Strategic issues for London:

land, economy, housing, environment, health are all linked.

draft for discussion 2024 (Thursday 29th Feb version, slightly coirrected 4 March)

*Just Space is a London-wide network of community groups supporting each other on planning issues. The text below is drawn partly from observations made in our Community-Led Plan and Recovery Plan a*nd partly from more recent meetings and discussions.

An **earlier version** was submitted to the GLA Planning for London programme as an interim statement pending fuller discussion among Just Space members. Subject to discussion and agreement in february, this is now meant to inform discussion at the Just Space conference on 2 March 2024 – now over.

A one-page summary comes first, similar to one of the printed sheets given to participants on Saturday. It is followed by a longer version.

Strategic issues for London:
land, economy, housing, environment, health are all linked (one-page version)

London and Londoners face a very severe set of problems. They are linked by the dominance of land and property markets in the British economy and society which takes an acute form in the capital. This note highlights the main links. A longer version follows (and will have more references added to later versions) and many (not all) of the issues are expanded in other briefings prepared for this conference.

The relationships linking and explaining most of the planning issues on which Just Space member groups are insisting on change are the **ownership, development and taxation of land**.

The UK is often described nowadays as a '**rentier economy'**: one dominated by the extraction of rents and profits from the ownership of assets —land, property, intellectual and financial assets. This is in contrast to former times in which the dominant economic activity was the production process and profits were drawn directly by firms from their workers' productive activity.

Growing amounts of savings and investment (including investments from abroad) flow in to the ownership and development of land and buildings including especially our housing stock, **pushing up the market values** of what have become financial assets rather than homes to live in. Even popular TV series about houses constantly assume that we are all trying to accumulate family capital by our DIY.

London is a very extreme agglomeration of business, cultural, educational and government activity. The **growth** of this activity has been a main aim of London planning since at least 2000, sucking in migrants from other regions and abroad and securing massive public investment in transport and other infrastructure to enable it. This all further inflates land values and house prices. It fuels regional and class inequalities.

The downsides of this 'growth' are

A scale of demolition and replacement of the built environment which is unsustainable in carbon and material impacts and often socially damaging.

High housing costs for the population which cancel out our superficially high average incomes.

Since wages for much of the population are low and have fallen in real terms, massive subsidies to landlords have been needed so people can pay their rents. Even with that, many can't, and evictions and homelessness mount. Coping (even badly) with homelessness has become a major factor in driving borough councils towards bankruptcy and many homeless families are forced in to temporary acommodation, often far from home and sometimes in other regions.

The escalation of land, housing and property values should make London a well-resourced city but most of the growth is gathered as private wealth of owner-occupiers and corporations: the tax base is relatively static and we have no adequate way to capture this value to run public services, pay for infrastructure or council housing, the need for which escalates while the council housing stock shrinks.

Successive policies have tried to maximise housing production and this imperative distorts the Plan: owners are incentivised to switch shops, offices, industries, community spaces, open space and almost every other use of land into speculative housing. Many of the constraints on this process have been relaxed either by central government (use classes, permitted development) or by the GLA (density and high buildings policy).

The process of making and implementing public plans is dominated by real estate and business interests with citizens having minimal influence and often being treated with contempt or disregard by officials and councillors, especially in the "Opportunity Areas" where physical development is most concentrated.

Strategic issues for London:
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Urgency

We are responding to the expressions of urgency among our members – and more widely – that the combined crises of inequality and impoverishment, climate and bio diversity call for new plans for London, very different from those of the last 25 years. This note deals with a set of issues about the economy, land and spatial development which link the housing, transport, greenspace, health and social infrastructure problems which London plans confront.

Overview

Successive London Plans and successive rounds of public investment have combined to reinforce in London and its wider region an amazing concentration of asset value appreciation. Owner occupiers and landlords have found themselves immeasurably richer over recent decades. New investments further enrich them, such as new transport infrastructure which is built mostly with public money but bestows increased property values on individual landholders.[1] These high property values have been partly used for public benefit in new developments, where private housing developments cross-subsidize relevant infrastructure and affordable housing through planning gain (S106 and CIL charges on new developments). However, there has been little delivery of council[2] housing, and planners have been led to encourage higher and denser developments to cover these costs which is undermining the quality of London as a place to live.

