

Examination of Draft Revised Lambeth Local Plan 2020-2035

Inspector's Matters Issues and Questions: Statement on behalf of Grainger Plc (R068)

Matter 3 - Housing

3.10 Build to Rent:

Is policy H12 too onerous in relation to London Plan policy H11?

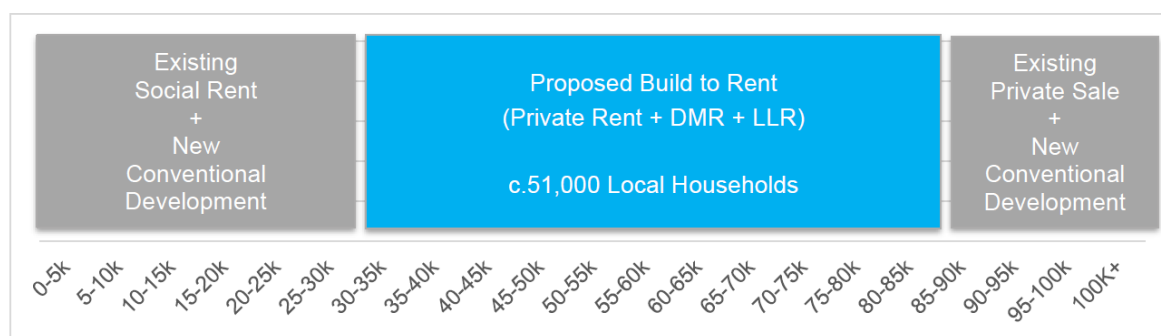
Grainger Plc considers that the draft policy is far too onerous and the additional requirements being suggested by the Council would effectively inhibit this valuable and much needed form of housing from coming forward within Lambeth. Grainger is the UK's largest listed residential landlord and a market leader in the UK Build to Rent and private rented sector. As well as having substantial experience across the UK, Grainger owns and manages rented homes within the Borough and has experience of trying to bring forward the regeneration of sub-standard estates in Lambeth. As such, it is requested that the Inspector gives considerable weight to its views.

In order to understand some of the fundamental objections to the Council's draft wording and in the light of the almost complete lack of experience that Lambeth has with the Build to Rent sector, Grainger considers that it would be helpful in answering the Inspector's question, to first identify the housing need that Build to Rent in the Borough would help address.

The need that Build to Rent would address

Both the private rent and the Discounted Market Rent (DMR) homes in a Build to Rent scheme would meet the needs of those who are unable to afford to buy an existing private house, but are also highly unlikely to be allocated social/affordable rent housing from the Council's housing waiting list. This is illustrated by the income distribution graph below:

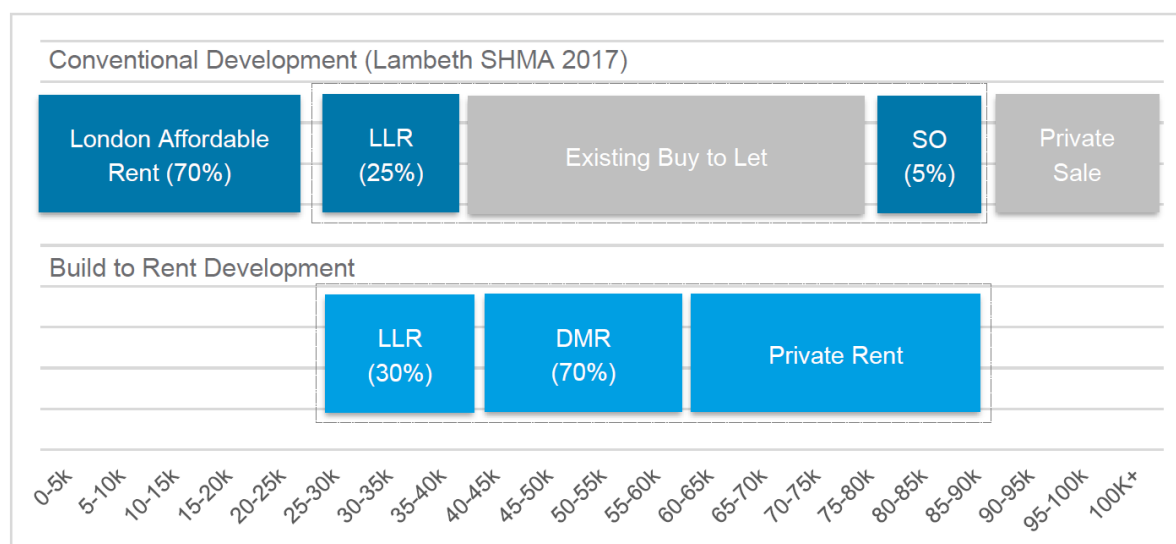
Local Product Affordability (CACI 2019)



