

New Southwark Plan Evidence Base: Build to Rent

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1. Context

1.1. A review carried out by Sir Adrian Montague (DCLG 2012) on the barriers to institutional investment in private rented homes details a series of benefits associated with the expansion of a more professional private rented sector (PRS). A key feature is the potential for institutional PRS schemes to offer greater security to tenants by providing longer-term rental contracts. Furthermore, the institutional PRS has a greater propensity to offer tenants fair rent and to provide a better management service, for example, providing a dedicated repair service and a concierge. PRS investors said it benefitted them to assure tenants of the quality of both the property and the on-going management and maintenance. As such purpose-built PRS accommodation is likely to be delivered at a high standard of construction. Finally, and as stated in the Mayor's 2012 Housing Covenant report, build-to-rent developments are able to bring forward additional investment into London's housing market, unlocking stalled housing schemes, and helping to boost overall housing supply because the PRS homes have only a limited effect, if at all, on sales values or sales rates in the 'built for sale' market (GLA 2012).

National Context

1.2. In recent years the PRS has grown substantially. In 2015 approximately 16.5% of all households in England were living in PRS accommodation (DCLG 2015a). The DCLG describes PRS as a flexible form of tenure that meets a wide range of housing needs and which supports greater labour market mobility. The flexibility of the PRS is popular amongst young people. However, within this sector around 20% of households have been at their current address for over 5 years and there are a significant number of people in the sector setting up their long term family homes (DCLG 2012). Government policy is to improve the quality and expand the availability of institutional PRS, believing that the most effective way to make rents more affordable is to increase the supply of new homes (DCLG 2015a). In support of this, and partly subject to recommendations from the Montague Review, the government set up a Private Rented Sector Taskforce and invested £1 billion in a Build to Rent Fund. The Build to Rent Fund provides equity finance for purpose-built private rented housing, a £10 billion debt guarantee scheme to support the provision of these new homes, and up to 30,000 additional affordable homes. The Private Rented Sector Taskforce remit is to improve quality and choice to those living in privately-rented accommodation.

1.3. The Planning Practice Guidance (PPG) states that in order to “ensure [PRS] schemes remain viable while improving the diversity of housing to meet local needs, local planning authorities should consider the appropriate level of planning obligations, including for affordable housing, and when these payments are required” (paragraph 16:2015).

London Context

1.4. The current undersupply of social rented homes and the inability of would-be first-time-buyers to afford property in London has led to substantial growth in the PRS (GLA 2013). The PRS now houses 30% of all households in London, up from 14% in 2003/4 (GLA 2015). By 2025 this percentage is projected to rise to 37% (GLA 2012). In line with the national trend, the demographic profile of London’s PRS tenants is changing. Households are renting for longer and there are an increasing amount of families with children within the sector.

1.5. The London Plan (2015) identifies that the planning system should take a more positive approach in enabling PRS to contribute to the achievement of housing targets, specifically stating that: “boroughs should work with the Mayor and local communities to identify the range of needs likely to arise within their areas and ensure that...the planning system provides positive and practical support to sustain the contribution of the Private Rented Sector in addressing housing needs and increased housing delivery” (Para 3.8.B a1, see Appendix 2 for further PRS detail in the London Plan). The Plan also requires boroughs to take account of ‘the distinct economics’ of the private rented sector relative to mainstream market housing when undertaking viability assessments for covenanted schemes¹.

1.6. The GLA’s Housing SPG (2015) encourages boroughs to support long-term private rented products through certain flexibilities for developers. For example it states: “Where viability suggests traditional affordable housing products are unviable on covenanted schemes due to the distinct economics, developers and boroughs could consider including discounted market rent (intermediate rent) as the affordable offer” (Para 3.1.27, see Appendix 3 for further PRS detail in the Housing SPG).

1.7. Based on the national and regional guidance mentioned above the following flexibilities are encouraged:

1. Intermediate rent in place of affordable (GLA Housing SPG, see Appendix 1 Para 3.1.27)
2. ‘Claw back’ mechanisms in place of affordable housing contributions. This would enable developers to avoid providing affordable housing in the initial scheme but if it is sold on the market at a later date then a contribution of affordable housing would be made based on the level “that would have been viable on the scheme if it was for traditional market sale” (GLA Housing SPG, see Appendix 1 Para 3.1.28).
3. Deferred receipts for developers (GLA Housing SPG, see Appendix Para 3.1.30).
4. Less affordable housing than conventionally funded schemes (PPG)

Local Context

1.8. Southwark’s Housing Strategy states the Council wants to see a transformation of the PRS. The Strategy seeks to encourage better management of rented property and to provide tenants with

¹ The GLA Housing SPG defines these schemes as those that are secured as private rent for a fixed period either through a covenant, a Section 106 agreement or other legal agreement.

better stability, security, affordability and conditions than the existing PRS market. Furthermore, the Strategy seeks to encourage institutional landlords to develop high quality PRS properties.