The capital value increases in the rest of the building stock simply accrue as untaxed private wealth to owners including owner-occupiers.

This approach to financing social and affordable housing and social infrastructure is not working: we call for an immediate and urgent review of the current development model for London.

Every city needs a diversity of land uses – for industrial, railway, commercial, affordable work places to incubate new businesses and sustain low-margin ones, as well as space to provide public services, open land and green spaces for health, well-being, environmental services, temperature moderation and to contribute to biodiversity.

Inflated land values for the construction of market housing have led to irresistible pressure on the owners of industrial land, other workplace premises and almost every other land use to switch to speculative residential residential development if they can get permission — or to develop directly where Permitted Development Rights (PDR) apply, meaning owners can

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1 When at TfL, Michèle Dix said that Crossrail 2 would cost £30bn to build but would add £60bn to the value of the residential and commercial property

2 We refer to **council** housing and **council** rent in this document because the common term “social” (defined as council plus Registered Provider) has come to be associated mainly with housing associations and other registered providers who have recently been the main producers of sub-market housing. The RP sector has been widely discredited for its increased commercial orientation, less secure tenancies and lack of accountability and Just Space does not wish to imply that they are the answer.

circumvent planning policy. PDR often produces poor quality and even dangerous homes and environments.[3]

At the same time, government promotes the sale of the real estate assets of government departments, and has encouraged local authorities and other public service providers like the NHS to think of their premises no longer as the basis for delivering local services but as potential financial assets. This has enabled national government to squeeze public service operating budgets in the knowledge that most will respond by selling off these 'assets'.

This in turn makes it very hard for the Mayor of London to implement policies that require public land to be used substantially for council housing (at least 50% 'affordable' housing is in theory required on public land): with government cuts all round, the fire service, the NHS, the prison service and even the military are desperate to maximise receipts when they dispose of surplus 'assets'.

London is losing its precious stock of public land and social infrastructure to high value, largely high-end residential, developments.

Using land value increases for infrastructure and council housing

The increase in land value in London has been leveraged by successive local authorities and Mayors over many years to contriute to the costs of infrastructure, council and intermediate housing and social infrastructure in new developments. This includes Crossrail (Elizabeth Line) which was paid for partly by aggregating developer charges (a Mayoral CIL) from across all developments in London. These yield large sums and there are very few alternative sources of funding.

Government grant support for social and intermediate housing production has been slashed since 2010. The building of council and intermediate housing is thus mostly paid for by cross-subsidy from market-sale units and 'planning gain' under S106 of the Planning Acts, together with direct subsidy for Registered Providers of social housing from the reduced government contributions to the Mayor's Affordable Housing Fund. For Build to Sell developments this method is vulnerable to downturns in sales transactions in the market, and for all developments, including Build to Rent developments, increases in the costs of construction can jeopardise delivery of council and intermediate housing units All are vulnerable to behind-the-scenes negotiations between developers and planners in which developers seek to push down the number of social rented units and wider social infrastructure provision as a major strategy to increase their own profits. Housing Associations are also pushed to do more profitable and high-end developments to "cross-subsidise" social-rent and intermediate housing. Many housing associations have also, in the rush to build, drained the rental income paid by their existing tenants away from the maintenance, upgrading and management of their existing estates with serious consequences. Thus the scandals of damp, mould, fire-safety lapses and other failings.

[3] The latest of the studies by Ben Clifford, Helen Pineo and others examine the health impacts of permitted development http://ucl.ac.uk/bartlett/planning/news/2023/may/pilot-study-investigates-link-between-permitted-development-housing-and-health

In the absence of a dynamic council tax system or any form of land value or wealth tax, the GLA and boroughs have no other way to harvest any of the colossal growth in London land and property values. Even with the crisis affecting local government finance across Britain, there is no sign of political parties facing up to the challenge.

