

# Stakeholders' Perspectives on the London Housing Market:

Trade-offs, Unintended Consequences and Perverse

Incentives of Policy Interventions

Bartlett School of Planning



# UCL

**Danielle Sanderson**

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<https://whatisgovernedincities.eu/WHIG?>

**WHAT IS GOVERNED IN CITIES?**



## Background

- Neoliberalism, assetisation, financialisation of housing (e.g., Aalbers, 2019)
- Outsourcing housing delivery to private sector (Gallent, 2019; Peck, 201; Ryan-Collins et al., 2017)
- “Pro-investment regulatory landscape” (Raco et. al., 2019)
- “Pro-development agenda” (Brill, 2021)
- Risks for developers
  - Discretionary Planning system in UK
  - Land scarcity in London -> High Land Prices

Stakeholder Classification	Number of Interviewees
Academic	1
Asset Manager	4
Campaigner	1
Charity	1
Community Advisor	1
Consultant	5
Data Manager	1
Developer	12
Economist	1
Estates Manager	1
Fund Strategist	1
Housebuilder	2
Housing Delivery Partner	1
Industry Representative	3
Investor	19
Lobbyist	7
Marketer	1
Planning Consultant	1
Politician	1
Private Planner	3
Public Official	11
Public Planner	9
Researcher	14

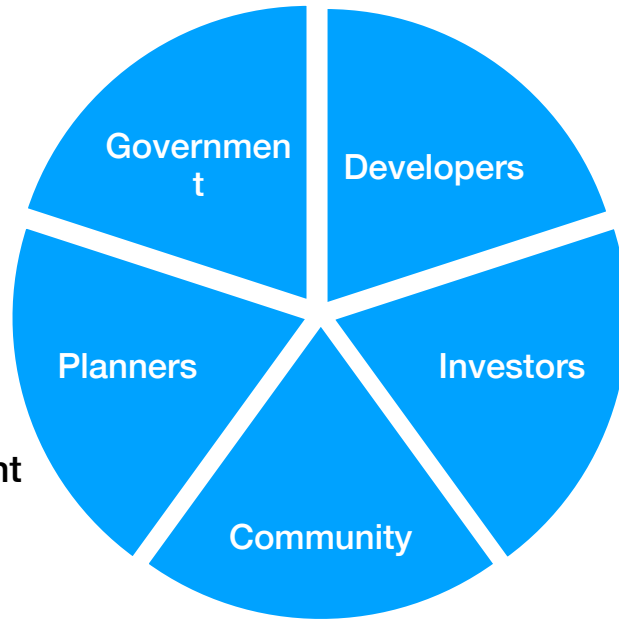
# Stakeholders' Objectives

**To support housing availability and affordability**

To achieve Social, Economic, and Environmental sustainability

**To plan for sustainable land development**

To mediate between development industry and community



**To buy land at a price that makes development viable**

To deal with discretionary planning system

**To managing risks: planning permission, delays, transaction costs, bureaucracy**

**To maximise risk-adjusted returns,**

To influence actions of planners, developers, and landlords

**Homeowners typically oppose new development**

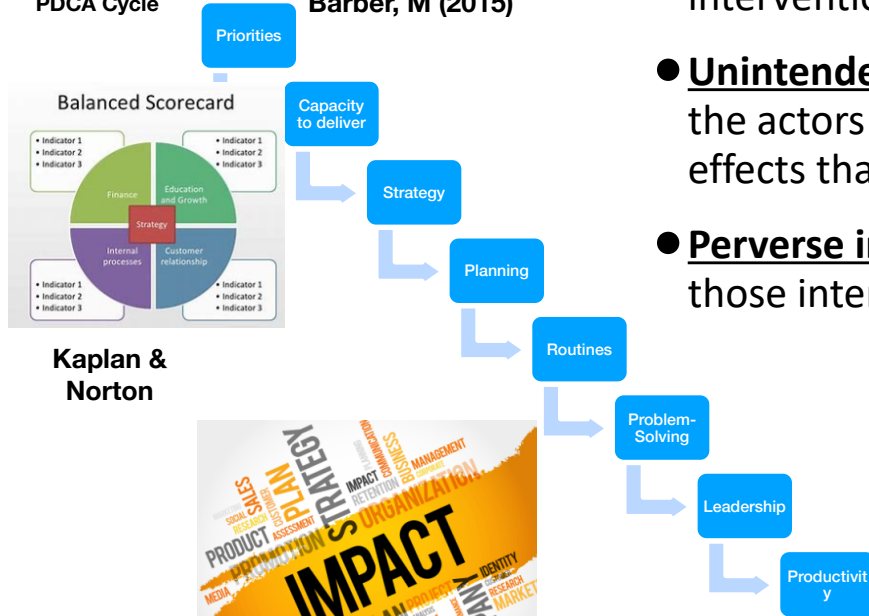
Tenants and prospective residents require affordable, decent homes in appropriate, accessible locations with suitable amenities

