FINAL REPORT OF THE
LONDON HOUSING
COMMISSION

BUILDING A NEW DEAL
FOR LONDON

SUMMARY
We have a housing crisis in London of a different order to the past

London has always been a relatively expensive city to live in, but the current crisis is of a different order to the past. The average house now costs half a million pounds, more than 12 times the median income: the highest the ratio has been since records began. House prices are now 45 per cent above where they were before the financial crisis hit.

Figure S1

House prices in London are now almost 50 per cent higher than they were before the financial crisis hit

*House price inflation since pre-crash peak (index 100 = November 2007 prices)*

Source: Land Registry 2016
This is reducing homeownership: the rate of mortgaged homeownership has been falling by around one percentage point a year for the last decade, and fewer than half of Londoners now own their own home.

The growing number of renters in the capital are faring little better. Rents in London, already twice the English average, are rising more quickly than earnings, meaning an ever-larger share of tenants’ income is spent on rent.

Even though London’s wages are the highest in the country, around a quarter of households are living in poverty, compared with a fifth across the country as a whole – a difference that is almost entirely explained by the high cost of housing. Changes to housing benefit and other aspects of the benefits system are yet to feed through to the poverty figures, meaning they are likely to get worse still.

As we have seen with the financial crisis and its aftermath, we cannot expect a ‘market correction’ or downturn to fix affordability in the capital. London’s problems are now too entrenched – indeed the dramatically reduced supply that will result from any downturn will be a further barrier to fixing the capital’s housing problems.

**Measures to reduce demand, such as by achieving more balanced economic growth across the UK, can form only part of the solution**

Population and income growth are keys drivers of the strong demand for homes in London. On current projections, London will be home to an additional 1.5 million people by 2030. High inward migration – both from elsewhere in the UK, and from abroad – is a driver as well as a consequence of London’s success, and not something we should want to discourage.

In the long-run, an economic policy that encourages a more even distribution of business activity across the country – thus making London a relatively less attractive place to live – might help to alleviate London’s housing crisis. However, even if such a policy were put in place today, it would take many years to achieve the sort of rebalancing we would need in order to see a significant improvement in the affordability of homes in the capital.
Some of the rise in house prices (and thus also rental prices) stems from buyers treating property as an easily financed and tax-friendly investment. The government has taken some steps to dampen this – for example, by increasing stamp duty on buy-to-let and second home purchases, and by imposing an annual levy on non-domiciled (non-dom) owners. But this will not solve the affordability problem in London or the shortage of supply: the basic problem remains that the population is growing while housing supply is not keeping up.

**Increasing supply through conversions or more efficient use of existing stock will not be enough**

Building new homes is not the only way to boost housing supply: returning empty homes to the market or converting non-residential properties such as shops or offices for residential use can also play a role. However, the potential for either of these options to make a significant difference to London’s housing shortage is limited. London has an estimated 21,000 long-term empty homes, versus an annual new homes requirement of at least 50,000. And large-scale conversion of office or retail space to new homes on the scale required would risk creating a new problem, by significantly reducing London’s space for work and employment.1

**Building more homes is therefore the only way to create the step-change in supply needed to improve affordability in the capital for the long term**

The only way to solve the housing crisis is by building far more homes. On current population projections, we need to build 500,000 homes over the next decade if we are to match the expected growth in the number of households in the capital. This will not be easy: in the last decade, we built only 194,000. And these need to be of all types and tenures.

**Recent government policies may help with supply – but nowhere near enough**

The government’s renewed commitment to delivering 1 million homes by the end of the decade is a welcome step, and it has taken measures to increase housing supply by changing planning rules, investing in infrastructure, and

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1 Conversions of offices to homes also do not provide additional funding for community infrastructure and services, unlike new homes.
supporting buyers to access new-build properties through its equity loans scheme. However, despite these changes, new orders to build homes in London appear to have peaked in 2015, and shifting the dial from delivering 25,000 new homes in the capital last year to delivering 50,000 a year by the end of the decade will require many more effective interventions to keep the capital and the country building. The current array of government policies are not, on their own, sufficient to address this substantial shortfall.

