from Transport for London’s massive estate focus to LB Croydon’s Brick by-Brick small sites initiative.

**Market access for SMEs:**

Contributors believed making delivery models more open to small- and medium-sized contractors would help support delivery. Councils could lobby for their inclusion; provide access to the necessary contacts; help establish an SME-focused funding pool (without punitive interest rates); provide more accessible procurement tools or avenues; and otherwise support their entry to and involvement in the market.

While working with SMEs carries a higher degree of risk, this is something that local authorities have capacity for and is balanced by the contribution they can make to delivering housing, potentially with more innovative outcomes.

**The political landscape:**

As noted above, politics is seen as one of the key investment risks to the suitability and success of using public–private delivery models. Partners should be aware of potential risks and work to mitigate them, and at a time of political uncertainty, delivery models should be flexible enough to accommodate change.

**London’s May 2018 local elections may sharpen opposition to public–private partnerships, as an ascendant Labour party shifts to the left, potentially in opposition to many Labour-run London councils. Scrutiny and resistance – both within councils and by public and political activists – are likely to be more common. There is also likely to be more resistance in certain boroughs to asset disposals and/or shared risk with private sector partners. Involving communities early and meaningfully will need to move to the fore across London.**

**Delivery models must be resilient to change at all levels.** On top of local change, Brexit means ongoing political and economic uncertainty. Sterling is still relatively low but interest rates are rising, and while this government may be warming to social housing, its tenure may be precarious.

**Engaging with local authorities should be about more than just housing.** One developer pointed out that supporting councils with skills, employment, environmental and other priorities – as well as offering secondments or backing training – is a worthwhile investment, broadening the contact base and helping partnerships survive change.

**London can’t rest on its laurels, as regional competition warms up.** Participants noted that London’s thorny politics and continued high land prices already have developers and investors looking further afield. Watch for more of that in coming years, as combined authorities and councils across the UK raise their game.

**Considering options:**

Build-to-rent housing was seen as a strong part of the mix in and beyond London, offering a rental alternative that suits city demographics, provides financing alternatives and a long-term asset, and can start to professionalise the whole private-rented landlord sector.

**A public-sector strategic land task force, identifying and then buying or partnering on land about to climb in value under new policy, also got a strong positive response. This idea is put forward regularly, and could be worth investigating further.**

“Councils sometimes see neighbouring boroughs using a particular model and adapt that, when it’s not suitable for their needs. We need to help people assess what’s out there.”
AN ALTERNATIVE: COMMUNITY-LED HOUSING

The dominant characteristic of new housing projects with high citizen participation and ownership is that citizens favour more housing near them, more affordable housing and schemes receive planning permissions quicker with higher levels of public and political support. Why, therefore, aren’t we doing more of it? Commentary from Stephen Hill, RICS

Community housing in London

The main contribution of community housing in London has been 60,000 cooperatively owned or managed, mostly social rental homes built in the 1970s and 80s. With most properties now fully debt-free, cooperatively owned homes are a significant resource of uncharged equity. Community land trusts (CLTs), driven by community organising, have added new types of genuinely and permanently affordable limited-equity and rental homes for the intermediate market. These predate the GLA’s latest income-related London Living Rent programme.

Cohousing, particularly for older people, is attracting public interest from prospective occupiers as well as councils and other housing providers trying to minimise rising care costs. Since opening in early 2017, the Older Women’s Cohousing project in Barnet has collected many awards for design and social innovation.

Prospects

The GLA is part-funding the establishment of a Community Housing Hub, as a technical resource for new community groups and projects, through the GLA’s Innovation Fund and other programmes. Other resources are available from boroughs via allocations from Year 1 of the government’s Community Housing Fund, and from charity-funded start-up programmes of the National CLT Network and DCLG’s Community Land & Buildings and Neighbourhood Planning grant contracts, currently administered by Locality.

Urban Myths...
or reasons not to take community housing seriously

Community projects take a long time
All development in London takes a long time.

Community projects are too small to bother with
The annual shortfall in new housing supply is about 50%, so every new home counts. The GLA has identified over 100,000 plots on small sites in public and private ownership – and some community projects are large.

Community groups fall out and argue
So do professional design and delivery teams, planners, highway engineers, contractors, subcontractors, lawyers, financial advisers...

Community groups are preoccupied with what they want
That’s the point. They are working for what their communities need. This may be different from what policy and the market is offering, but ‘they’ are the voice of the demand side.

The Hub will work closely with the GLA and Transport for London Small Sites programme.

London CLT’s first project of 23 limited-equity homes is now completing at the GLA’s St Clement’s Hospital project in Bow, as Section106 affordable intermediate homes. London CLT has also secured political commitments from Croydon, Redbridge, Tower Hamlets and Lewisham to develop about 200 similar homes on public land over the next five years.

Innovation and ‘action learning’

Other community groups are working up projects for 3,500 new homes on public land for mixed-use developments, and for estate regeneration without displacement. These are being co-designed with institutional funders and enabling development partners as a new not-for-profit civic housing rental sector, for a range of sub-market rentals related to area median incomes.

The community housing sector is working with the grain of long-term investment cycles, shifting from debt to equity funding that optimises both the financial returns for public land owners and funders, and the numbers of affordable homes. It is leading a conversation with institutions, the GLA and Future of London to develop this sector, with standard documentation, due diligence procedures and process mapped structures, within an action learning framework that will share learning with councils, enabling developers, funders as well as other community developers.
CONCLUSION & RESOURCES

Cross-sector partnerships can help address London’s housing shortfall and serve other local needs, but they must be balanced. These emerging delivery models offer local government entities from councils to TfL more control and help them retain assets for long-term revenue. Finding the most appropriate structures, balancing skill sets between public and private, and understanding each other’s drivers and processes are the next steps.

We hope this research, the three roundtables and Future of London’s online posts (see below), help that process along. This is a live topic for London, and we encourage you to make use of the resources produced by sister organisations. Future of London will also include sessions on these topics as part of its London Housing Network programme for members; if you’re interested, please get in touch.

References

1 Building and Social Housing Foundation, https://www.bshf.org
2 Confederation of Co-operative Housing, http://www.cch.coop
3 National Community Land Trust Network, http://www.communitylandtrusts.org.uk
5 Older Women’s Co-Housing, http://www.owch.org.uk

Further resources

London Councils (forthcoming) The Rise of Local Housing Companies: www.londoncouncils.gov.uk
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