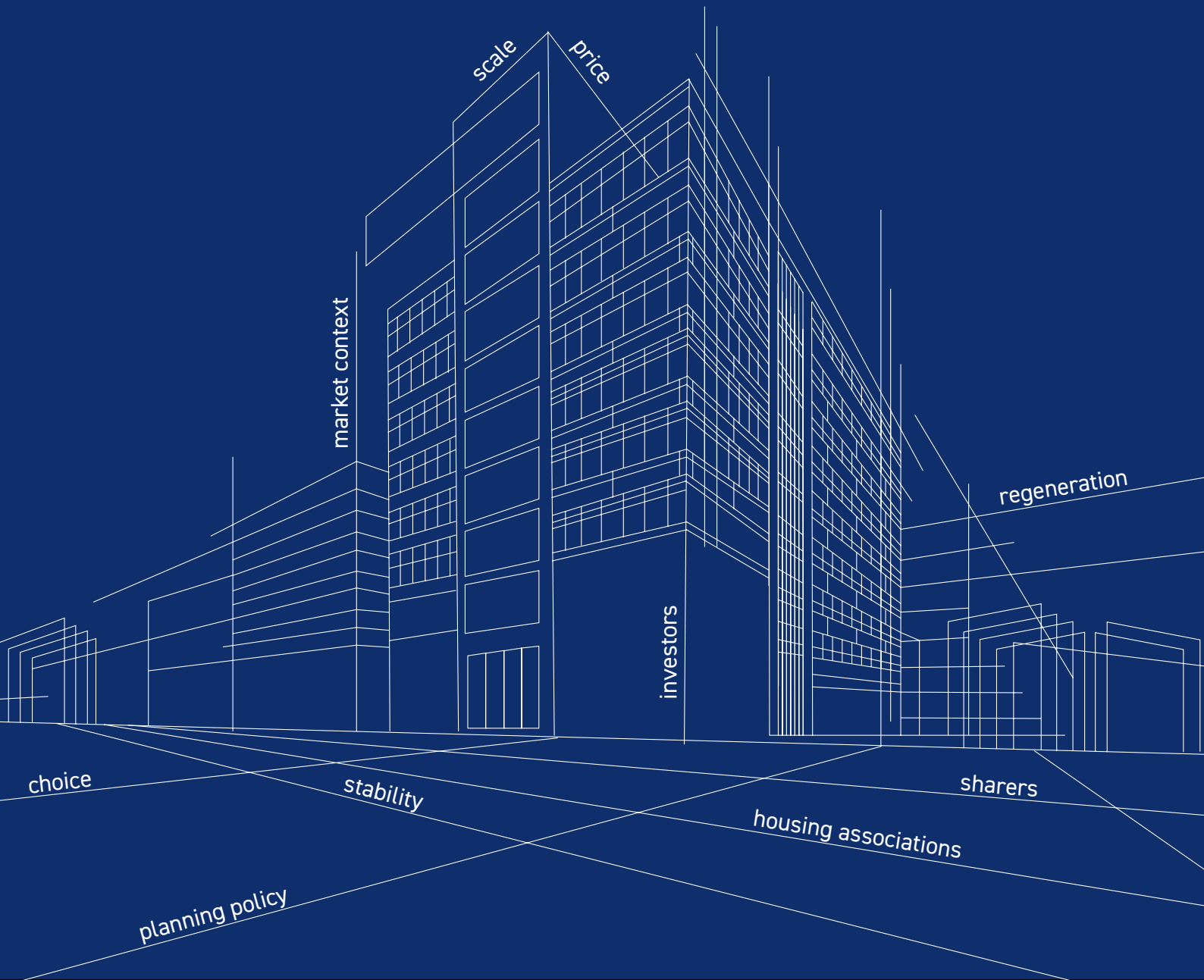


Everything you need to know about **build to rent** in London



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1. Summary

London must at least double its rate of housebuilding if it is to adequately house its growing population. Failure to do so is not just a social issue: it poses a threat to the capital's economic competitiveness. There are a complicated set of factors which makes increasing housing supply in London challenging, but it is clear that new ways of working with all those who build homes in London is required. One of these ways is to construct high-quality, purpose built homes for private rent that are professionally managed – commonly referred to as 'build to rent'.

This report provides an overview of why build to rent is relevant to London and the many housing challenges the city faces, the benefits that such development can bring such as helping to increase housing supply, and an explanation of key issues that boroughs will need to consider when thinking about build to rent schemes in their areas.

Context

London is becoming a city of renters. In 2016, approximately 28 per cent of all households in London lived in the private rented sector. By 2025, this figure is projected to rise to just under 40 per cent and to overtake owner occupation as the most common form of housing in London for the first time since the 1960s. The vast majority of homes in the private rented sector are owned by small scale, amateur landlords. Many of these landlords provide an excellent service, but this is not a universal picture with too many tenants dissatisfied with their experience. Effective property management and security of tenure are therefore variable for too many Londoners.

A growing part of the private rented sector is however now being driven by build to rent. In London, just over 10,000 build to rent homes have been built in recent years, close to 9,500 homes are under construction and just over 27,500 homes have planning permission. This growth is being supported by changes to public policy made by both central and London government. The planning system and housing policy are now starting to reflect the fact that build to rent is different from for-sale and affordable housing, and requires a bespoke set of policies to support its growth. The publication of the Mayor's Affordable Housing and Viability Supplementary Planning Guidance, which includes a detailed section on build to rent, is a leading example of this.

The benefits of build to rent

There are several reasons why public policy is backing the growth of build to rent. This type of development offers a range of benefits which are outlined in Chapter Three. Among other things, build to rent can:

- increase the overall supply and accelerate the construction of new homes;
- support greater choice for tenants in the rental market;
- deliver a better quality of rental product that is professionally managed; and
- provide boroughs with an opportunity to generate a long-term income stream to invest in local priorities.

While build to rent is well suited to house the mobile professionals that London needs to remain globally competitive, it can also provide homes for the essential workers that provide London's key services, for families and for older people. The breadth of who lives in build to rent homes will expand as the market continues to grow.

Planning and housing considerations

A driving force behind the expansion of build to rent is the fact that it attracts institutional investment which is seeking a long-term income stream used to provide, for example, a return for pension funds or a revenue stream for boroughs. Build to rent is therefore based on a different financial model to conventional for-sale housing where the money a developer puts into a scheme is tied up for a shorter period – until the homes are sold – compared to a build to rent scheme, where the money can be tied up for several years if not significantly longer. Build to rent can complement and augment existing sources of housing supply, but because of its financial model it requires a bespoke approach to several planning and housing issues such as assessing the financial viability of development, the type of affordable housing that is provided and the approach to design. A question and answer format is used in Chapter Four to address these issues and others which are becoming increasingly relevant for all boroughs to consider.

2. Introduction

This publication provides councillors and officers in London with an overview of the emerging build to rent sector – high quality, purpose built homes for private renters that are professionally managed. It outlines:

- the reasons why build to rent has grown in importance, its market context and recent developments in public policy;
- the benefits that build to rent brings to a local area illustrated by case studies; and
- key planning and housing considerations that councillors and officers may have to consider in relation to build to rent development.