1.9. Southwark's Housing Strategy sets out clear goals for the borough's private rented sector. PRS in Southwark grew by 88.3% between 2001 and 2011, accounting for 24.9% of households. . Between 2001 and 2011 private rented households in Southwark doubled from 14,323 to 28,493². This gives the private rented sector in Southwark a 23.7% share of all households in 2011, up from 13.5% in 2001. Whilst this sector is predominantly populated by young adults, the local PRS is seeing an increasing amount of households with dependent children (5,153 households in 2011). Due to short tenancies, the PRS is particularly unsuitable for families because tenants are unable to put down roots which can damage children's education and social networks.

2. Viability of PRS schemes

- 2.1. Consultation responses to the Issues and Options version of the New Southwark Plan specifically addressed the issue of institutional PRS. Some responses stated that PRS developments should be assessed differently to private 'for sale' housing, as is recommended in the National Planning Practice Guidance (Paragraph 18). Further, it was noted that the economics of PRS schemes differ to that of for sale housing and that this should be taken into account when making decisions about viability. This position is supported in the London Plan (2015, paragraph 3.54) which states that "viability tests of covenanted PRS proposals should take account of the distinct economies of [institutional] PRS". However, although PRS economics do differ, a report by EC Harris identifies that "when accounting for true net sales returns (after deductions for marketing and other sales related costs), the end value of PRS units is often not dissimilar to net open market sales" (EC Harris 2013: 6).
- 2.2. Respondents raised concern that there is a growing need for more affordable forms of private rented accommodation in order to meet the needs of London's younger working population. They suggest that where developments are considered to meet this particular housing need, for example, by offering rents at a variable level, this could be recognised as an acceptable way to ease a scheme's requirements for more conventional forms of affordable housing. Relatedly, respondents to LBSs CIL Charging Schedule consultation argued that residential development delivered as part of the PRS should be subject to a differential CIL rate if justified by evidence.
- 2.3. BNP Paribas undertook viability testing of PRS schemes as part of the Housing Policy Viability Study (2015) underpinning the New Southwark Plan. They tested schemes adopting two PRS funding models. The first assumed a developer sells the units to a PRS provider at a reduced rate to market value. The second assumed the developer will retain and manage the PRS investment. The testing concluded that PRS schemes can, in most instances, viably deliver the same level of affordable housing as conventionally funded schemes. This was consistent with the conclusions underpinning LBSs CIL Charging Schedule (which does not have a differential rate for PRS and conventionally funded houses). As such there is no viability-based grounds to establish a differential affordable housing policy for PRS schemes. As with conventionally funded scheme, the council may consider the viability and feasibility of providing affordable housing on a specific PRS scheme.

² Data from Census 2001 and 2011.

3. Southwark's local need for private rented accommodation

3.1. PRS schemes are predominantly targeted at lower and middle income households which do not have access to social housing and are unable to buy a home. There are currently no known purpose built PRS schemes in Southwark³. However, by looking elsewhere in London, it is possible to ascertain the market position of PRS relative to conventional rental homes. A one bed flat in the Fizzy Living scheme in Stepney Green was on the market at £1,625 pcm⁴, whereas the average rent for a one bed flat in the same area is £1,165⁵, a 39% difference. Two bed flats in the Fizzy Living scheme in Canning Town were on the rental market at between £1,650 and £1,775 pcm⁶, with the average rent for a two bed flat in the same area at £1,677⁷, a 2.1% difference⁸. A two bed flat in the Fizzy Living scheme in Poplar was £1,750⁹, with an average rent for a two bed flat in the same area at £2,400¹⁰. In this case the average rent for Poplar was 37.1% higher than the PRS scheme rent. A two bed flat in the Fizzy Living scheme in Epsom, Surrey was on the rental market for £1,250¹¹, with the average rent for a two bed flat in the same area at reaching £1,274¹², an increase of 1.92%. With the exception of the scheme in Poplar, build to rent schemes tend to charge marginally higher rents to similar conventional PRS homes. This indicates that institutional PRS schemes are currently primarily targeted middle income households, rather than benefit dependant households. With Southwark's changing tenure profile, PRS schemes, such as those offered by Fizzy Living, can be expected to play an increasingly important role in meeting housing needs.