As the Mayor has faced increased financial pressure (notably, central government cuts to the transport budget), he has also seen London's high land values as a way to solve his own financial challenges, which has placed even more pressure on council housing provision. In the 2021 London Plan the Mayor introduced a policy prioritising the use of planning gain revenues in developments, with transport infrastructure as the top priority, followed by council and intermediate housing, and only then to pay for the kind of social infrastructure which makes developments liveable, including sustainable design, parks, playgrounds, health and other services and open space.

The planning system and the Mayor are contributing to pushing up land values, increasing the crisis of housing affordability and leading to the decline in the quality of London's built environment. Existing uses need to be better protected against the search for profits by developers seeking to switch to housing.

Tackling land and house prices

And something has to be done, because the current system based on ever-increasing land values doesn't work: it doesn't serve most Londoners. The biggest losers are those on low and insecure incomes who compete and queue for council homes, have no prospect of home ownership and now face years of waiting and even means tests to access tenancies in the dwindling council-rent housing stock. The experience of the pandemic has been a stark revelation of how dependent we all are on the underpaid and ill-housed care, service and transport workers whose activity contributes so little to measured 'output'. It also became clear how bad housing and local conditions, combined with insecure low-paid work, disproportionately hit working class Londoners, especially many in minoritized groups.

The affordability crunch for buying and renting doesn't only hurt those on the lowest incomes. Londoners on low to middle-incomes also have no prospect of home ownership. Those who do make it in to owner-occupation often do so only because their parents have contributed or by taking out burdensome loans. Many middle and higher income households are thus spending 40% or 50% of their incomes on private rent or mortgage payments, leaving them with reduced disposable income (after paying housing costs and often student loans) and that in turn affects their ability to save and to support local shops and services, i.e. the rest of the economy. It converts the hard-earned wages of workers into the cumulative wealth of owners, amplifyinng inter-class and inter-regional inequality.

Central London

Central London has a special place in London's structure. Our incredible concentration of cultural, government, ceremonial, academic, scientific and business power is very distinctive, even among capital cities, and the growth of these activities is in a way a great success story. But it has sucked in qualified and low-paid workers from the rest of the country and abroad and secured massive state investment over the years in supporting infrastructure to maintain its position and enable lengthening commutes for those essential workers who can't afford London's exorbitant housing. This process is buttressed by the conventional economics notion of agglomeration economies for employers. But the costs (downsides) of agglomeration are largely borne by citizens, especially lower income citizens (astronomical rents, overcrowded and slummy homes, low residual incomes, long commutes, bad air quality). For the great estates, institutional and other investors who own land and property in central London and Canary Wharf it has been a long history of golden eggs at our expense.

But enough is enough and London should now be planning to stabilise the growth of activity in central London. This will fit in well with national policy if we get a government serious about 'levelling up'.

Growth more generally

All London Plans have, without any public discussion, taken it as a basic assumption that "growth" is the objective. Sometimes this is spelled out as growth of homes and jobs; at other times it is output of the economy measured by Value Added. But it is now clear that the form of growth London has pursued in recent decades, as a global city, produces poverty and environmental degradation alongside wealth. The most recent London Plan does give some acknowledgement that not all growth is equally valuable: it starts by a discussion of 'Good Growth'. But it doesn't confront the inequality generated by current forms of growth or the clear evidence that GDP growth can't be detached from the growth of carbon emissions or damage to biodiversity. The next plans for London need to pursue human well-being and environmental restoration, not GDP growth[4]. The future has to lie with degrowth or post-growth planning and that involves being very selective about what is built: massive targets for total housing output would be a serious environmental threat.[5]

New ways of thinking, not ideology posing as common sense

Our planning and housing plight has partly been brought on by the widespread acceptance of a landowner-friendly and investor/developer-friendly narrative that housing affordability problems are entirely down to inadequate market supply and this in turn is entirely due to the restrictions imposed by the planning system. One recent version even attributes the whole problem to the discretionary feature of UK development control decisions.