London must at least double its rate of housebuilding if it is to adequately house its growing population. Failure to do so is not just a social issue: it poses a threat to the capital's economic competitiveness. Businesses in London are increasingly concerned that a growing number of talented people across many levels of income will be driven away, or put off London in the first place because the city cannot build the homes it needs and housing costs continue to rise.

There are a complicated set of factors which makes increasing housing supply in London challenging, but it is clear that new ways of working with all those who build homes in London is required. As will be highlighted, build to rent can play a significant part in helping London to address its housing problems by, among other things:

- increasing the overall supply and accelerating the construction of new homes;
- supporting greater choice for tenants in the rental market;
- delivering a better quality of rental product that is professionally managed; and
- providing boroughs with an opportunity to generate a long-term income stream to invest in local priorities.

Defining build to rent

For the purposes of interpreting and implementing housing and planning policy, it is helpful to have a clear definition of what build to rent is, particularly as build to rent does not have its own planning Use Class. The Mayor's Affordable Housing and Viability Supplementary Planning Guidance (SPG)¹ provides the following definition:

- a development, or block/phase within a development, of at least 50 homes but boroughs can choose to set their own threshold to reflect their housing market;
- the homes to be held as build to rent under a covenant for at least 15 years;

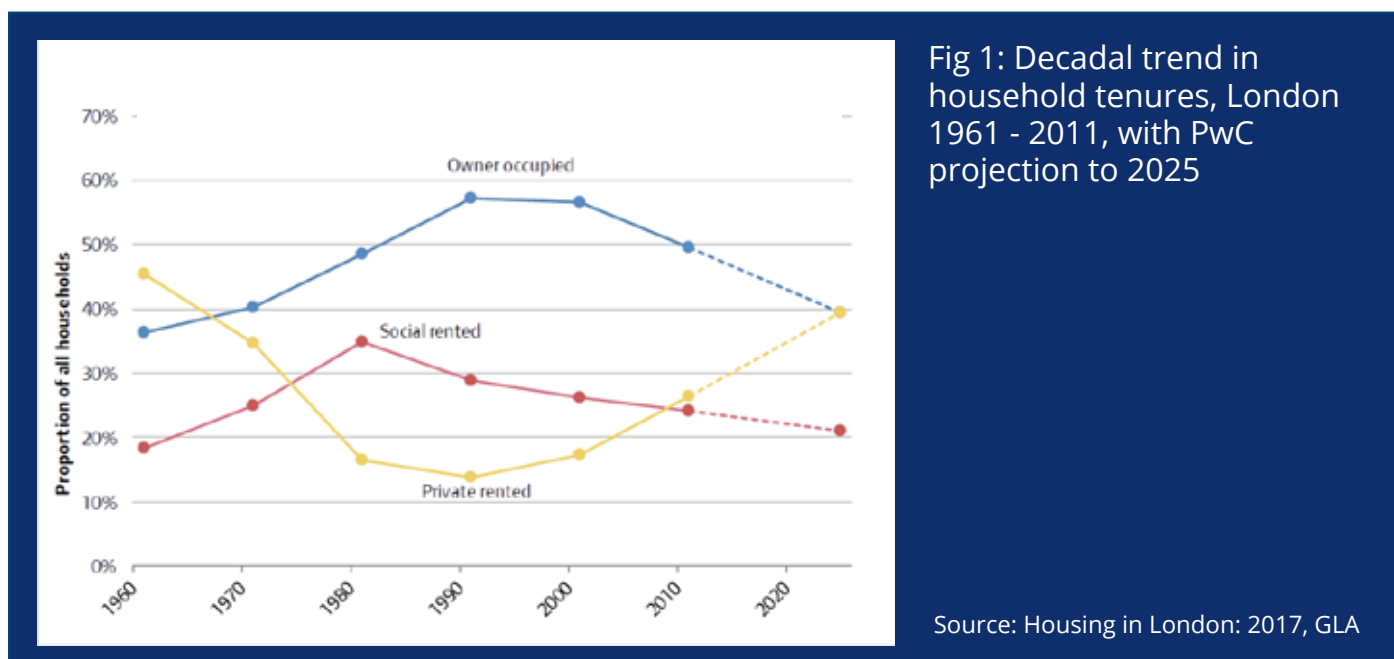
¹ Homes for Londoners, Affordable Housing and Viability Supplementary Planning Guidance 2017, The Greater London Authority: August 2017.

- all homes are self-contained and let separately;
- operate under unified ownership and management;
- offer longer tenancies (three years or more), with break clauses that allow the tenant to end the tenancy with one month's notice after six months;
- provide certainty about the rent for the length of the tenancy including the basis of any increase, which should be linked to a formula;
- provide on-site management, although it does not have to be on-site full-time;
- operated by a provider with a complaints procedure in place and are members of a recognised ombudsman scheme; and
- not charge up-front fees of any kind to tenants or prospective tenants, other than deposits and rent-in-advance.

The build to rent sector is at an early stage but is rapidly evolving. There are several different business models already present in the market and more are likely to appear as growth continues. It is therefore difficult for any definition of build to rent to reflect the diversity of the sector. However, as the Mayor's Affordable Housing and Viability SPG highlights, single ownership and single management are crucial principles in defining what constitutes build to rent development².

The growth in renting

In 1990, just under 60 per cent of all households in London were owner occupied. By 2011, this had dropped to just under 50 per cent. As Figure 1 below shows, the declining trend in home ownership is projected to continue. As home ownership has declined, the private rented sector has grown. In 2016, approximately 28 per cent of all households in London lived in the private rented sector, by 2025 this figure is projected to rise to just under 40 per cent and to overtake owner occupation as the most common form of housing in London for the first time since the 1960s³.



² See paragraph 4.10, Affordable Housing and Viability Supplementary Planning Guidance 2017.

³ Housing in London: 2015 and Housing in London: 2017, The evidence base for the Mayor's Housing Strategy, Greater London Authority: September 2015 and February 2017.

The private rented sector in London is dominated by small scale, amateur landlords. Many of these landlords provide an excellent service, but this is not a universal picture with too many tenants dissatisfied with their experience. Effective property management and security of tenure are therefore variable for too many Londoners.

Why build to rent is important

Build to rent is different from the existing private rented sector offer; it provides high-quality, purpose-built homes with professional management and longer tenancies for those who want them. It has the potential to house Londoners across a range of income levels, ages and household types. While build to rent is well suited to house the mobile professionals that London needs to remain globally competitive, it can also provide homes for the essential workers who deliver London’s key services, for families and for older people. Indeed, the lack of availability of suitable homes for ‘down sizers’ is a significant contributory factor to the shortage of family housing in the for-sale market, with substantial under-occupation of existing family homes.

Build to rent can also benefit London by helping the city to tackle its housing crisis and rapidly increase supply. London has failed to meet its current housebuilding target of at least 49,000⁴ new homes a year and has consistently failed to meet previous targets as well.

