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Capital Homes: Land and planning

Roundtable report - August 2019

Credit: Chris Gray

This paper summarises key points made in discussion at the second Capital Homes expert roundtable, held under the Chatham House rule in June 2019. The first roundtable addressed trust, design and community, and the third and fourth addressed affordability and tenure, and finance and delivery.

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Context

The planning system manages the release of land to enable housebuilding, economic development and sustainable urban growth, the preparation of local plans setting out land uses and policies, and the management of development through planning applications and the enforcement process. As planning seeks to regulate and manage development, tensions can easily arise with developers over what is built, where and to what quality.

As such, planning is often presented as the root cause of slow housing delivery – failing to release enough land for housebuilding, processing applications slowly and sometimes privileging parochial local interests over the need to build to meet London-wide needs. It is true that the system can be complex and difficult to navigate. The Raynsford Review of Planning, commissioned by the Town and Country Planning Association in 2017 and led by former Housing Minister Nick Raynsford, calls the system “fragmented and confusing”¹, while National Audit Office research describes a complex system with many moving parts.²

That said, between 2006/7 and 2016/17 there were an average of 66,000 planning approvals a year in

London, compared to an average of just 28,000 conventional completions a year over the same period.³ This suggests that the problem runs deeper than difficulties in securing planning permission. Furthermore, the latest figures show that there are 43,800 unimplemented planning permissions in London.⁴ Only the South East has a higher number of unimplemented permissions⁵, which suggests that there is an acute problem in areas of high demand.

The availability of land is also cited as an important constraint on delivering more homes. Some at the roundtable questioned whether the city is running short of space, pointing towards the untapped potential of the green belt (some estimate 2.5 million new homes could be built here, but the current Mayor has pledged to maintain green belt protections), or towards the use of industrial land (for which the Mayor has also tightened protection). Others argued against opening up this land for development, instead stressing the importance of densification in delivery and pointing to the capacity identified in the most recent draft London Plan.

Issues and opportunities

Getting planning permission is complex, unpredictable and risky

Some participants flagged the problems associated with working within a discretionary planning system that allows planning committees and officers to consider proposals in light of adopted statements of general policy. By contrast, in the US, if a development meets the requirements of zonal ordinances then it will be permitted; there is less discretion for decision makers.⁶

This lack of clarity was argued to hold back SMEs who were less able to carry the risk of investing considerable sums of money in a planning process with an uncertain outcome, and in which repeated applications were sometimes involved in bringing the same project to fruition. For instance, one participant said that she could not recall the last time that what was approved by the planning process actually reflected what could be built. This has led to the dominance of a few larger developers with the skills and capital to work through the system, rather than the diversity of developers and housing types recommended by the Letwin Review.

Moreover, some suggested that it was inappropriate to speak about one planning system, as there are a plurality of planning systems operating at the same time. For instance, the National Planning Policy Framework, the London Plan, local plans, and neighbourhood plans all function simultaneously, at different levels of governance. This creates a complex mosaic of systems operating together,

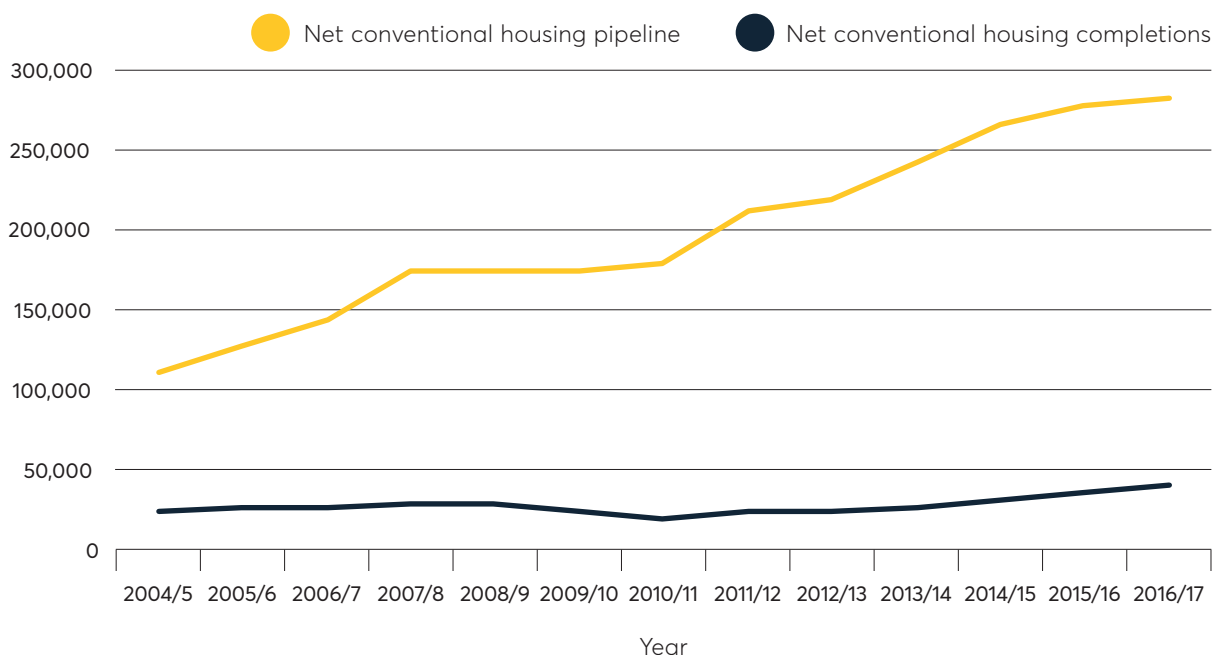
making it harder still for developers, local authorities and the public to navigate.