# WHAT IS GOVERNED IN CITIES?



PDCA Cycle

How to run a Government  
Barber, M (2015)



Kaplan & Norton



- **Trade-offs** and compromise are inevitable in planning
- The short- and long-term consequences of incentives and interventions must be considered
- **Unintended Consequences:** “disparity between the intentions of the actors and the outcome of their actions that gives rise to side-effects that are neither expected nor predictable” Moroni, (2012)
- **Perverse incentives:** encouraging actions that are contrary to those intended



# Literature Review

- Governance of housing provision (Raco; Le Galès);
- Relations between State, Market and Civil Society (Jessop; Streek; Scott);
- Housing policy Instruments (Adams & Tiesdell; Carmona);
- Financialisation of housing (Aalbers; Ryan-Collins; Stirling; Gallent; Montague);
- Trade-offs and unintended consequences (Haslett; Moroni; Bastiat; Mueller);
- Supply-side interventions (Brill & Durrant; Livingstone & Sanderson; Clifford);
- Demand-side interventions (Whitehead; Shelter; Portlock).

Trade-offs, unintended consequences, and perverse incentives:  
Stakeholders' Perspectives

- Factors Specific to London
- Who builds (or not) in London?
- Discretionary Planning System & Risk
- Market Forces & Politics
- Housing the community

## Factors Specific to London

“Planning is **more complex** [than elsewhere]. You have **four tiers**: the national; the London plan; London plans; and neighbourhood plans. *There should be one planning decision-maker across the whole of London*” (IR1)

“The **London Plan** tries to be **too prescriptive**. There are **80+ policies relating to housing**, some of which are **mutually incompatible**.” (IR1)

“**Land values in London** have been pushed up to the extent that the only things that people really want to bring forward are **tall and dense buildings** that maximise the number of housing units that can be delivered ... the **viability trap renders much decent/half decent development unviable**” (PO2)



# Who builds (or not) in London?

“The **major housebuilders** are underrepresented in London because it’s **such a difficult market** now, it’s becoming a **specialist market** ... it’s just **too complex** ... the cost of development and political **uncertainty** ... the **planning risk**, the **costs** involved in bringing forward sites for development and **how quickly policy can change**” (IR1)

**BUT**

“In London, the **bigger housebuilders** are doing smaller and **smaller schemes** ... taking up the slack left by what would have been smaller developers coming forward ... The **smaller players** are finding it so **difficult** to put up the **fees** you need to provide all the inputs to a planning application. ... Smaller developers are **less able to make these schemes work** because they can't take the **long-term** view that housebuilders take, and they don't have the **access to capital** that the big housebuilders do” (C3)

# Who builds (or not) in London?

## The re-entry of local councils into the housing market

[Local Councils] make “an **enormous amount of noise about how proud they are to be starting to build council homes again** ... but the numbers are pretty small, and most councils are making enormously heavy weather of it ... because **no-one’s done it for 40 years, we’re not very good at it**, we don’t do it very quickly” (PP9)

“They set up these housing companies to do the developments because they just **don’t have the confidence** themselves” (CI1)

In several widely-reported cases it “has gone **spectacularly wrong** because the structure has been too far removed from the council” and “because the local authorities end up, effectively, contracting something out and don’t manage the process very well” (PO7)

# Discretionary Planning System & Risk

“The **beauty of the UK planning system** is it’s reactive and we can **change planning uses** on certain plots and, I guess, the **un-beauty** is also that it’s reactive, that it may **take a bit longer** than a zoning system” (D10)

“Even quite small applications take a very **long time to determine**” (PC 1)

The associated costs create “a **barrier to entry**, because a delay of 3-6 months, to an SME developer with only one or two projects on the go, can be a real problem in terms of **access to finance** and the ability to **resource the preparatory work**” (PC1)

“If it takes three years to do planning, rather than the six months you’d intended, & costs **£1.5 million, rather than £300,000**, it’s really difficult to claw that back” (D10)

# Development Risk

“We steer clear of **boroughs that are very pro-development** [where] you’re likely to see **less rental growth**” (I9)

“**A council that is very pro-development**, that’s like a **red flag** for us because we don’t want to buy a building and our tenants get stolen and our investors not have income” (R2)

# Development Risk

“Construction risk is huge. Building towers is very, very **complex** and the **margins in construction are so tight**” (D10)