**It will take some time for supply to catch up – in the meantime, we must keep intervening to ensure that workers can afford to live in the city, in decent conditions**

Even in the best possible scenario, it will take time for housing supply to catch up fully with population growth. In the meantime, market prices will continue to rise – which, other things being equal, means a further squeeze on household finances, rising homelessness, and growing complaints from businesses that their workers cannot afford to live in London. We also risk continuing to see many private renters living in substandard conditions.

To mitigate these consequences, we need continued intervention by government – at national, city and borough level – to ensure that a significant proportion of housing is genuinely affordable and that the standard of rental property is improved.

The government’s focus on promoting homeownership through initiatives such as Starter Homes may move people from renting to ownership but not, by itself, have much impact on supply. Indeed, by putting all of our eggs in the homeownership basket, we risk making new supply vulnerable to a future economic downturn, when demand dries up and mortgage lending falls. Promoting homeownership, if it comes at the price of fewer affordable rented properties, will add to London’s housing challenges.

The nature of London and Londoners’ incomes means that we need to deliver more homes across all tenures in London, for people with a wide range of means and expectations. Of the 50,000 new homes London needs every year, 25,000 will need
to be at market price (whether for sale or rent) and 25,000 will need to be ‘affordable’ (at submarket prices).

Within the 25,000 new homes needed at market price, experience shows that the market will not absorb more than 10,000 for owner occupation – so the remaining 15,000 will need to be for private rent. This target of 15,000 ‘build-to-rent’ homes is well above London’s performance last year, which saw the completion of only 5,000.

Within the 25,000 affordable homes needed, 15,000 will need to be social or affordable rent (compared to delivery last year of only 8,000) and 10,000 will need to be ‘intermediate’ homes (also well above current delivery levels).

Thus, across all tenures, London is falling short of its needs – and while increased homeownership is one answer, it is far from the whole solution.

**Through strong leadership and increased placemaking capacity, it is possible to deliver the quantity and quality of required new housing supply**

The housing challenge that London faces is huge but not intractable. The response must be led by London and draw in all of the public and private capacity that London possesses. The mayor and the London boroughs will need to combine their efforts and invest in new placemaking capacity at a city-wide and borough level, and local communities will need to be fully engaged in the growth and development of their own areas. By this approach it will be possible to deliver both increased quantity and better quality of new supply.
The terms of a new housing deal with central government

The mayor and London boroughs would be significantly better able to address the housing crisis if they were given new powers by central government. So they should come together to ask government for a new devolution deal, in return for a commitment that they will, by 2020, double the annual supply of homes.

The mayor and boroughs will only be able to deliver on that commitment if they work very closely together. To do that, they should form a joint London Housing Committee to coordinate housing policy across the capital, and to negotiate this new deal with central government.

They should ask central government for the following:

- To exempt London from the National Planning Policy Framework (NPPF) and instead give the mayor’s London Plan the same status as the NPPF – and give the mayor the power to force boroughs to change their plans if they are not identifying enough land for housing. This will mean that local authorities outside London have a duty to cooperate with the mayor to help solve London’s housing crisis.
- To allow the London Housing Committee to set planning fees for London.
- To allow both the GLA and the boroughs to borrow more for housebuilding and infrastructure.
- To devolve stamp duty on the same model as the government’s recent devolution of business rates to local authorities, allowing London to retain a substantial proportion of its stamp duty income, in return for an equivalent reduction in grants from central government, and to adjust stamp duty rates in consultation with the business community, such as via the London Chamber of Commerce and Industry and London First.
- To allow the boroughs to levy, at their discretion, council tax on developments that fail to meet agreed building targets.
- To allow boroughs to create their own landlord licensing schemes.
In return, the mayor and boroughs should commit to central government:

- To double the supply of new homes to London to 50,000 per year by 2020, and to maintain this for at least the following five years.
- To ensure that London has sufficient housing at submarket rents.
- To eliminate non-decent housing in the private rented sector by 2025.

To lend credibility to those commitments, the mayor and boroughs should also commit to take a number of specific actions, including:

- To identify sufficient land to deliver 50,000 homes per year for the next decade.
- To significantly increase the volume and speed of planning approvals, by increasing the capacity of boroughs’ planning departments and creating a London planning inspectorate.
- To earmark a significant proportion of public land for affordable housing and new privately rented housing.
- To take an active lead in the nurturing of housing and planning skills in the private and public sector.
Immediate actions for the mayor and boroughs
Even if central government does not rapidly give London the extra powers described above, there is much the mayor and boroughs can do right now to address the housing crisis and to prepare the ground for a future devolution deal.