Produced by QUOD using information from CACI 2019

This area of housing need, which would be addressed by the Build to Rent sector, equates to some 51,000 households in Lambeth and the DMR homes would make a meaningful affordable contribution to local residents, including frontline key workers such as teachers and nurses earning median wages.

The existing buy-to-let sector in Lambeth is insufficient in both scale and quality to meet the needs of those who are not eligible for social/affordable rent housing, but who are unable to access private market sale housing. There is a significant need to increase the delivery of intermediate tenures to meet that sector of housing need. The following illustration shows how the division of Build to Rent would complement not conflict with the approach set out in the Lambeth SHMA by supplementing the existing buy-to-let sector.



Product comparison prepared by QUOD

The delivery of high-quality Build to Rent housing will provide a range of benefits, many of which are recognised in Policy H11 of the Intend to Publish London Plan and the London Affordable Housing SPG (2017), including, but not limited to:

- **Affordability and flexibility** – Build to Rent does not require access to equity deposits or mortgages and usually has tenant only break options. It is therefore inherently more affordable and flexible than private sale. Increased rental supply will also help to ease upward pressure on both market rents and house prices.
- **Quality and security** – Build to Rent provides high quality housing which is professionally managed with maintenance support for residents. It is offered with longer, fairer and more secure tenancy terms, including fixed term rents, with no upfront fees and the option to renew. Build to rent homes therefore meet need unmet by the existing rental sector, which is of limited scale and often is of poor quality. The delivery of Build to Rent helps to drive up standards in the local rented sector through competition.
- **Deliverability and speed** – Build to Rent could be forward funded by institutional investment, which increases the certainty of delivery (particularly during economic uncertainty). It is not constrained by sales absorption rates, with the result the homes can be delivered and occupied quickly to meet local housing need in the short/medium term.
- **Occupancy** – high occupancy levels means homes do not sit empty as investments and can help ease overcrowding and upward pressure on market rents.
- **Economic growth** – Build to Rent provides both direct (management) and indirect (maintenance supply chains) employment opportunities. It also provides housing options

for the local workforce, thereby supporting local businesses and for frontline key workers including teachers and nurses.

- **Ongoing investment** – Build to Rent owners are incentivised to invest for the long term in place-making and maintenance in both the building and surrounding public realm, in order to ensure that the scheme is successful in the long term.

The Areas of Objection

Against the above background and in response to the Inspector's question, there are three main areas where draft Policy H12 is too onerous in relation to London Plan policy H11 and inconsistent with national policy.

1. Requirement for the low cost rented housing to be managed by a Registered Provider

Part a) of draft Policy H12 states that where a proposal has more than one residential core and/or block, then the low cost housing (the subject of a separate objection below) should be managed independently by a Registered Provider.

The NPPF specifically identifies Build to Rent schemes as an exception where "*the landlord need not be a Registered Provider*". The National Planning Practice Guidance states that in relation to scheme management, affordable private rent homes should be under common management control, along with the market rent Build to Rent homes. It states that this will not need the separate involvement of a registered landlord, explaining that combining the two tenures in this way improves viability and any alteration of units between affordable private rent and market rent over time is made easier (paragraph 006 Reference ID: 60-006-20180913).