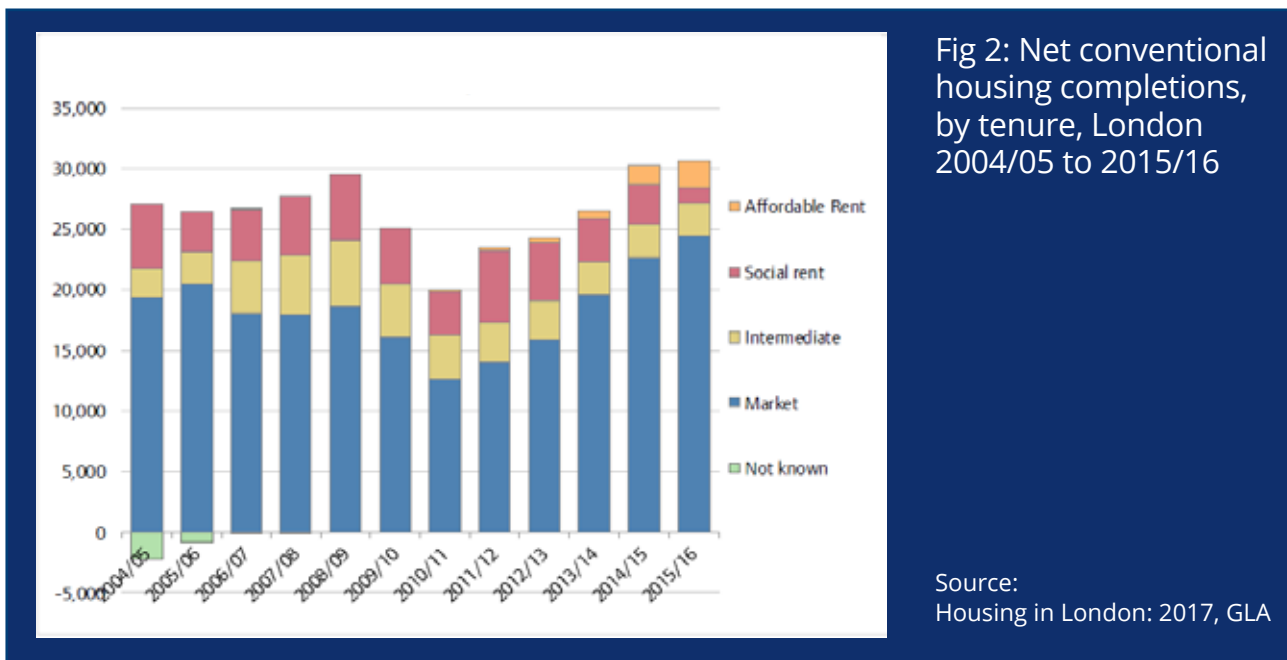


Fig 2: Net conventional housing completions, by tenure, London 2004/05 to 2015/16

Source: Housing in London: 2017, GLA

⁴ This is the current minimum housebuilding target in the London Plan and it is likely to increase when the new version of the Plan is published later this year.

There is no simple solution to London's housing challenge – increasing supply requires action on multiple fronts. Encouraging a diversity of housebuilders with different business models who are building for different parts of the market is essential to increasing supply.

Build to rent schemes are based on a different financial model to conventional for-sale housing and can therefore complement and augment existing sources of supply. Build to rent attracts institutional investment seeking a long-term income stream used to provide, for example, a return for pension funds or a revenue stream for boroughs; this is a new source of investment which is facilitating the construction of additional new homes.

Build to rent also helps provide resilience to the cyclical development market, giving London another source of supply across the cycle, including when, for whatever reasons, for-sale development may prove challenging to bring forward. With the right market conditions and public policy in place, in time, build to rent could be a significant additional source of supply alongside for-sale and affordable housebuilding. These benefits and others are discussed in more detail in Chapter Three.



Image: The Forge, London Borough of Newham
©Telford Homes

Housebuilders expanding into build to rent to build more homes

Telford Homes traditionally built homes for sale, but undertook its first build to rent deal in February 2016 and has since expanded further into the sector. It now has 483 build to rent homes under construction with a total contract value of £232 million, and more to come. Its latest scheme is a second development in partnership with M&G Real Estate. The Forge in Newham is a development of 192 new homes. M&G are forward funding the development of 125 of the homes for build to rent. This model means Telford Homes does not need to invest any debt into the scheme and only limited amounts of equity. This reduces the overall risk in the business and allows for significant funds to be invested in new opportunities. The move into the build to rent sector has therefore allowed Telford Homes to build more homes and play a greater part in tackling the housing shortage in London.

Market context

Build to rent is not a new product in London. In the early to mid Twentieth Century, institutional investors owned mansion blocks in central London, but due to increasing controls on rent and other legislation in the 1960s and 1970s most of these were sold off. Europe and North America have well established build to rent sectors, particularly the United States of America where the so-called 'multi-family' sector houses a wide variety and a significant number of people. The market is extremely sophisticated providing homes at different price points, sizes and housing tenures.

The build to rent sector is growing rapidly in London. Currently there are 10,313 build to rent homes completed, 9,445 under construction and 27,238 with planning permission⁵.

Build to rent schemes (constructed or in the pipeline) are distributed across London, including the outer boroughs. For example:

- in West London, there are schemes in Hayes, West Drayton and Uxbridge;
- in East London, there are many schemes, including in and around Barking town centre;
- in South London, Croydon is a focal point;
- in North London, there are schemes in Colindale and Wembley; and
- in Central London, there are schemes in Victoria and Elephant and Castle.

There are a range of organisations active in London's build to rent market, including:

- institutional investors such as private and public pension providers and sovereign wealth funds;
- private developers from bespoke build to rent developers and operators (i.e. those who build and manage the homes) through to mixed-use developers and 'traditional' housebuilders;
- local authorities, including general fund investment, council-owned development companies and joint-venture arrangements with the private sector; and
- housing associations.

⁵ See the British Property Federation build to rent map: <http://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk> (correct as of time of publication).



Image: Keybridge House, Vauxhall, London Borough of Lambeth © A2Dominion

Housing associations moving into build to rent

A2Dominion is supporting a sector-wide move by housing associations to increasing the number of private rental homes. Its private rent stock has grown by 82 per cent since 2014. A2Dominion's programme has been developed in response to the clear market demand for quality rental accommodation and they are seeking a return on their investment through rental and capital growth, with a target to provide between 180-240 build to rent homes a year. This represents 20 per cent of their total annual development programme. A2Dominion currently has 1,000 build to rent homes either in management or committed, including a mixture of standalone and mixed tenure development schemes. One example is Keybridge House, jointly purchased with Mount Anvil, a mixed tenure development in Vauxhall, Lambeth. It will provide 470 homes and commercial space, including 159 build to rent homes acquired on a forward purchased basis by A2Dominion which will be ready for occupation in 2018 with the whole scheme due for completion in 2019.

Policy context

At a national level, the housing white paper⁶ provides clear support for build to rent, viewing it as an important source of new housing supply and a way to introduce greater choice into the housing market. Alongside the white paper, the government is consulting⁷ on further changes to planning policy to support the growth of build to rent. The main proposals are:

- encouraging local authorities to plan proactively for build to rent;⁸
- supporting affordable private rent – i.e. discount market rent (DMR is an intermediate form of affordable housing provided at a cost above social rent, but below market levels) – as the type of affordable housing to be used in build to rent schemes; and
- ensuring longer, ‘family friendly tenancies’ are available for those who want them.

The National Planning Practice Guidance (NPPG)⁹ already refers to the need to take account of the distinct financial model of build to rent when considering the level of affordable housing and other planning obligations such development should provide.

