



**Review of the barriers to institutional investment in private rented homes
London First Response
26 March 2012**

Introduction

1. London First is a business membership organisation with the mission to make London the best city in the world in which to do business. We represent the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, creative industries, hospitality and retail. Our membership also includes higher education institutions and further education colleges.
2. We welcome the opportunity to respond to the review. We do not believe that attracting greater levels of institutional investment is the 'silver bullet' to increase housing supply in London, but we do think that it is part of the solution.
3. For a long time, the amount of new homes built in London has failed to satisfy demand. This historic undersupply, coupled with the cost of accessing home ownership, especially for first-time buyers, has led many Londoners to seek accommodation in the private rented sector. London has approximately 670,000 households living in private rented homes, which is 23 per cent of all London householders, with the national average being 16 per cent.¹
4. The vast majority of these private rented homes are not owned by private institutions. In fact, only one per cent of residential stock in the UK is currently owned by institutions compared with around ten to fifteen per cent in most European countries.²
5. There are a number of reasons for this lack of institutional investment and indeed this has been the subject of previous Government reviews and action. Changes made by Government to the REITS regime and to the treatment of stamp duty on bulk purchases of residential property have seemingly failed to sufficiently stimulate the market.
6. The need for intensive and effective management and the reputational risks that accompany this challenge remain a concern to institutional investors. As does overcoming construction and planning risks associated with delivering new homes. Institutions also want to invest on a large scale but the lack of new homes, particularly in the right location, is a significant barrier. Through a

combination of these factors and other reasons the largest barrier to institutional investment is created which is that institutions do not believe that investing in private rented homes generates attractive returns.

7. If the government wishes to see an increase in institutional investment then it seems likely that changes in public policy will be required.

The role of the Mayor and the GLA

8. When compared with other local and subregional government in England the Mayor is uniquely placed to support and attract greater levels of institutional investment into private rented homes. The Mayor sets strategic planning policy for the capital through the London Plan and can determine planning applications over a certain threshold. In addition, the Localism Act 2011 provides the Mayor with enhanced powers to control investment in housing as well as transferring assets and land from government agencies over to the GLA. The Mayor can also establish a Mayoral Development Corporation.³ These powers provide the Mayor with a comprehensive toolbox to deliver or at least stimulate the delivery of more homes.
9. The London Plan does not have a specific policy about institutional investment into private rented homes, although the wider text of the Plan supports the concept, and states that the Mayor will 'investigate how changes to the Use Classes Order' could support institutional investment (discussed in more detail below).⁴
10. The Mayor's draft Revised Housing Strategy also supports institutional investment, acknowledging that the Mayor can play a 'key role' in delivering private rented homes through creating an enabling policy framework, particularly around planning, the use of GLA land and through brokering deals.⁵

Land

11. Come April 2012, the GLA will own a significant amount of land. How it chooses to utilise and dispose of it will be determined by a number of factors such as the quality and location of the land and, perhaps most importantly, the need to repay debt primarily associated with the transfer of land in the Olympic Park.
12. Another consideration should be how sites could be utilised for regeneration and economic growth; one option would be to offer land to the market on a deferred receipts basis or as an equity investment.
13. If the GLA could coordinate a number of large sites coming forward specifically for private rented homes this could help to address the concern that there are

insufficient numbers of residential units for institutions to invest in on a scale that they are comfortable with.

Planning Policy

14. As highlighted above, the London Plan discusses institutional investment into private rented homes but could provide stronger support by including a specific policy on this subject. This policy could state specifically how the Mayor will support the delivery of new built large scale private rented homes and what planning obligations will be placed on such development. For example, there is no requirement to provide affordable housing for the majority of purpose built student accommodation developments in London. There are sensible public policy reasons for this. A similar approach could be used to stimulate institutional investment into private rented homes, and the London Plan could list the criteria for accessing this support. There would need to be very clear wider social benefits delivered by the development to justify this policy, such as regenerating derelict sites and/or providing a range of units to support London's diverse housing need.
15. Further planning policy support could be offered through a London Plan policy that promotes the use of a planning condition attached to new build developments that maintains a proportion of units as private rented accommodation for a set period of time. In theory, this could help to differentiate the value of land for market sale and private rented homes. It would also allow investors to take advantage of capital growth through selling units once the condition expires.

Demonstrator schemes

16. The Government's Housing Strategy sees an important role for the public sector in attracting institutional investment into private rented homes 'as planning authorities and major landowners...in both enabling and testing new models, while meeting local housing demands and needs.'⁶
17. Given the breadth of power and resource at the GLA's disposal, the Mayor could lead a limited number of demonstrator schemes to show boroughs and investors how this type of development can work in practice.
18. There is some evidence of this already happening through central Government, with announcement in the Housing Strategy that the HCA has been looking at 'the potential for marketing sites specifically to include homes to rent' and that the first scheme on this basis will be at Spencer's Park in Hemel Hempstead.⁷ And at a borough level in London, Barking and Dagenham council have been at the

forefront of testing new models of delivery such as forming a special purpose vehicle (SPV) with a private developer, and using the council's land in the SPV.⁸

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¹ The Revised London Housing Strategy Consultation, GLA, December 2011.

² Laying the Foundations: A Housing Strategy for England, HM Government, November 2011.

³ Although only with the approval of the Secretary of State and the London Assembly – a two-thirds majority of the Assembly can block the creation of an MDC.

⁴ The London Plan, Chapter Three, Paragraph 3.54, GLA, July 2011.

⁵ The Revised London Housing Strategy Consultation, GLA, December 2011.

⁶ Laying the Foundations: A Housing Strategy for England, HM Government, November 2011.

⁷ Ibid.

⁸ Presentation by Ken Jones, Housing Strategy Manager, LB Barking and Dagenham, London First East London Housing Partnership Seminar, Practical solutions for increasing investment in east London's housing supply, 24 January 2012.