*Find more land*
- **Speed up the release and development of public land** identified as not in use by the London Land Commission for building homes.
- **Lend planning expertise to Transport for London** for it to review the potential for higher-density development around tube, rail and bus stations.
- **Support communities to conduct their own neighbourhood planning** to identify opportunities for regeneration and small sites not currently in the London Plan.
- **Review greenbelt** land near public transport sites, in exchange for improved community amenities and the extension of greenbelt protections in other places.

*Turn land into homes*
- The boroughs should conduct and publish an **annual audit** of the progress of local planning applications in their areas, and the progress of large sites in particular. The sites identified by the audit as needing extra support to be developed, either from the boroughs, the mayor’s office or central government, should be given that support.
- Offer public landowners the support of the **London Development Panel** to turn public land sites into new homes, on condition that a proportion of the public land is used exclusively for privately rented housing (for a limited period of time).
- Where it is appropriate for the site, or if a developer cannot be found, the combined resources of the mayor and boroughs should be used to **directly commission** housing on sites through housing associations and private developers.
• **Support smaller developers** by offering them first refusal on a proportion of small public sites identified for development through communities conducting their own neighbourhood planning, at no initial charge. The public landowner should take a stake in the sale or rental value of the homes created.

**Improve planning**
• Boroughs should publish an **annual review** of their progress against national and local targets for development.

**Provide more affordable homes**
• The mayor should immediately **issue London-wide guidance on negotiating affordable housing with developers**, and commit not to call in planning applications that demand a specified proportion of affordable housing.

• The mayor and boroughs should do a deal with **housing associations** to double their housebuilding in exchange for a pipeline of new sites.

• **Consult on simplifying the affordable housing requirement of planning negotiations** between boroughs and developers through the establishment of a London-wide affordable housing tariff.

**Improve substandard rented homes**
• Launch a **London lettings hub** to link up tenants directly with good-quality, accredited landlords, and to offer discounted lettings fees to landlords offering longer tenancies.
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**SUMMARY**
1. RECOMMENDATIONS: A NEW DEAL FOR HOUSING IN LONDON

It is clear that under the current settlement between London and central government, there is neither the power nor the resources in the capital to address the full extent of its housing crisis. Unlocking the additional homes that London needs (and that England needs) therefore requires a new deal between central and London governments, to steer London’s housing market towards providing more good-quality, affordable housing.

This new deal for London must forge a collective commitment between the boroughs and the mayor to double the annual supply of homes across all tenures by 2020 – in support of the government’s commitment to deliver 1 million homes by 2020.

Only working together can they ensure that the land, planning consents and capacity to bring forward London’s new homes are in place. So, in exchange for additional powers and responsibility for housing policy, new working arrangements should be instituted through a stronger, joint London Housing Committee, bringing together the mayor and the 33 boroughs to determine housing and planning policy, and to make a comprehensive offer to government.

This offer should be:

- to double the supply of new homes to London to 50,000 per year by 2020, and to maintain this for at least the following five years
- to ensure that London has sufficient housing at submarket rents
- to eliminate non-decent housing in the private rented sector by 2025.
The mayor and the boroughs will need to demonstrate that, if and when a devolution deal is reached, they have the plans in place to ensure that these commitments can be delivered. To do so they should also commit to take a number of specific actions, including:

- to identify sufficient land to deliver at least 50,000 homes per year for the next decade
- to significantly increase the volume and speed of planning approvals, by increasing the capacity of boroughs’ planning departments and creating a London planning inspectorate
- to earmark a significant proportion of public land for new privately rented housing
- to take an active lead in the nurturing of housing and planning skills in the private and public sector.

In exchange for these commitments, the government would need to unlock the following set of powers to ensure that the mayor and the boroughs can support homebuilding on the scale that London needs.