4. Approaches to institutional PRS schemes in planning practice

Christie's Warehouse development, Wandsworth

4.1. The redevelopment of the Christie's Warehouse site in the borough of Wandsworth includes 114 out of 513 units for the PRS. The Section 106 for this development details that these units will remain as PRS for a minimum of 15 years, offer up to 5 year leases for tenants, have no more than 1 rent increase per year, in line with evidenced market increases, and allocation will prioritise residents who live and or work in the Borough. The scheme provides 76 affordable housing units (15% of the scheme totals), which is a policy compliant level of provision due to the site being within the Nine Elms Opportunity Area. Developments within this area have a reduced affordable housing quota in order to allow for higher financial contributions towards infrastructural such as the Northern Line extension.

Clippers Quay, Salford

4.2. The Clippers Quay development in Salford will provide 614 units entirely for the private rented sector. The development will provide on-site facilities including a 24 hour concierge, a café, a gym and a cinema. The development is providing no affordable housing. The planning statement

³ However a built to rent scheme called Newington Butts is currently being built in Elephant and Castle. This is scheduled for completion in 2017.

⁴ Featured on rightmove.co.uk on 05/08/15.

⁵ Data from Zoopla.co.uk.

⁶ Featured on rightmove.co.uk on 05/08/15.

⁷ Data from Zoopla.co.uk.

⁸ When using the middle value between £1,650 and £1,775 (£1,713).

⁹ Featured on rightmove.co.uk on 05/08/15.

¹⁰ Data from Zoopla.co.uk.

¹¹ Featured on sparerroom.co.uk on 05/08/15.

¹² Data from Zoopla.co.uk.

states: “The apartments will help address affordability issues within the Regional Centre and the Quays area by bringing a significant quantum of available and ‘affordable’ rental units to the market. Consequently, it would be inappropriate to require this development to provide Affordable Housing either on or off-site” (Deloitte 2014). The planning statement also states that the provision of affordable housing would render the scheme unviable. The Officer’s Report does whether this was deemed to be a reasonable approach.

Newington Butts, Elephant and Castle

4.3. The Newington Butts development on the previous London Park Hotel site will provide 457 units in total, 278 of which will be for private rent, with 179 (39% of total) being low cost properties (shared ownership units, target rented units, affordable rented units, and intermediate market rented units). The development will also provide a theatre, a café, and a pavilion building for retail use. The PRS units will be managed by group Essential Living who specialise in private rental homes in the UK. As this development is at a relatively early stage the services that the PRS side offer has not yet been specified.

4.4. Aberfeldy Village, Poplar, London

This development provided a 158 build to rent scheme as part of an overall estate regeneration of 1,200 homes. The inclusion of the build to rent element alongside homes for sale accelerated the estate regeneration by enabling the completion of 338 homes in a single phase. 75 affordable homes were provided by the cross-subsidy which the market units generated. The overall regeneration programme reduced by 2-3 years as a consequence (DCLG 2015b).

Wembley Park, London

4.5. Developers Quintain has planning consent for 5,000 homes of which 25-35% are due to be build to rent housing. Quintain estimates that the inclusion of these built to rent units will speed up the delivery of the whole scheme by 4 to 5 years.

5. Recommendations

5.1. In view of the growing role of institutional PRS schemes in meeting housing needs it is recommended the council consider local policy options relating to PRS schemes through the New Southwark Plan. This will ensure that the council has a greater say in the determination process, rather than being directed entirely by national or regional guidance at the application stage which may not help the council secure the highest quality and most beneficial forms of PRS schemes. In doing so, and in line with the Housing Strategy, such a policy would provide clear benefits for potential residents of PRS schemes and ensure that the council secures the maximum reasonable amount of affordable housing.

5.2. In order for Southwark to drive up standards in the private rented sector Southwark should consider securing benefits for tenants through S106 agreements. Benefits may include longer tenancies, regulated rent rises, and regulated service charges, all of which are clear benefits for tenants as they provide increased housing security and stability. However they also benefit institutional PRS investors as they generate a steady and prolonged income stream. Equally, regulated and transparent rent increases provide tenants increased stability, which in turn can benefit developers as tenants are more likely to continue their tenancy, thus reducing vacancy rates (void periods).

5.3. The London Plan (2015) states that “the planning system must take a more positive approach in enabling this sector [PRS] to contribute to achievement of housing targets” and that “viability

tests of covenanted PRS proposals should take account of the distinct economics of this type of PRS” (Para 3.54). In light of this the council may introduce a greater level of flexibility when applying its affordable housing policies such as accepting affordable housing contributions in staggered phases, rather than up front or early on in the development. The council may also consider securing discount market rent homes that would be owned and managed by the private rental sector provider in place of a conventional affordable housing offer that would typically be secured on a development built for open market sale.