Without these planning restrictions, it is argued, the market would adjust supply to deal with the shortage and all would be well: prices and rents would fall as you would expect in competitive markets for other commodities. Very large amounts of building are the answer. This is a beguiling story and sounds like common sense. But it is wrong, seriously misleading and —in London— positively damaging because the imperative to build as much housing as possible

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[4] Using measures of well-being which are being developed, for example at UCL's Institute for Global prosperity.

[5] Sophus O S E zu Ermgassen, M P Drewniok, J W Bull, C M Corlet Walker, M Mancini, J Ryan-Collins and A Cabrera Serrenho (2022) "A home for all within planetary boundaries: Pathways for meeting England's housing needs without transgressing national climate and biodiversity goals" *Ecological Economics* **201**: 107562 https://bit.ly/3AGgapU

inflates land prices and drives the entire plan. This is why London has lost so much of its industry, why owners of shops and offices have been so keen to switch space to flats —often very substandard— why playing fields and Metropolitan Open Land are under threat, and so on.

To resolve the most serious affordability problems London needs hugely to increase its stock of council and other low cost housing.

Why is the simple supply narrative so wrong? There is a growing research literature marshalling the evidence:

The market for new homes is not a competitive perfect market. Landowners and housebuilders act as a cartel, constraining the land supply, trickling out their completions slowly so they don't have to give discounts;

Housebuilders also take options on land which prevents community initiatives and other builders (especially smaller ones) from getting it and these options are not recorded in the Land Registry so cannot be scrutinised.

Government schemes ostensibly designed to increase output, like Help to Buy, turn out to have inflated prices and developer profits rather than increasing sales.

House prices and rents are determined across the whole local or regional stock of homes so the impact of new building on prices is heavily diluted. "Estimates of the sensitivity of UK house prices to increases in housing stock consistently show that a 1% increase in housing stock per household delivers a 1–2% reduction in house prices (Auterson, 2014; Oxford Economics, 2016; MHCLG, 2018). This is minimal in the context of a 181% increase in mean English house prices from 2000 to 2020 (£84,620–£253,561; HMLR, 2022)." [6]

As people get richer in England their housing expenditure grows. So when the stock in the market grows, richer people obtain more of it – as extra floorspace or garden space or as second homes, leaving less for those with low market power. In an unequal society this is both an important consequence of, and something which reinforces, the inequality.

Much of the research literature concerns itself with national data but the significance and power of land ownership varies from place to place and London is an extreme case: homes with good access to the centre simply cannot be multiplied and their owners have exceptional market power.

International demand for housing in London appears to be, in part, a quest for what are perceived as safe havens for money, including the laundering of ill-gotten gains from corrupt regimes. Other parts of the demand from abroad are in pursuit of current returns from renting and/or the prospect of capital gains. This demand comes on top of demand generated by the national economy and helps to inflate prices. In some sectors the corresponding homes are not even occupied, though estimating and controlling the extent of vacancy are controversial.

A part of London's housing stock is devoted to short-term letting via online platforms and control of this phenomenon is very weak compared with many cities in the world. It removes a very

[6] See previous note.

great deal of housing from normal use by the permanent population and also undercuts the relatively well-regulated hotel sector.

Finally, the thrust of planning policy and practice by national, regional and local governments have inadvertently contributed to strengthening the stranglehold of landed and development interests in our society. The resulting settlement pattern is environmentally inefficient as well as socially unjust, but reducing the discretion of local councillors could not conceivably solve our problems.

29 February 2024 with some corrections 4 March because the version posted on 1 March had a number of editing errors.[7]

[7] This text incorporates improvements suggested by Duncan Bowie, Anna Pagani, Prof Jenny Robinson, Saffron Woodcraft and others though none of them has approved the final compilation which is the responsibility of Michael Edwards. Comments welcome as this statement develops.