**Powers and responsibilities: agreeing new devolved powers for London**

**Improving planning**

Core to the devolution deal should be to improve planning. The commission has found much evidence that the conflict between national and city planning policies is an unhelpful barrier to achieving both London-wide and local objectives. To address this, the government should agree to provide full status to the London Plan, and ensure that local authorities, which benefit from London’s growth, themselves support an increase in housing provision. Government should:

- Exempt London from the National Planning Policy Framework (NPPF), and instead give the mayor’s London Plan the same status as the NPPF – and give the mayor the power to force boroughs to change their plans if they are not identifying enough land for housing. This will mean that local authorities outside London have a duty to cooperate with the mayor to find land and build homes to help solve London’s housing crisis.
London’s planning capability is constrained by the fact that planning departments and the key staff who are critical to planning – such as surveyors and legal advisors – are under-resourced, having had their budgets cut by 46 per cent over the last parliament. Charging planning applicants on a cost-recovery basis could help to ensure departments can process applications more swiftly and save developers valuable time and money in what are often lengthy processes. The government should therefore:

Allow the London Housing Committee to set planning fees, following consultation with the development industry, in exchange for reducing planning timelines and planning conditions.

Increasing investment in affordable housing
A further key strand of devolution must be to increase the financial capacity of the Greater London Authority (GLA) and boroughs to build new housing, and the infrastructure needed to support that housing. Building the 50,000 homes a year that London needs will require total investment (both public and private) of around £16 billion per year – in 2015, total investment was around £8 billion. The government should therefore:

Allow both the GLA and the boroughs to borrow more for housebuilding and infrastructure.

This additional borrowing capacity should come with more autonomy over and responsibility for property taxes. In the broader context of a deal with government that includes a commitment to specific development targets, the government should:

Devolve stamp duty on the same model as the government’s recent devolution of business rates to local authorities, allowing London to retain a substantial proportion of its stamp duty income, in return for an equivalent reduction in grants from central government, and to adjust stamp duty rates in consultation with the business community, such as via the London Chamber of Commerce and Industry and London First.
Boroughs should also be able to set higher council taxes for empty homes and second homes, in order to maximise the number of homes that are being lived in and to fund related public services, such as housing and homelessness support.

**Boroughs should be free to change council tax premiums on empty properties and second homes.**

In the long term, London must have more responsibility for raising its own capital expenditure through fiscal devolution. However, there remains a shortfall in the mayor’s capital funding programme that should be urgently addressed.

**To help meet its own target of delivering 1 million homes by 2020, the government should increase the capital subsidy to the mayor’s housing covenant by at least £350 million per annum.**

Some of the government’s national policies for increasing affordable housing are not well suited to the London market. The government should work with the mayor and boroughs to adjust them as necessary. In particular:

**The government should not impose a Starter Homes quota as part of local authority affordable housing negotiations, but instead leave it to local discretion.**

**The government should consider maintaining the Starter Homes 20 per cent market discount in perpetuity, or at a minimum extend the period for which the 20 per cent discount applies to at least 10 years.**

As well as ensuring that affordable homes are genuinely affordable, it is critical that social rented homes in the capital are not sold without being replaced, and that replacements are fully funded by government.

**The extension of Right to Buy to housing association properties in London should be fully funded through general government revenue in order to allow for the full replacement of social rented homes. It should not be funded through the sale of high-value local authority homes.**
Those delivering affordable housing need to operate with a degree of certainty that their development plans will not be dramatically changed by shifts in public policy. Therefore:

The government should conduct an independent evaluation of the impact of social rent reductions on both household incomes and housing supply, and move towards greater flexibility on rent-setting when the four-year rent cut period concludes.

If the government will not offer more flexibility in rent-setting, it should commit to a long-term rent settlement of at least 10 years, to provide some stability.

Accelerating delivery

The government should help boroughs to provide both support and incentives to speed up the delivery of housing – especially on sites where planning permission has been granted. To support this objective, the government should:

Devolve responsibility for London’s share of the Large Sites Infrastructure Programme, allowing London to use the resources to support stalled sites and fund regeneration.

Allow the boroughs to levy, at their discretion, council tax on developers who have failed to meet agreed building targets.

Addressing construction capacity

Key to increasing delivery is to ensure that the construction industry has the labour power it needs. With an estimated 400,000 construction workers set to retire over the next five to 10 years, London needs to grow its skilled housebuilding workforce.

As and when adult skills funding is devolved to London, the mayor should use these new powers to ensure that a central component of the adult skills programme will be devoted to increasing the number of skilled workers for the construction sector.