The Mayor also strongly supports build to rent. The Mayor’s Affordable Housing and Viability SPG¹⁰ sets out a new ‘pathway’ for build to rent which encompasses:

- a definition of build to rent for the purposes of the Mayor’s housing and planning policy (see pages 3/4 of this report);
- a recognition that the single management of all homes on a build to rent scheme is fundamentally important to its success, which means encouraging the use of DMR as the affordable housing product used on these schemes (other affordable products would have to be managed by a local authority or registered provider);
- a reminder that the London Plan includes flexible policies about design;
- a different approach to assessing the viability of build to rent developments from that used to assess for-sale developments and an acknowledgement that the ‘threshold approach’ is not appropriate while the sector is in its infancy; and
- a set of best practice management standards that build to rent developments should follow, including offering longer tenancies and predictable increases in rent during the tenancy.

The Affordable Housing and Viability SPG builds on existing policy in the London Plan¹¹, which states that when looking at the viability of a build to rent scheme the distinct economics of this type of development should be taken into account. The London Plan was produced under the

6 Fixing our broken housing market, Department for Communities and Local Government: February 2017.

7 Planning and Affordable Housing for Build to Rent: A Consultation Paper, Department for Communities and Local Government: February 2017.

8 The National Planning Policy Guidance (NPPG) currently requires this but for rental accommodation in general.

9 NPPG paragraphs 009 and 018.

10 Homes for Londoners, Affordable Housing and Viability Supplementary Planning Guidance, The Greater London Authority: August 2017.

11 Policy 3.8 (Housing Choice), supporting text 3.54-3.54B in The London Plan, The Spatial Development Strategy for London Consolidated with Alterations since 2011, The Greater London Authority: March 2016.

previous Mayor and, like the London Housing Strategy¹², is being revised under Sadiq Khan, with both expected to continue to provide strong support for build to rent.

At a local level in London, several boroughs have introduced, or are in the process of introducing, policies to support build to rent. For example, Ealing's Southall Opportunity Area Planning Framework encourages large scale build to rent schemes where they provide good quality, professionally managed homes. Similarly, Camden's draft Local Plan (2015) specifically supports the development of private rented homes where this will assist in the creation of mixed, inclusive and sustainable communities. Further detail about which boroughs currently have build to rent policies is set out in Annex A. It is likely that more boroughs will develop specific housing and planning policy for build to rent as the sector continues to grow.

A diversity of models helping to increase overall housing supply

In addition to build to rent, there are other rental models which are helping to increase the overall supply of new homes in London, but where some of these homes for rent may eventually become homes for sale. For example, Folio London is Notting Hill Housing's branded private rental sector business. Folio has built up a portfolio of 800 homes over the last eight years by acquiring small new build developments as well as second hand tenanted and un-tenanted developments. The smallest Folio development is 12 flats in Hounslow, the largest a 180-home estate in Holloway. The portfolio is a mixture of styles, locations and price-points all of which work well for their respective local markets. Over the next five years, 700 new-build homes will be added to the Folio business. Half of these are blocks identified in Notting Hill Housing's own mixed-tenure development pipeline and half are blocks in mixed-tenure schemes acquired from housebuilders. Although these blocks are earmarked for long-term rental, they do not have extensive build to rent features and could be sold off as individual private sale homes. This flexibility is an important aspect in Notting Hill's investment decisions when identifying blocks to add to the Folio business. By 2022, Notting Hill will have invested over £500 million in Folio and the business will have a turnover of over £30 million.



Image: New build development, Rathbone Market, Canning Town, London Borough of Newham
© Notting Hill Housing



Image: An existing development, St James Estate, London Borough of Southwark
© Notting Hill Housing

12 Homes for London, The London Housing Strategy, draft for the London Assembly, The Greater London Authority: April 2014.

3. The benefits of build to rent to local areas

Build to rent development can provide several benefits, but of course all of these benefits will not be present in all schemes; much will depend on site specific circumstances and the different parties involved in the development. It might have once been perceived that build to rent is applicable to a limited market – that is no longer the case. As the growth in private renting in London continues, so does the build to rent sector, bringing more developers into the market with different operating models and objectives. The developments they are building deliver collectively a range of benefits including:

- homes at different price points in the market;
- a mix of housing types from one-bedroom accommodation to family housing;
- a long-term income stream for local authorities;
- large scale developments at pace;
- stability and certainty for tenants;
- professional management;
- social integration and flexibility;
- long-term investment and stewardship in the local area;
- quality homes for people who want to share; and
- supporting the successful delivery of regeneration programmes in local areas.

These benefits are outlined in more detail on the following pages, along with supporting case studies.

Homes at different price points

Build to rent developments can contain a range of rental levels, including affordable housing, depending on, among other things, market conditions and the operating model of the developer. For London as a whole, it delivers high-quality rental accommodation which supports social mobility and provides housing for the working population, particularly those who are not eligible for affordable housing but who are not at a stage of life in which they either wish, or are able to, move into home ownership.



Chesterfield House, Wembley London Borough of Brent

Size: 239 homes

Developer: HUB

Status: Due for completion in 2019

© HUB

At Chesterfield House, an innovative approach to affordable housing whereby a single investor owns and manages all the homes, is being used to offer a range of discount rents in the north tower. The scheme will deliver 136 homes for either sale or open market rent (TBC), 35 homes at open market rent, 35 homes at 80 per cent of market rent and 33 homes at local housing allowance rents¹³. In addition, a new public square, community centre, retail units, roof gardens and a communal room for residents will be provided. The building will act as a gateway to land to the rear which has the capacity for approximately 300 homes.

¹³ Local housing allowance rates are used to assess housing benefit for tenants renting from private landlords.

Housing choice

As the build to rent market expands, the types of homes built and the types of people living in them will diversify. Even at this early stage in the growth of the build to rent market, developers are branching out with new developments catering for different types of Londoner at different stages of life.



© Essential Living

Creekside Wharf, Greenwich Royal Borough of Greenwich

Size: 249 homes

Developer: Essential Living

Status: Due for completion in summer 2018

With a family-focused building containing buggy storage, extra acoustic insulation, internal and external play space and an onsite nursery, Creekside Wharf is helping meet the need for family-friendly rental housing. As with all its other developments, Essential Living will be offering on-site management, long-term tenancies and high quality social spaces where residents can meet, make friends and build communities. Creekside Wharf will also be the UK's tallest purpose-built private rented scheme delivered using modular construction, improving both the quality and speed of delivery.

Long-term revenue stream for boroughs

The build to rent model offers the opportunity for joint ventures or other forms of collaboration between developers, investors and operators of buildings. In some instances, one organisation performs all these roles, while in others multiple partners are involved. Boroughs are particularly well placed to enter into a joint venture or partnership through their land, property assets and investment power (e.g. local government pension schemes). At a time of constrained financial resource, build to rent can provide boroughs with a reliable long-term revenue stream.