“On a scheme of **100 dwellings**, you don't actually make any **profit** until you've built and **sold your 90<sup>th</sup> dwelling**” (PC1)

“For BtR, we really have to focus on leasing the apartments after we deliver them and that's **intensive** and requires a lot of **skill and effort**” (I3)

“A **landowner or developer** is **not obliged to develop** if they don't see a business case to do so” (IR1)

# Accusations of “Land-Banking”

“In all the hundreds of different ways we get attacked, the one that really does stick in my throat is **the idea that we landbank. We do not.** As soon as we invest in a site, we **go as fast as we can to build it** and then we go as **fast as we can to sell it.** We do not landbank in any shape” (HB1)

“The value we get is from building homes ... not sitting on a consent. There is **no logical reason for us to get a consent and sit on it unless the consent is wrong and it’s not implementable.** ... I don’t think **local authorities** can just entirely wash their hands. I think they **have a role to play** as well in understanding and **making sure that the consents they give are implementable and deliverable**” (D8)

# Politics: Temporal Mismatch

“A big problem is **political terms of four years ... [by the time]** you understand the job, you’re worried about reclaiming your seat, whereas local plan policy should last five, ten, fifteen, twenty years. Politics overlapping planning is so difficult and causes so much friction; it’s **short termism**” (D7)

“If you **don’t get re-elected**, you can’t actually do what you want to do, which is to help people” (C1)

One of the things that any organisation strives for is **stability and predictability** and if the **politics can shift every four years**, that’s really difficult to plan for” (T1)

“**Six months before the elections, nothing can happen** and although you’ve got this edict from central government that you’ve got to give a planning permission decision within 13 weeks, they’ll just say, ‘okay, in 13 weeks, we can’t give you permission because **we haven’t got time, so we’ll just reject it**’” (HB1)

# Trade-offs & Unintended Consequences

“Policy makers in MHCLG [create policies which are] ‘**deliberately ambiguous**’ [to navigate] the need to deliver public goods through the planning system and the need to satisfy market conditions” (D7)

“Much of my work is best understood in the context of **trade-offs**. Are you prepared to accept someone taking a **profit out of your borough** because you’re going to get housing delivery, including **affordable housing** delivery? Are you prepared to accept **construction disruption**, in order to get the **new homes** that you need?” (PP9)

“Housing policy is a bit **disjointed**, and government can try and please one group and ends up with unintended consequences affecting others” (IR1)

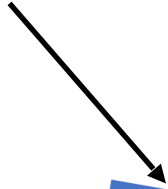


# Perverse Incentives

“There’s always going to be a **tendency for landowners and developers** to try and paint an **optimistic picture** about what they’re going to deliver. It’s in every landowner/promoter/developer’s interests to set out a positive vision for why **their site is going to deliver all these benefits as quickly as possible** because then the local authority goes, ‘great, that’s really going to help me/ the borough meet my **housing targets,**’ whereas, if the developer says, ‘I’ve got this site, it’s really great, we’re going to have a great scheme, but I’ve got a long list of problems and I might not be able to bring it forward as quickly as site A. The local authority is probably going to go, ‘well, we need these 10,000 houses now, so therefore, I’m going to go with site A” (PC1)