Lambeth's draft policy also conflicts directly with the Intend to Publish London Plan, which requires Build to Rent schemes to have a '*unified ownership and unified management*'. This is expanded upon in paragraph 4.11.3, which states "*it is not a requirement to be a Local Authority or a Registered Provider to deliver or manage intermediate rented homes*".

Lambeth Council provides no adequate justification for departing from the NPPF, NPPG and Intend to Publish London Plan. Lambeth's Topic Paper 9 provides no justification, other than saying separate management would be needed for Low Cost Housing (which itself is not justified, as will be discussed below).

Paragraph 4.18 of Topic Paper 9 seems to suggest that the policy is reasonable and flexible, because it allows for a different approach where it is not possible to provide a separate core or block. The reality is that all Build to Rent schemes need to be of a sufficient scale to attract the necessary investment and will therefore have to have more than one core in order to comply with design standards. Therefore there is no flexibility afforded by the policy in practice.

2. The rents for the affordable housing

Draft Policy H12 states in Part a) that to follow the Fast Track Route, 70% of the affordable housing needs to be provided as low cost rented accommodation, with only 70% at rents equivalent to the **London Living Rent** level.

Paragraph 61 of the NPPF requires differing types and tenure of housing needed for different groups to be assessed and reflected in planning policies. People who rent their homes are specifically specified as one such group. The annexe to the NPPF defines affordable housing for rent as being at least 20% below market rents. It goes on to state that for Build to Rent schemes, affordable housing for rent is expected to be the normal form of affordable provision.

The National Planning Practice Guidance states in paragraph: 003 Reference ID: 60-003-20180913 that affordable private rent should be set at a level that is at least 20% less than the private market rent (inclusive of service charges). Paragraph: 005 Reference ID: 60-005-20180913 does allow both the proportion of affordable rent units and the discount offered on them, to be varied across a development, but by virtue of the fact that it does not require the landlord to be a registered provider, it clearly does require rents to be set at such low cost levels that it actually necessitates a registered provider. It is clear from the NPPG that the Government considers the affordable rent from Build to Rent schemes to be an intermediate product.

In terms of the eligibility to occupy the affordable rented homes, paragraph: 009 Reference ID: 16-009-20180913 advises that where authorities maintain an 'intermediate housing list' they may wish to suggest names from this, or potentially even from their statutory housing list, taking into account the affordability of homes to those on the list. It advises that authorities should refrain from having direct Nomination Rights from the housing list.

The Intend to Publish London Plan clearly states in paragraph 4.11.4 "*The Mayor's strong preference is for DMR homes to be let at **London Living Rent** level*". It explains that London Living Rent has an advantage in that it has a London-wide electoral mandate, can be consistently understood and applied across London.

The Intend to Publish London Plan explains that DMR should be allocated according to intermediate eligibility criteria, which can include locally defined eligibility criteria. Consistent with the NPPF it states that where a Borough has an intermediate or DMR waiting list, they should agree access with the applicant to these DMR units.

Grainger recognises that during the Examination in Public for the draft London Plan, Policy H11 on Build to Rent was amended, so that Part C now states that "*The Mayor expects at least 30% of DMR homes to be provided at an equivalent rent to London Living Rent with the remaining 70% at a range of genuinely affordable rents.*" However, Lambeth is seeking to apply this differently. The DMR provided in Build to Rent schemes is purely intended to meet intermediate housing needs. This flexibility for the 70% is intended to allow for a range of discounts from the London Living Rent up to the 80% of market rent defined in the NPPF (subject to the Mayor's affordability caps). However, it is clear that Lambeth is instead seeking to impose a requirement where the 70% is at even lower rents below London Living rents. Grainger has first-hand experience of Lambeth Council trying to apply this draft policy in this way.