© Grainger

The Kensington & Chelsea Collective Royal Borough of Kensington and Chelsea

Size: 160 homes, mostly for rent, across seven sites

Developer: Grainger

Status: Sites completing in 2017 and 2018

Following a competitive tender process, Grainger was selected in 2012 by the Royal Borough of Kensington and Chelsea to develop two sites owned by the council. Grainger gained planning permission in 2014 with both sites currently under construction and due for completion in 2017 and 2018 respectively. In 2015, the partnership was extended to a further five sites in the north of the borough. Upfront costs for the development are covered through receipts from the private for-sale homes within the project. The remaining homes will be let and managed by Grainger as private rental and a mixture of affordable homes for the remainder of the 125 year lease, with the rents shared between Grainger and the council, providing the latter with a long-term income stream.



Besson Street, New Cross London Borough of Lewisham

Size: 250 homes

Developer: The council is currently selecting a joint venture partner

Status: Construction due to start in 2018

© Assael Architects/LB Lewisham

One of the key priorities in Lewisham's five year housing strategy, 'Homes for Lewisham', is to increase the standard that residents in the borough can expect when renting in the private sector. The unaffordability of home ownership and the reduction in availability of social housing means that private renting is progressively becoming a long-term reality for many in the borough. The council decided to act by using its land in a 50/50 joint venture partnership. It is currently seeking a partner to develop, market and manage 250 homes, approximately 65 per cent of which will be for market rent and 35 per cent for "living rent" - rents based on what is affordable at local incomes. The development will offer greater security for renters, high quality accommodation and management and space for the New Cross Gate Trust, an NHS surgery, outdoor gym, retail units and new public realm.

Delivering at scale and speed

Build to rent development needs to generate rental income to make a return on investment. This means there is a strong incentive to implement a planning permission and to start building at pace. This model supports the acceleration of construction on large (phased) sites and means that build to rent development can also be delivered simultaneously with other housing tenures as build to rent is aiming at a different part of the residential market.



© Quintain

Wembley Park, Wembley London Borough of Brent

Size: 7,000 homes, 5,000 of which will be for build to rent

Developer: Quintain

Status: The first two build to rent buildings were completed in 2016 with further development due for completion in 2017. There are currently 3,000 homes under construction.

Over the last 10 years, Wembley Park has been transformed into a new destination including a designer shopping outlet, the iconic SSE Arena and the world-famous Wembley national stadium. Quintain, under their build to rent brand Tipi, are now delivering the next phase of Wembley Park's evolution. Quintain has outline planning consent for 7,000 homes, 5,000 of which will be for build to rent. In 2016, 140 homes for rent opened at Wembley Park under the Tipi brand, 120 homes will open in August 2017 and a further 295 homes in 2018. There are currently 3,000 homes under construction, the vast majority of these are build to rent, giving Wembley Park the status of the largest single build to rent development in the UK. All the homes are set to be delivered by 2026. Quintain will own and manage all the rental homes. Tenants will not be charged any agent fees, rents will include utility bills and superfast broadband, and longer tenancies and transfers are available.

Long-term stability for tenants

The rental income based model incentivises build to rent operators to secure high occupancy rates and limit void periods. Build to rent operators are therefore keen to offer longer tenancies where tenants want them and predictable increases in rent within a tenancy to help achieve these objectives.



Abbeville Apartments, Barking London Borough of Barking and Dagenham

Size: 100 homes

Developer: Grainger

Status: Opened in June 2015

©Grainger

Abbeville Apartments is a forerunner in the build to rent market. Designed from the beginning with the rental customer in mind, and through extensive research, Grainger developed a bespoke product and services for its customers. To provide greater stability and engender a sense of community, Grainger offers flexible and long-term tenancies for up to three years, together with no administration or renewal fees. More than half of the residents have taken up the three year tenancy option. At Abbeville, residents benefit from an onsite management team, dedicated maintenance team, and amenity space including a communal garden, gym and resident's lounge, which is often used during the week for resident-led homework groups and a chess club, and at the weekends for an art club and parties.

Professional management

At the heart of build to rent is the professional management of buildings. As the objective of such development is to generate income through high occupancy and to retain existing tenants for the long-term to minimise voids, the simple way to help achieve this is by providing excellent management and customer service to support the high-quality buildings and public spaces. Professional management also enables much greater control over unauthorised short-term sub-letting, which build to rent operators are keen to ensure does not happen in their buildings.



© The Collective

The Collective Old Oak London Borough of Ealing

Size: 546 co-living homes

Developer: The Collective

Status: Opened in May 2016

A sub-set of build to rent is 'co-living'; a way of living, typically aimed at young professionals, that focuses on community, shared spaces and facilities to create a more convenient lifestyle¹⁴. At the heart of the co-living offer, and integral to its success, sits professional management. At The Collective Old Oak, a co-living scheme in north-west London, the management team puts the resident's experience at the centre of their decision-making. The team consists not only of on-site maintenance staff, 24-hour security and a front-desk concierge, but also several community managers, whose key responsibility is to ensure the needs of the residents are addressed. Resident feedback is continuously gathered at multiple touch points, so that the management can consistently deliver the highest quality of living experience. For the residents, this level of service helps to take the hassle out of city living.

¹⁴ Co-Living is technically different from build to rent and is therefore not subject to the policies and guidance covered by the build to rent pathway in the Affordable Housing and Viability SPG.

Social integration

Build to rent provides affordable homes typically in the form of discounted market rent product. These homes are generally provided on site and on a 'tenure blind' basis - i.e. they are integrated into the development, with all homes sharing the same entrance, communal facilities and management services (this is sometimes referred to as 'pepper-potted'). Being tenure blind is not just about design at the point of completion – residents also have the flexibility to move to different homes within the development at different rental levels if their personal circumstances change.



Ferry Lane, Walthamstow London Borough of Waltham Forest

Size: 440 homes

Developer: Legal & General

Status: Construction due to start in 2017

© Legal & General

Legal & General's flagship build to rent scheme will regenerate the former Ferry Lane Industrial Estate along Walthamstow's High Maynard Reservoir into an environmentally-sensitive, high-quality and sustainable development. The affordable homes will be in the form of discount market rent, offered at a 20 per cent discount and prioritised for local key workers, and spread throughout the five buildings to create a tenure blind development. In addition to the new homes, the scheme comprises of 2,000 sq m of flexible commercial and community space, including a microbrewery, grocery store and start-up business units. Two hundred new trees, planting and grasses will be used to create an ecological corridor that connects the site to nearby emerging developments. Large areas of landscaping between the five buildings and the emerging sites will include a civic space and a new London square. Legal & General are also financially supporting the establishment and running of a Trust to protect the Walthamstow Wetlands.

Place-making and stewardship

The build to rent sector is focused on generating long-term income so it takes a long-term interest in the property, surrounding public realm and the wider community within which a development sits. Single ownership of a building and its associated public realm provides a strong ability and incentive to create, manage and maintain good quality places. Build to rent operators (and those who ultimately own the building) rely on the strength of their reputation and brand and this is directly associated with the quality of the homes and the places they create and maintain. Build to rent operators will invest in the maintenance and renewal of their schemes covering everything from the accommodation itself through to the public realm and any commercial uses in the development such as cafés or restaurants to ensure they remain attractive for tenants and the wider community.