Improving the private rented sector

The secretary of state should make minor changes to the regulation of the private rented sector, to allow for landlord
licensing to be introduced across the capital and a guarantee of housing quality in the growing rental market. The secretary of state for DCLG should therefore:

**Allow boroughs to:**
- create their own licensing schemes for private landlords
- apply a condition that no property failing to meet the Decent Homes standard should be able to be let from 2025
- use licensing fee discounts and, where appropriate, licensing conditions to drive longer tenancies in their areas.

The ultimate goal should be to achieve London-wide coverage by 2025 under a single, simple London-wide rental licence.

Finally, the government, GLA and boroughs will need to work together to improve affordability in the private rented sector. Building more private and affordable homes will help to reduce pressure on household budgets in the long run, but steps are needed in the short term to address immediate concerns. For too many years rents have been increasing out of step with rent subsidies, creating an acute affordability pressure on some London households as housing benefit increasingly fails to meet the costs of rent.

**The government should relink local housing allowance to local rent levels to ensure that low-income households can continue to rent in the capital.**

**Laying the foundations for a devolution deal: what the mayor and boroughs can do right now**

The next mayor can and must make a start. Even if central government does not rapidly give London the extra powers described above, there is much the mayor and boroughs can do right now to address the housing crisis and to prepare the ground for a future devolution deal.

The first priority must be to establish the joint London Housing Committee, made up of the mayor’s office and the 33 London boroughs, to establish joint-working arrangements, to put

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together a clear and coherent strategy for delivering the homes that London needs, and to present an offer to government to demonstrate their commitment.

**Identify more land**
There is an urgent need to increase the supply of land in the capital. Our research finds that the London Plan only identifies land for 425,000 of the 490,000 homes London needs – meaning a shortfall of 65,000 homes over the period to 2025. By the end of the first year of the new mayoral term, the mayor and boroughs must collectively have filled in the housing land shortfall in the London Plan. To do this, the following steps will need to be taken:

- **The London Land Commission should be given permanent status and resources to identify all brownfield land opportunities in London, private and public.**
- **The mayor, working with outer London boroughs, should review the scope for housing development on greenbelt land near public transport sites, in exchange for offering improved community amenities and greenbelt protections in other places.**
- **The mayor should create an enhanced and multidisciplinary ‘placemaking team’ within the GLA, with expertise in planning, design, finance and delivery. Its key tasks should be (1) to offer its technical expertise to TfL to review the potential for increasing housing density around key transport sites across London; and (2) to revise London’s policy on housing density in order to encourage better densification and to avoid the creation of new developments that are too dense for local infrastructure to cope.**
- **Boroughs should support communities to conduct their own neighbourhood planning locally, to identify both small sites for development and opportunities for regeneration.**

We estimate that, taken together, these measures will be able to provide sites and capacity for at least a further 6,500 new homes each year – sufficient to close the gap between land currently identified for the London plan, and the need for 50,000 homes a year.
Turn land into homes
We have also identified that the majority of sites currently in the London Plan are large, and larger sites tend to be more difficult to turn into homes. From May 2016:

The boroughs should publish an annual audit of the progress of planning applications in their area, and of the progress of large sites in particular.

Sites needing support should be offered planning assistance from the mayor’s new placemaking team, and support in applying for city and national funding programmes where financing is an issue.

For public land without a clear plan for getting it back into use or turning it into homes:

The mayor should offer public landowners the support of the London Development Panel to turn public land sites into new homes, on condition that a proportion of the public land is used for new affordable housing and privately rented housing (for a limited period of time).

Where the landowner wishes to retain a stake in the development, the land should be brought forward through joint venture partnerships with housing associations or private developers, with the public landowner keeping either an equity stake or some portion of the resulting rental income from the development.

Where appropriate for the site, or if a developer cannot be found, the combined resources of the mayor and boroughs should be used to directly commission housing on sites through housing associations and private developers.

There are also a number of measures London can take to support certain sections of the London housing market to maximise their output. Throughout the next mayoral term:

A proportion of small publicly owned sites should be offered to smaller developers for first refusal, at no initial charge. The public landowner should take a stake in the sale of rental value of the homes created.
The mayor’s London Housing Bank should be available to boroughs to finance the infrastructure required to prepare small sites for smaller developers.

Increasing the capacity of housebuilders, whether public or private, can only be achieved with the necessary supply of skilled workers. With an estimated 400,000 construction workers set to retire over the next five to 10 years, London needs to grow its skilled housebuilding workforce.