Paragraph 4.11.10 of the Intend to Publish London Plan does provide some flexibility for Boroughs to require a proportion of affordable housing as low cost rent, this is 'where justified in a Development Plan' (my emphasis). Lambeth Council seeks to set out three grounds for that justification, in paragraphs 4.21-4.36 of Topic Paper 9, so that the requirement can be incorporated into Lambeth's element of the Development Plan. These three grounds do not come close to providing the necessary justification for departing from both the National Planning Policy Guidance and the Mayor's strong preference for all the affordable to be at London Living Rent levels. Each of the Council's justifications given in Topic Paper 9 are discussed in turn:

a. **The affordable housing need in the Borough**

Paragraph 4.26 in Topic Paper 9 refers to Lambeth's SHMA and the analysis that concludes the need for affordable housing in Lambeth is 1,047 additional homes a year based on households spending 40% of their gross income on rent or 1,573 affordable homes each year if they spend 30% of their gross income on rent. These are the same figures referred to at the start of this Statement responding to the Inspector's question. The need for affordable housing in Lambeth is not disputed.

Paragraph 4.27 of Topic Paper 9 goes on to recognise that London Living Rent intermediate housing products have the potential to meet up to 35% of housing need (if 40% of income is spent on rent). Grainger would urge the Inspector to recognise that tackling this area of intermediate need would make a significant and worthwhile contribution.

That contribution should not be resisted by the Council and its draft policy, merely because it does not meet those in priority need who have the very lowest levels of income – that is not what the Build to Rent sector is intended to address.

b. **The growing prevalence of Build to Rent**

The justification being suggested by Lambeth is that because the Build to Rent sector is going to make a growing contribution to the delivery of new homes this '*will result in an inevitable fall-off in low-cost social rented housing secured through the planning system*'.

This argument also does not come close to providing the necessary justification for two reasons. First, the Build to Rent sector in Lambeth barely exists, unlike in most other Boroughs and therefore there is no prospect of the proportion becoming so high in either this or subsequent Local Plan reviews, for it to become an issue.

Second, Build to Rent is offering the opportunity to attract new investment into housing from pension funds and other financial institutions, who have not previously put money into the residential sector. This therefore provides the opportunity to increase the total amount of housing overall, thereby help to meet more of the identified housing needs.

c. **Desire for the affordable homes to meet those on housing register**

The third justification provided in paragraph 4.35 of Topic Paper 9 is that the Council wants the affordable element of Build to Rent to meet the *'priority housing need in Lambeth'*, which requires low cost rented accommodation provided by a Registered Provider. It explains in paragraph 4.35 that it *"is clear in national planning practice guidance, DMR units provided within Build to Rent should not be made available to nominations from the local housing register"*. Far from providing justification, the explanation merely confirms that the proposal being put forward by Lambeth conflicts with the National Planning Policy Guidance. The introduction to this section identifies that there are some 51,000 local households in Lambeth who could benefit from the DMR and private rent that would be offered by Build to Rent developments.

3. Covenant Period for Build to Rent Schemes

The third area where draft Policy H12 is too onerous is in Part (d) of Policy H12, which requires all Build to Rent schemes to the subject of a covenant period for 25 years.

Having a covenant period of this duration would put at risk the contribution that Build to Rent could make in supporting the Government's objective of significantly boosting the supply of homes (NPPF paragraph 59), by making it more difficult to raise finance.

The Government's Planning Policy Guidance recognises that consideration should be given to a covenant period, but states that *"Planning authorities should recognise that Build to Rent operators will want sufficient flexibility to respond to changing market conditions"* and that *"onerous exit clauses may impede development"*. The Council's suggested covenant period of 25 years would not enable developments to respond to changing market conditions and would therefore be contrary to Government guidance.

The Intend to Publish London Plan Policy H12 advocates a covenant period of 15 years. Whilst footnote 66 to this Policy does flag up covenant periods are expected to increase as the market matures, the Build to Rent market is in its infancy and this period is appropriate for this next local plan.

In conclusion, Lambeth's first Build to Rent policy is too onerous as currently drafted and conflicts with the NPPF, the NPPG and the Intend to Publish London Plan. Lambeth has not provided anywhere near the necessary justification for adopting such a wholly different approach. As such, Policy H12 should be amended simply to read:

"The Council supports Build to Rent developments and will follow London Plan Policy H11 in determining applications."