© Grosvenor Britain & Ireland

Bermondsey, London Borough of Southwark

Size: c.1.500 homes

Developer: Grosvenor Britain & Ireland

Status: Publication of draft masterplan

In July 2017, Grosvenor Britain & Ireland (“Grosvenor”) published a draft masterplan for one of the capital’s largest build to rent developments. Grosvenor’s plan, in the heart of Bermondsey, would deliver around 1,500 new rental homes including homes at a range of discounted market rents. All of these homes would be managed by Grosvenor for the long term. The proposed £500 million investment plan for the 12 acre former biscuit factory site is backed by the company’s 340 year history and track record of creating and managing some of London’s most successful places. The plan, designed by New York-based architect Kohn Pedersen Fox Associates, outlines ambitions for a physically integrated neighbourhood with a brand new 600-place secondary school at its heart, over 110,000 square feet of new public spaces and almost 20,000 square feet of new play space. Approximately 85,000 square feet of ground floor retail, food, leisure and culture will be included with shops, services and facilities open to the community.

Quality homes for sharers

Many homes in the private rented sector are occupied by people who are sharing whether that is due to cost, lifestyle choice or other reasons. These homes are typically family homes that have been divided to cater for sharers. Build to rent offers purpose built homes, professionally managed, that are designed for those who want to share both in terms of the internal living space and communal space. Homes are well sized and will typically have equal sized bedrooms with en suite facilities and shared living facilities.



© Be:here

Be:here, Hayes **London Borough of Hillingdon**

Size: 133 homes

Developer: Be:here

Status: Opened in January 2017

Be:here Hayes forms part of the wider regeneration of the former EMI record factory that will deliver over 640 homes, 550,000 square feet of offices, an academy school, cinema, restaurants and a live music venue. Be:here's approach is to create homes that are specifically designed to be shared by tenants, providing a range of facilities and services all managed by a team based on-site. Key features include open plan layouts, every bedroom having its own en-suite bathroom, built-in wardrobe, super-fast broadband, its own balcony or garden (either a podium garden or roof top garden), storage pods, dry cleaning lockers and furniture by Habitat. Be:here directly markets and lets its homes using an on-line system designed to provide as much information as possible up front and to streamline the process for tenants.

A catalyst for regeneration

Build to rent schemes can act as an anchor for regeneration, kick-starting wider development in an area and acting as a focal point for change. Build to rent's ability to bring new residents into an area, sometimes in significant numbers, provides the confidence for others to invest in retail and leisure uses, as there is immediate footfall in an area.



© Greystar

Greenford Green redevelopment, Greenford London Borough of Ealing

Size: 1,965 homes approximately 75 per cent build to rent

Developer: Greystar

Status: Construction due to start in 2017

By putting place making at the heart of the regeneration of this former industrial site, it will become more integrated into the wider community. The development will open-up the currently disused site to introduce attractive public connections through Greenford, including a pedestrian bridge over the Grand Union Canal and re-opening Berkeley Avenue. Most of the new homes will be specifically designed for rent, with Greystar providing on-site management. The mixed tenure, mixed-use development will be delivered quickly and will serve as a catalyst for regenerating Greenford, providing new employment opportunities and creating a place where people can live, work and enjoy their leisure time. The refurbishment of the original Glaxo House will create new office space which will combine with the provision of new cafes, restaurants, shops, other workspaces and a local cinema to introduce life and activity back into the site. The scheme will also unlock investment in social infrastructure, including a new two-form entry primary school and a new local healthcare hub.

4. Planning and housing considerations for boroughs

The growth of build to rent in London has started to gather pace. More boroughs will start to see interest from build to rent developers in their area and over time will receive more planning applications for this type of development. However, as the expansion of build to rent in London has only just begun, most boroughs will not yet have specific build to rent housing or planning policies, or will be at the early stages of developing them (See Annex A for further information about borough build to rent policies). The Mayor's Affordable Housing and Viability Supplementary Planning Guidance (SPG) helps to fill this gap by providing London-wide guidance¹⁵. Set out below are some key questions about build to rent that will become increasingly relevant for all boroughs to consider.

Question One: Why is build to rent different from for-sale housing and how does this affect the viability of development?

Answer: The financial models and ownership structures for build to rent development are fundamentally different to that of for-sale housing. The intention of those who own a build to rent scheme is to generally maintain them as homes for rent for the long-term – not breaking up the scheme to turn some or all of the homes into for-sale housing – and to generate long-term income from the rent that could be used, for example, to support pension liabilities.

When homes are built for-sale, the money the developer puts into the scheme is tied up for a shorter period – until the homes are sold – compared to when a developer is delivering a build to rent scheme, when the money can be tied up for several years if not significantly longer. A lump sum of profit – i.e. capital growth – is only made on a build to rent scheme when it is sold at the end of an investor's holding (if indeed at all, given that the investment model is generally based on long term rental yield). As build to rent developers don't generate an early profit, this means that the development is valued in a different way to for-sale development and this may affect the viable level of planning requirements such as affordable housing and other planning obligations, particularly when also accounting for mandatory Community Infrastructure Levy (CIL) payments. In addition to these long term cash flow issues, it is also significant to note that when a build to rent scheme is valued upon completion, it will generally be valued lower than an unencumbered, identical property which can be sold on the open market.

¹⁵ Changes to national policy and guidance about build to rent are expected in the future when the Government determines how it takes forward the ideas contained in its build to rent consultation published in February 2017. See Planning and Affordable Housing for Build to Rent, A Consultation Paper, Department for Communities and Local Government: February 2017.

Notwithstanding these challenges, and as discussed below, build to rent schemes do make a significant contribution to affordable housing, planning obligations and CIL where this is consistent with delivering a viable scheme, but these issues of cash flow and capital value must be reflected in the viability model used at application stage.

Question Two: What guarantee is there that build to rent homes will not be converted to for-sale homes in the future?

Answer: To retain new build to rent homes as rental accommodation and to reflect the distinct economics of this type of housing, a restriction within a Section 106 (S106) legal agreement can be applied that requires the homes to remain as rented homes for a minimum period. The Affordable Housing and Viability SPG expects a minimum period of 15 years. This is generally referred to as a 'rental covenant'. At the end of the covenant, if the developer chooses to, some or all of the homes can be turned into for-sale homes (although this is not generally the desire of build to rent developers). Notwithstanding this, the affordable homes delivered as part of the original development must remain in perpetuity (see Question Three for further information).

Within the terms of the S106 agreement, a clawback mechanism can be inserted to address a situation where, for whatever reason, the owner of the build to rent development wants to turn some or all of the homes into for-sale homes during the period of the covenant. The Mayor's Affordable Housing and Viability SPG states that planning permission for a build to rent scheme should only be granted where it is subject to a clawback agreement. The clawback is the difference in value of the market rent homes and those homes when valued on a for-sale basis at the point of sale. The clawback is payable to the borough for the provision of affordable housing in the event that market rent homes are sold within the covenant period.

The Government has consulted¹⁶ on - but not yet implemented - an alternative approach, which is to use a clawback mechanism without a specific 'rental covenant'; this would apply in perpetuity instead of a limited covenant period.

During the period of a covenant and/or clawback, the overall ownership of a build to rent scheme can change if, for example, an institutional investor purchased the entire scheme. This would not affect the individual homes within the scheme still being for rent or sole management of the scheme.