As and when adult skills funding is devolved to London, the mayor should use these new powers to ensure that a central component of the adult skills programme will be devoted to increasing the number of skilled workers for the construction sector.

Improve planning
The greatest improvement in planning outcomes will follow the additional resources that would come from allowing boroughs more flexibility over the setting of planning fees. Nonetheless, there are improvements that can be made in the meantime in order to ensure that local plans are up to date, and that planning departments can prioritise their work effectively. By the end of 2016:

- The London Housing Committee should establish a London planning inspectorate, charged with supporting and monitoring borough planning departments.
- The boroughs should publish an annual review of their progress against national and local targets for housing delivery and planning performance.

Provide more affordable homes
The provision of affordable homes is central to the ongoing vibrancy and economic success of the capital. However, the capital is currently providing only 60 per cent of the affordable housing that it needs. The additional land identified by the mayor and boroughs will be critical to unlocking more development from both private housebuilders and housing associations. Thus by the end of their first year in office:

- The mayor and boroughs should offer London’s housing associations a deal to double their building by 2020 in exchange for a major increase in land opportunities.
However, offering land on its own will not be enough to close the gap between the 25,000 affordable homes London needs and the 15,000 we built last year. London needs more investment: it cannot rely only on affordable housing contributions from developers and the current capital budget of £550 million. It will be necessary to seek out other sources of funds, such as:

- The mayor and boroughs should work with pooled public-sector pension funds to identify investment opportunities in building new homes.

The mayor can also support the boroughs to secure affordable housing as part of private developments, in particular through the careful application of a fixed planning requirement to deliver affordable homes.

- The mayor should immediately issue London-wide guidance on negotiating affordable housing with developers, and commit not to call in planning applications that demand a specified proportion of affordable housing.

Providing London-wide guidance and a degree of certainty over appeals will help to improve the negotiation process. However, the next mayor and boroughs could go much further to add certainty to the system by removing the negotiable element of affordable housing contributions in the planning system altogether:

- The GLA and boroughs should begin consultation on simplifying affordable housing contributions through a ‘tariff’ system of fixed developer contributions to affordable housing.

This could simplify the process of agreeing affordable housing contributions and speed up the agreement of planning applications. The GLA and boroughs should work together to determine the level of the tariff, and use borough plans to estimate the viability of the tariff in different areas. The consultation on the tariff must ensure that its introduction would not have the effect of reducing overall levels of housing supply or affordable housing supply.
The tariff could differ by travel zones, or between inner and outer London, to recognise differences in land values. The default position of the tariff could be that homes are delivered on site, or at least within the borough where this is not possible.

At the point a tariff is launched, boroughs could identify any exceptional sites or areas that they consider to require a higher tariff. Where a developer believes that a site cannot viably be developed if the London-wide tariff is imposed, they should be able to appeal to the GLA for exceptional permission, but only with the backing of the relevant borough. An expert team should be established within the GLA to consider such appeals. Large sites that are not viable under any tariff should be given housing zone status.

If it is introduced, the tariff should be reviewed after several years to assess risks and effectiveness.

**Improve substandard rented homes**
Government reforms to improve enforcement of standards in the private rented sector are welcome, but with one in three homes not meeting modern standards of decency, and tenancies increasingly likely to be short, more action is needed to help the boroughs guarantee a higher degree of quality, transparency and stability in the sector. Therefore:

- The mayor should launch a London lettings hub to link up tenants directly with good-quality, accredited landlords.

- The hub should offer discounted fees to landlords offering longer-term tenancies, and tenants should be able to search the online platform for properties by tenancy length.

- It should also allow tenants to leave feedback on the quality of properties and property management, and provide borough data on enforcement activity to highlight problem properties and landlords to prospective tenants.
Addressing London’s housing crisis, collectively

Confronting the London housing crisis will not be easy. Getting delivery moving and affordability back on track will demand not one measure but many, across land, planning, investment and developer capacity.

But it is in our mutual interests to act together – the next mayor, boroughs and the government all have a stake in securing London’s economic success and maintaining its social fabric. The changes we have outlined, large and small, to how homes are delivered in the capital can help each layer of government to work towards our shared objective of seeing more good-quality, affordable homes of all tenures for households across London.