# WHAT IS GOVERNED IN CITIES?

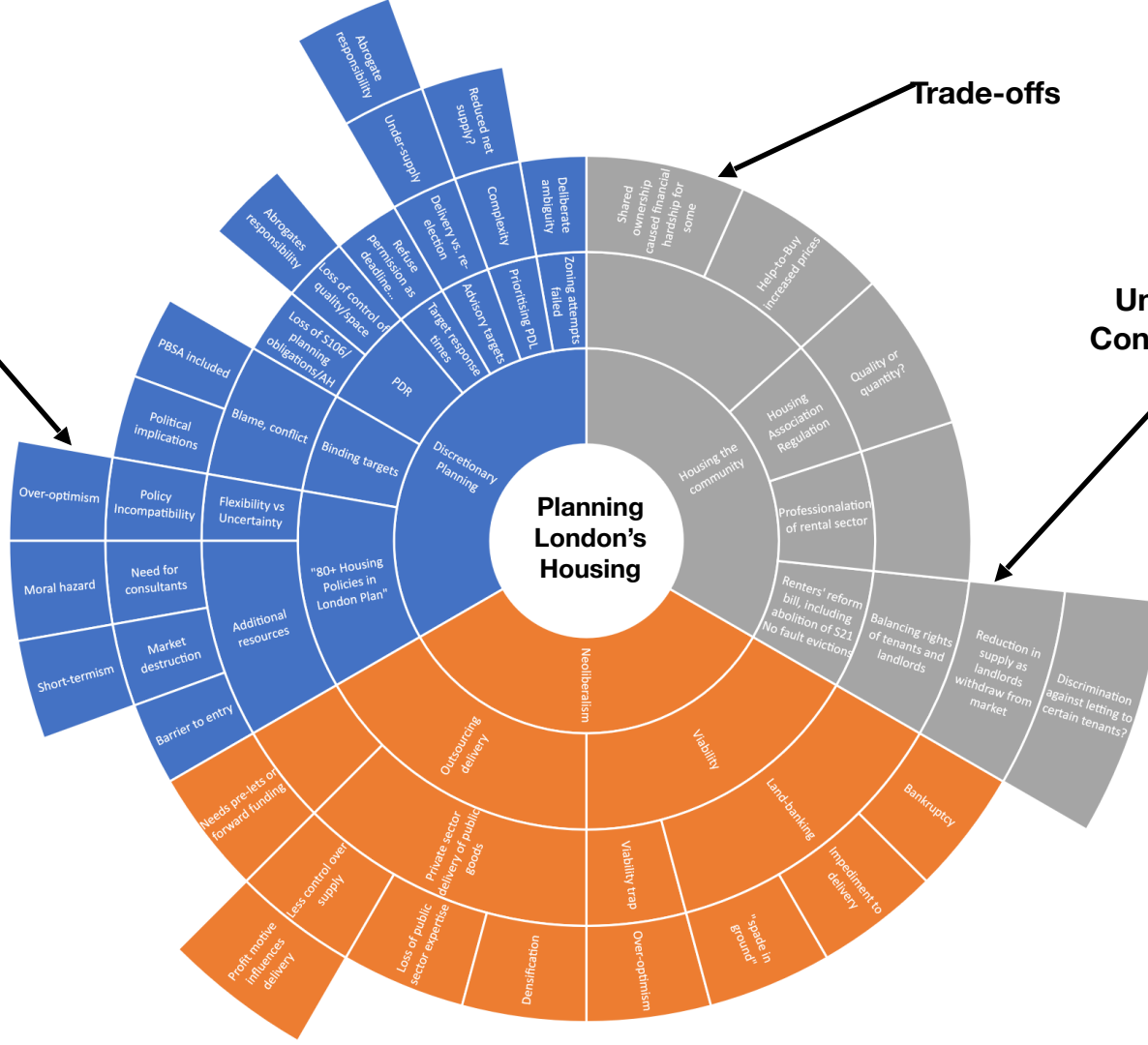
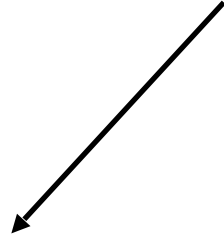
**Perverse Incentives**



**Trade-offs**



**Unintended Consequences**



# Interviewees' Suggestions

## Mix tenure types

“The UK is peculiar, not to have a bigger, professional rented sector. We need a more balanced market like the US where half the market is buy-to-let and half the market is institution. It’s a better model for housing markets during recessions; you don’t typically get institutions selling their portfolios. It’s better to **build a mix** [of housing types and tenures], not just because of how the development economics work, but because you’re **less likely to be creating concentrations of deprivation**, if you’re creating a mixture of private, intermediate, as well as social rent, but whether or not you have that view, you have to do it for hard, **financial reasons**” (R7)

“**Institutionally backed and professionally managed build to rent** is usually a **better-quality experience** than renting a Victorian conversion from an amateur landlord” (PP9)

# Interviewees' Suggestions

## Greater Clarity

“The most **effective planning requirements** are those which are **upfront**, which are communicated as being **non-negotiable** and which are known in advance by developers, so that they have **clarity** and know what they are signing up for” (IR1)

“[Planners] need to produce **fewer pre-start planning conditions**, to let people actually start, that’s the reality (D9)

“There should be **one planning decision-maker** across the whole of London; we basically need a **lot less policy** “ (IR1)

## Uncontroversial suggestions for tackling a seemingly intractable problem

- Trade-offs are inevitable; think carefully through consequences
- Compensate those adversely affected by new development
- Devise policies to optimise use of existing housing:
  - Disincentivising “buy-to-leave”
  - Licensing Airbnb properties
  - Making effective use of vacant properties
- Interventions to reduce demand: “Levelling-Up”
- Technology to improve efficiency and productivity

More than 1 in 10 addresses used as holiday homes in some areas of England and Wales

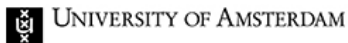


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[danielle.sanderson@ucl.ac.uk](mailto:danielle.sanderson@ucl.ac.uk)

[n.livingstone@ucl.ac.uk](mailto:n.livingstone@ucl.ac.uk)

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SciencesPo

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