Emerging policy and guidance refers almost interchangeably to both a clawback mechanism and a rental covenant, but essentially they achieve the same thing – providing a legal framework for a build to rent development to remain as such. However, if this changes and homes are turned into for-sale housing a borough's position about the level of affordable housing they are entitled to is protected.

¹⁶ Planning and Affordable Housing for Build to Rent, A Consultation Paper, Department for Communities and Local Government: February 2017.

Question Three: Will the affordable housing in a build to rent development remain in perpetuity?

Answer: Affordable housing is secured in perpetuity as set out in the glossary of the National Planning Policy Framework and reinforced by the London Plan and the Mayor's Affordable Housing and Viability SPG. As with for-sale housing, affordable housing in a build to rent scheme is secured within a S106 agreement. If, as outlined in Question Two, a build to rent scheme is partly or wholly switched to for-sale homes, the affordable homes must remain on site in perpetuity at a discounted market rent. There may be some limited circumstances in which sale of the affordable homes onto the open market can be accepted, if it can be fully demonstrated that the homes cannot be retained as affordable housing. The borough would determine the appropriate course of action based on the terms of the legal agreement.

Question Four: What type of affordable housing can a borough expect to be delivered in a build to rent scheme?

Answer: The emerging consensus is that Discount Market Rent (DMR), an intermediate housing product, is the most suitable type of affordable housing for build to rent¹⁷. This does not mean that other types of affordable housing haven't be used – be that Social Rent, Affordable Rent or another type of intermediate product (DMR is not the only one) – but there are several practical advantages to using DMR.

DMR offers tenure blind provision which supports social integration; typically delivers increased supply in comparison to other forms of affordable housing which do not fit so well with the build to rent model; and crucially allows for the single management of all the homes in a build to rent scheme as DMR homes do not have to be owned and managed by a registered provider.

There are a range of rental levels possible within the broad term of DMR, including emerging products such as the London Living Rent (LLR). The GLA encourages the use of DMR in build to rent development as the type of affordable housing and specifically LLR, although boroughs will have discretion to respond to local circumstances, taking account of the Mayor's guidance alongside development plan policy. Maximum rents for LLR are available by number of bedrooms in relation to every Ward in London. Rents are based on average local incomes and are set so that the rent for a two-bedroom property is around one-third of the local median household income and this typically equates to around two thirds the cost of median monthly market rents.

Question Five: Will the affordable housing be built on site and integrated into the development?

Answer: Build to rent generally supports the on-site provision of affordable housing. There may be some scheme specific circumstances which result in better public value via an off-site

17 The Government's build to rent consultation (see footnote 15) sought views on whether Affordable Private Rent (APR), essentially a Discount Market Rent product, should be clearly designated as an affordable housing product and, amongst other things, whether the National Planning Policy Framework should require that only APR can be used as the affordable product in build to rent development.

contribution, however this will always be subject to the agreement of the borough.

DMR homes allow for a simple management regime as they are integrated into the development. This is often referred to as tenure blind. However, there may be good reasons, such as reducing the management costs for tenants, why in some instances the affordable homes are not integrated into the development and are built in a separate block and/or have different entrances and cores.

Question Six: What level of affordable housing provision can a borough expect to be delivered in a build to rent scheme?

Answer: The Mayor's Affordable Housing and Viability SPG is clear that the Fast Track Route¹⁸ for schemes delivering at least 35 per cent affordable housing is not appropriate for build to rent schemes¹⁹. As a result, viability of each scheme should be assessed with the intention of maximising the supply of affordable homes²⁰.

There is a direct correlation between the level of rental discount on the affordable housing and the number of affordable homes that a scheme can provide. For example, a scheme may contain a high percentage of affordable homes but these homes might have a low discount to the market rent in the area and vice versa.

Viability review mechanisms secured within a S106 agreement ensure that boroughs are not disadvantaged in the provision of affordable housing in a build to rent scheme compared to for-sale schemes. The Mayor's Affordable Housing and Viability SPG requires an Early Stage Review and Late Stage Review of viability for all build to rent schemes²¹.

Question Seven: Who will manage the affordable homes?

Answer: Generally, DMR homes are managed as part of the overall estate management regime of a build to rent scheme because, amongst other reasons, the homes are pepper-potted throughout the development. While the traditional approach of affordable homes being managed by a Registered Provider is more familiar, the build to rent model ensures that all tenants benefit from a high-quality service from a dedicated management company who is managing the development as a whole and has on-site presence. Detailed long-term management plans secured by condition or S106 agreement can provide reassurance to boroughs about the appropriateness and quality assurance of management arrangements.

Question Eight: Who is eligible to live in the affordable housing being provided?

Answer: Through a S106 agreement, boroughs can seek influence or control over who lives in the affordable homes (often referred to as nomination rights) in a build to rent scheme. The extent of a borough's control of this process depends on the type of affordable product being delivered and the borough's housing policies.

¹⁸ For more detail on the Fast Track Route see Part Two on the Affordable Housing and Viability SPG.

¹⁹ Paragraph 4.35.

²⁰ Paragraph 4.37.

²¹ Paragraph 4.40.

The S106 agreement should set out agreed eligibility criteria for the DMR homes. This approach requires less resource input from the borough (for example, in terms of managing and administering the nominations process) yet they retain control over the target tenants and the nature of housing need being met.

Some boroughs, such as Southwark, are establishing a separate nominations process for intermediate affordable housing, including rented homes, to reflect the growing need for this type of housing in their area.

Question Nine: Are there differences between the design standards for build to rent and for-sale housing?

Answer: Build to rent is subject to the same planning policy requirements as any other residential development, including in relation to sustainable design, architectural design, residential amenity, public realm and transport. However, build to rent provides purpose-built accommodation that is designed to serve long-term renters. Typically, this includes well-proportioned bedrooms, en-suite facilities and shared living spaces. In this respect, build to rent schemes should be viewed in terms of the whole building rather than in terms of the individual homes.

The Government's Housing White Paper²² notes that it may be necessary to review national minimum space standards to reflect different residential products. In some circumstances build to rent schemes have a greater emphasis on communal space and may require a different application of residential design standards. This is a redistribution of space rather than a net reduction. The London Plan²³ and the Mayor's Affordable Housing and Viability SPG²⁴ allow for a degree of flexibility in the application of housing design standards in relation to innovative designs where they meet an identified need and are of an exceptional design and standard. For example, the SPG highlights that there could be justification for flexibility in the number of homes per core per floor and the number of single-aspect homes. It also states that local policies requiring a range of home sizes should be applied flexibly to build to rent to reflect greater demand for one and two beds than in the owner-occupied or social/affordable rented sector.

Flexibility is not always required, but boroughs may need to consider this because build to rent schemes are different from for-sale housing, and they are lived-in by tenants in a different way compared to a home that is owned.

22 Paragraph A.73.

23 Policy 3.5D.

24 Paragraph 4.30-4.33.

Annex A: Borough policy approaches to build to rent

Historically, planning policy in London has not included specific approaches to build to rent. However, this is starting to change and generally in a positive way. Below is a summary of current, or emerging, borough build to rent policies.

Barking and Dagenham

Issues and Options report, draft Local Plan (2015) refers to and supports the London Housing Strategy target that 12 per cent of new homes should be institutionally owned rental property (refer to Policy P1 of the Housing Strategy). It is noted that purpose-built accommodation can provide a better alternative to buy-to-let accommodation.