Appendix 1: PPG Viability and decision taking

The private rented sector: “Some privately rented homes can come from purpose built schemes held in single ownership which are intended for long term rental. The economics of such schemes differ from build to sale and should be determined on a case by case basis. To help ensure these schemes remain viable while improving the diversity of housing to meet local needs, local planning authorities should consider the appropriate level of planning obligations, including for affordable housing, and when these payments are required. So these homes remain available to rent only, local planning authorities may choose to explore using planning obligations to secure these schemes for a minimum period of time. Local planning authorities should enforce these planning obligations in the usual way.”

Appendix 2: The London Plan and PRS

Page 90 Para 3.54: “Private renting (PRS) is the only housing sector to have shown relative growth in recent years and is set to play an increasingly important role in meeting Londoners’ diverse housing requirements. One in four London households now live in the sector and around two thirds of the one in eight of households in London that move home each year move into or within it. The planning system must take a more positive approach in enabling this sector to contribute to achievement of housing targets. Montague’s recommendations and the Mayor’s London Housing Strategy show how covenanted PRS can contribute towards this. Viability tests of covenanted PRS proposals should take account of the distinct economics of this type of PRS, as suggested by the Government’s Beta guidance.”

Appendix 3: GLA Housing SPG and PRS

Page 97 Para 3.2.23: “Government and the Mayor support provision of more private rented homes. The 2015 London Plan recognises that the planning system should take a more positive approach in enabling this sector to contribute to the achievement of housing targets (Policy 3.8B a1). Positive support should be given for long term private rented products through the land use planning system at local as well as strategic level eg recognising in Local Plans how the private rented sector can address distinct needs; be particularly suitable for certain locations (for example town centre intensification and transport nodes); as well as through development management.”

Page 98 Para 3.1.26: “In addition, boroughs should recognise the distinct economics of the sector relative to mainstream market housing and take account of this when undertaking viability assessments for covenanted schemes (those schemes that are secured as private rent for a fixed period either through a covenant, a Section 106 agreement or other legal agreement). These distinct economics should also be taken into account when disposing of public land.”

Page 98 Para 3.1.27: “Where viability suggests traditional affordable housing products are unviable on covenanted schemes due to the distinct economics, developers and boroughs could consider including discounted market rent (intermediate rent) as the affordable offer. To be counted as affordable housing, the discounted market rent units would have to meet the NPPF definition of intermediate housing (see section 4.2) and be affordable to those eligible for intermediate housing in London. It should also be noted that being a Local Authority or a private registered provider is not a requirement to deliver intermediate dwellings. Some discounted market rented products qualify for mandatory CIL relief, even when not let by a local authority/private registered provider.”

Page 98 Para 3.1.28: “If viability testing of covenanted schemes demonstrates that affordable housing contributions at the level supported by private sale are unviable because of the distinct

economics of PRS, 'claw back' mechanisms should be included as part of the planning permission to recoup a contribution for affordable housing if homes are sold out of the long term PRS market. The claw back agreement could base the contribution amount on the level of affordable housing that would have been viable on the scheme if it was for traditional market sale or be based on an agreed proportion of the sale price of each property when it is sold. To encourage long term institutional investment, this claw back requirement could proportionately reduce over time and be waived for schemes that are kept in the PRS market for the longer term."

Page 98-99 Para 3.1.30: "Further support for PRS can be given through broad based spatial planning policies, whether these be in LDFs or through more specific, local housing and other related strategies. Such support could include:

- encouraging long term institutional investment, with boroughs working with the GLA and delivery partners
- supporting institutional investment on public land including that owned by the GLA. In particular, boroughs may wish to explore the use of joint ventures or deferred receipts as a way to take account of the distinct economics and to encourage institutional investment in the private rented sector.
- innovative approaches to capturing planning gain through use of covenants or other mechanisms to ensure the delivery of sub-market housing within institutional PRS developments
- maximising the potential of reforms to Real Estate Investment Trusts to attract investment."

Page 147 Para 4.4.40: "The London Plan encourages boroughs to take account of the distinct economics of private rent when assessing affordable housing contributions from covenanted private rented schemes. Where viability suggests that delivering covenanted PRS will deliver less than policy compliant levels of affordable housing, boroughs should consider including a 'claw back' mechanism in the section 106 which would allow affordable housing contributions to be recouped if the units are sold out of the long term PRS market (see paragraph 3.1.22-31)."

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