Many at the roundtable suggested it would be beneficial to move towards more streamlined, rules-based system, which would help to avoid risks and delays. A rules-based system, which has been successfully employed in other European countries such as Germany, could create a more standardised process by identifying areas where certain types of developments can take place. Others suggested that automating parts of the planning process, to generate more 'objective' rule-based outcomes, may help to minimise the impact of sometimes-obstructive local politics, as well as increasing efficiency and allowing planners to focus on actively planning for their community's future development, rather than processing applications for conservatories.

Attempts to simplify planning have had limited impact

The development of new forms of consent such as Permission in Principle (PiP) have sought to add an element of zonal planning to the system. Introduced in 2016, PiP is intended to reduce uncertainty in the system by establishing the suitability of a site for a particular type and quantum of development, following which technical details for a specific scheme can be assessed and approved.⁷

Net conventional housing pipeline vs. completions in London (2004-17)



However, participants raised concerns that identifying suitable brownfield sites for PiP takes significant amounts of local authority officer time, which could put a strain on already limited capacity. Indeed, planning departments have been subject to some of the largest financial cuts in local government.⁸

Furthermore, PiP separates decisions about whether a site is suitable in principle from detailed consideration of site characteristics. This creates a tension as these detailed characteristics, which will only be examined further into the process, often determine the viability of development. PiP is a complex hybrid system where there are often internal contradictions and the potential for legal challenge⁹, presenting another barrier to successful use.

Other factors are also slowing the rate at which homes with planning permission are built

The planning system regularly comes under fire for being slow and acting as a barrier to higher levels of housebuilding. In 2017, the government appointed Sir Oliver Letwin to review the reasons for slow build out. The Letwin Review highlighted that very large sites (1,000+ homes) were building out at just 3.2 per cent a year.¹⁰ While these figures do not account for every factor that may delay development, they do highlight that, despite the need for new housing, the pace of development can be very slow.

As the Raynsford Review suggested, there has been a ‘political vilification’ of the planning system in the mainstream. And it is important to acknowledge there have been rising numbers of planning permissions, but no comparable growth in completions. The latest Annual Monitoring Report produced by the Greater London Authority (GLA) shows that, as of March 2017, there was a back log of 282,000 homes in London’s net conventional housing pipeline.¹¹ While some of these permissions may be unimplementable owing to market conditions, onerous planning obligations or the need for investment, others may be delayed by developers nervous of a downturn, and some may have been secured to establish value without the intention to build in the immediate future.

Picking up on the conclusions of the Letwin Review, some participants argued that the disparity between planning permissions and delivery was symptomatic of a market absorption problem – the speed at which new

units could be released on the market without lowering prices locally, or tying up significant capital in the form of plant and materials, or increasing exposure to the risk of a downturn.

Stronger incentives were discussed, including making build out at a certain rate a condition of permission, or levying tax on the basis of end use if building had not started within a certain time frame.

The potential for review of London’s green belt is still avidly debated

Participants debated the purpose and effectiveness of green belt protections. On one side, some felt that the green belt must be protected for its environmental benefits, as well as for its role as a constraint on urban sprawl. These participants argued that brownfield and infill opportunities were plentiful, and that opportunities to build on car parks would become available in the future. Others argued that the green belt was simply a stranglehold on supply that often had little environmental value and kept property and land prices artificially high.

There was also some support for a moderate review of green belt areas, but opposition to the idea of scrapping these protections altogether; many felt it was important to contain urban expansion. For instance, in line with the research undertaken by Quod for Centre for Cities¹², some participants were in favour of managed extension into the green belt in areas where land is of little environmental or public value, and there are important transport hubs.

As research conducted by Shelter shows, 14 London boroughs have more green belt land than land with houses on it¹³, prompting the idea of individual borough led reviews, which could be effective in delivering small, targeted extensions in appropriate areas. However, it was noted that both the government and the current Mayor of London have pledged to protect London’s green belt, meaning there is little political appetite for tackling this deeply contentious issue.