Barnet

The Core Strategy notes (paragraph 9.6.9) that *'An increased supply of decent housing in the private rented sector is of value to households wanting to living in Barnet but not able to access owner occupation'*. Policy CS4 therefore supports a mix of housing products to provide housing choice to enable residents *'to progress on a housing journey that can meet the aspirations of home ownership'*.

Brent

The Core Strategy refers to current issues of poor quality private rented accommodation. Brent's Wembley Area Action Plan (2015) notes (paragraph 7.29) that *'Wembley is a town centre location that represents an opportunity to deliver a new type of private rented accommodation. The council is keen to see private rented accommodation delivered at a scale that can support more professional and less fragmented management as well as greater stability and longer rental periods'*. Policy WEM 22 (Private Rented Sector) encourages:

'Purpose-built private rented sector accommodation where dwellings are of demonstrably good design and there are suitable long term financial management and nominations arrangements. Where such accommodation can be delivered the council will be flexible on housing unit size mix and the proportion of affordable housing, if that accommodation, or a reasonable proportion thereof, can be made available at or below local housing allowance levels.'

Brent's Harlesden Neighbourhood Plan (consultation draft, March 2017) also sets out *'explicit support for both the private rented sector and for shared ownership as solutions for those people wishing to live locally but who cannot afford market housing or Starter Homes'*.

Camden

Local Plan policy H6 sets out that the council will *'support the development of private rented homes where this will assist in the creation of mixed, inclusive and sustainable communities'*.

City of London

The Local Plan Issues and Options (2016, paragraph 7.11) refers to institutional investment in private rented housing as a new form of tenure that has emerged in response to London's housing shortage. Question 7.10 specifically asks about whether City of London should encourage new forms of rental accommodation.

Croydon

The Local Plan partial review enables a degree of flexibility with regards to affordable housing provision for private rented schemes provided that such schemes are subject to a rental covenant of at least seven years.

Ealing

The Southall Area Opportunity Area Planning Framework encourages large scale build to rent schemes where they provide good quality professionally managed homes.

Greenwich

The Spray Street Supplementary Planning Document (2015, section 3.3) notes that *'In addition to standard residential development there may be scope to diversify the offer through Private Rental Sector schemes and student accommodation – both of which are considered to be growth sectors with keen developer interest'*.

Hackney

Hackney's Development Management Local Plan (2015, paragraph 5.3.15) notes:

'The Council recognises the increasing importance of the private rented sector in meeting housing needs in the Borough, and supports the provision of 'build-to-rent private rented homes', where these are well-designed, where evidence is provided that high standards of management will be put in place, and where the benefits of such housing are balanced against the level of affordable housing provision. The Council will work with the GLA and other delivery partners to seek to increase and improve the private rented sector in line with the London Plan and the Mayors Housing SPG.'

This supports policies on housing supply, including DM19 – General approach to new housing development.

Hammersmith and Fulham

The Submission Local Plan (2017, section 6) sets out a range of considerations about build to rent. In summary:

- build to rent has the potential to boost the supply of private rented accommodation and may offer a greater range and choice to private renters;
- the financial model of build to rent is different to traditional private market housing, but '*a range of tenures will be expected to provide accessible housing for all, subject to viability.*'
- long-term covenants will be required to ensure developments remain as rental for at least 15 years;
- affordable housing should be maintained in perpetuity;
- schemes will be expected to have a suitable long term experienced management team; and
- higher turnover is anticipated in build to rent schemes, which may impact on sense of community in the area, high-street parking issues and impacts; evidence of mitigating or managing these issues may be required by the council.

This supports policy H01 – Housing Supply, which states that the Council will work to improve the quality of private rented housing.

Haringey

The Tottenham Area Action Plan (pre-submission version, 2016) supports private rented housing as part of a broad housing mix to be delivered through comprehensive estate renewal of Northumberland Park and Love Lane.

The Wood Green Area Action Plan (Preferred Option, 2017, paragraph 7.29) sets out that private rented developments are considered to have a role to play in meeting housing need in the borough.

The borough's Development Management DPD (pre-submission version, 2016, paragraph 3.9) notes the increasing importance of the private rented sector in providing housing choice in London and to support housing delivery rates. The council will apply a rental covenant of an 'appropriate length' and is keen to ensure that purpose built rental accommodation is of a high standard. This text supports policy DM11 Housing Mix.

Royal Borough of Kensington and Chelsea

The Local Plan Partial Review (submission version, 2017) acknowledges the significant role of the private rented sector in the housing market and refers specifically to build to rent. Paragraphs 35.3.69-35.3.71 refer to the benefits of build to rent and the distinct economics of the tenure; the Mayor's draft SPG is referred to. Policy CH4 supports build to rent, particularly where an element of intermediate rent is included.

Lambeth

Lambeth's Local Plan (2015, paragraph 2.58) states that the council supports the private rented sector and notes that *'The Council, through the Housing Strategy, supports growth in the private rented sector and the provision of well-managed and good quality private rented homes.'*

Southwark

The New Southwark Plan (preferred option 2017) contains a policy on private rented homes. Policy DM4 supports self-contained private-rented homes subject to a range of criteria, including a 100 home threshold, a 30 year rental covenant and a requirement to provide affordable homes in perpetuity.

Wandsworth

The Local Plan, Core Strategy (2016, paragraph 4.183) notes:

'The private rented sector is playing an increasingly important role in meeting housing, need in the borough and has further potential to meet the needs of low to middle income households. There is considerable demand for private rented housing which means that the sector is overheating. Increasing the provision of private rented housing could have the potential of reducing private sector rents and the demand for affordable housing if delivered in sufficient quantum, particularly in the form of structured schemes including tenancy arrangements.'

Paragraph 4.194 goes on to state that:

'The SHMA 2012 identifies the need to promote more structured development of this sector, including: to seek to secure access for Wandsworth residents and those working in the borough, both to better meet local housing needs and to relieve pressure on the existing private rent sector; to establish tenancy terms that are more attractive and provide greater stability and permanency for intending occupiers (e.g. tenancy terms than run for longer than six months); and to support low cost market renting arrangements that are intended to meet the demands of working households and family households.'

This text supports Policy IS 5 (housing mix); part (g) notes that:

'The Council supports the development of private rented sector housing and schemes offering a mixture of private and intermediate rented housing aimed at working households. Where developers are willing to enter into legal agreements securing such housing for local needs or lower to middle income households with security of tenure, any impacts on the market value of such developments will be taken into account in viability assessments.'

City of Westminster

The Local Plan, Issues and Options consultation (2017) refers to new forms of housing tenure, including institutional investment in private rented housing. However, the policy direction at this time is unclear.

London Councils
59½ Southwark Street
London SE1 0AL
www.londoncouncils.gov.uk

 @londoncouncils

Contact
luke.burroughs@londoncouncils.gov.uk

London First
Middlesex House
34-42 Cleveland Street
London W1T 4JE
www.londonfirst.co.uk

 @London_First

Contact
jseager@londonfirst.co.uk

Turley
17 Gresse Street
London W1T 1QL
www.turley.co.uk

 @turleyplanning

Contact
sarah.bevan@turley.co.uk
oliver.jefferson@turley.co.uk