Without political will for reform, the primary focus will remain on density and urban sites

Participants also stressed the importance of bringing more brownfield (i.e. previously developed) land into use for residential development. Some suggested

releasing more strategic industrial land or changing use classes to enable more flexible mixed uses on industrial sites. Others argued that adjacent space could provide ‘quicker wins’. These participants noted that many of these adjacent spaces are better connected than industrial sites.

There was also discussion about the case for a separate use class for build-to-rent development (or relaxed affordability requirements) to enable these developers to deliver similar land values to build-for-sale developers.

Additionally, some argued that the deficit in data about useable land acts as another challenge here. For instance, one participant suggested that a third of publicly owned sites are not registered with the Land Registry and others suggested that the public sector is not always good at bringing forward land. For some, better data on where land is could help flush out suitable land within the capital.

We know that London is considerably less dense than cities such as Barcelona and that density can have benefits, such as making efficient use of land and supporting public transport and services. However, cities with much higher densities have been historically designed in this way; creating a significant increase in densities across London would require extensive rebuilding, though opportunities to promote densification on a neighbourhood basis could be explored. If designed carefully, densification would enhance neighbourhood vitality, but badly-designed density could feel oppressive and alien.

Additionally, there were discussions about densifying around existing transport hubs, such as operational stations. However, this was generally viewed as a costly and complex undertaking, reflecting some of the findings in Centre for London’s 2017 report *Ideas above your Station*. Participants noted the challenges of fitting decks over active rail lines, pointing to new stations as holding the greatest potential for residential development to be designed in from the outset.

Tax and land value capture mechanisms currently do little to promote effective use of land or to accelerate delivery

Most participants agreed that current tax mechanisms were ineffective or insufficient. Some suggested that stamp duty was actively inhibiting transactions and

optimal use of London’s existing housing stock, for example through older residents downsizing.

The grant of planning permission leads to significant land value increases for landowners, and various mechanisms to capture some of these for public benefit have been explored. However, Section 106 (which is individually negotiated) and the localised Community Infrastructure Levy (CIL) were also both viewed as being ineffective. CIL receipts only come in as development is completed, leading to a lag between the need for infrastructure and the funding being in place. More broadly, Section 106 and CIL are based around recouping development values they yield highest returns in highest valued places, which arguably reinforces spatial inequalities.¹⁴

Fiscal reform could create better incentives and enable public benefit from land value capture

Conversely, participants demonstrated interest in new mechanisms for taxation, with some suggesting a 20 per cent levy on market value, which could be allocated to councils to build more homes, others mentioning taxing the uplift in land value created by planning (“land value capture”).

For most participants, a key concern was the inflated price of land in London, as well as across the country. Land now accounts for 51 per cent of Britain’s net worth, compared to 26 per cent in Germany.¹⁵ The 60 million acres of British land has a value approaching £5 trillion.¹⁶

Landowners benefit from development, in terms of rent and capital appreciation, even when it comes from public investment. Some participants suggested a land value tax, though the political challenges of this were discussed. Generally, participants were keen to capture this value uplift through the tax system, with some noting that this could act as lever to incentivise faster build out rates.

Summary

In its broadly discretionary form, the planning system can be complex and difficult to navigate, often deterring entrants who cannot absorb the risks of this process. However, this is not the only factor at play; the system still delivers a significant number of permissions. But build outs have remained low. Seemingly, the current system fails to encourage faster build out rates, prevent speculation, and can generate delays, even after planning permission has been achieved.

The debate rumbles on about whether we have sufficient land in London, or whether we need to look to the green belt. Planned urban extensions may help to deliver supply around key infrastructure without disregarding the importance of containing urban sprawl. However, in the short term the political will is not there, meaning that densification will be an important tool going forward, and one that we must examine in the context of place-making and community engagement.

With this in mind, here are some headline considerations:

- 1. A less discretionary, rules-based planning system**
- 2. Using the 'carrot and stick' to increase build out rates**
- 3. Potential for green belt review but a lack of political will**
- 4. The importance of densification 'done right'**
- 5. Review the effectiveness and equity of current taxation and value capture approaches**
- 6. Explore new property tax mechanisms for London**

This a brief overview of our recommendations to improve the planning system and development of land in the capital. We will use these initial thoughts to form more detailed policy recommendations as part of Centre for London's Housing Manifesto (due for publication in Autumn 2019).

Endnotes

1. <https://www.tcpa.org.uk/Handlers/Download.ashx?IDMF=30864427-d8dc-4b0b-88ed-c6e0f08c0edd>
2. <https://www.nao.org.uk/wp-content/uploads/2019/02/Planning-for-new-homes.pdf>
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