

MINUTES OF THE HOUSING SELECT COMMITTEE
Tuesday, 1 December 2015 at 7.30pm

Present: Councillors Carl Handley (Chair), Peter Bernards (Vice-Chair), John Coughlin, Amanda De Ryk, Maja Hilton, Simon Hooks, Liz Johnston-Franklin, Olurotimi Ogunbadewa, Jonathan Slater and Susan Wise.

Apologies: None

Also present: Kevin Sheehan (Executive Director, Customer Services), Genevieve Macklin (Head of Strategic Housing), Jeff Endean (Housing Programmes and Strategy Team Manager), Mark Humphreys (Group Finance Manager, Customer Services), Rachel George (Partnerships and Regeneration Manager), Michael Westbrook (Housing Policy & Partnerships Manager), Roz Spencer (Co-ordinator, Rogue Landlords Taskforce), Dr Jacqui Daly (Research & Consultancy Director, Savills), Kath Scanlon (Deputy Director, London School of Economics and Political Science (LSE)), Dave Baldock (Head of Strategic Finance, London Borough of Newham), and Roger Raymond (Scrutiny Manager).

1. Minutes of the meeting held on 27 October 2015

- 1.1 There was an amendment to the minutes at 6.1: change the 'The National Hairdressers' Federation (NHF) to 'The National Housing Federation (NHF)'.
- 1.2 **RESOLVED:** that, after the amendment above, the minutes of the meeting held on 27 October 2015 be signed as an accurate record of the meeting.

2. Declarations of Interest

- 2.1 There were no declarations of interest.

3. Affordability Review - Evidence Session 2

- 3.1 Dr Jacqui Daly (Research & Consultancy Director, Savills), gave a presentation to the meeting. The key points to note were:
 - She had spent approximately 15 years conducting research on the Private Rented Sector, and was currently conducting research in the Build-to-Rent market.
 - The current market trends in housing in the UK since 2000, are that owner-occupation has been falling, social housing is continuing to fall (as it has since the early 1980s) and the private rented sector has been increasing, with an estimated 5.7m dwelling in the private rented sector by 2018.
 - This period has also seen a growth in buy-to-let properties – from 2m to 4.2m from 2001-2015 and this has helped the growth of the private rented sector.
 - Some of the factors that have led to an increase in the private rented sector have been cultural changes, such as the difficulty of young people to get on the housing ladder, more people divorcing and/or staying single, the flexibility of not owning your own home.

- The financial crisis of 2008 has also exacerbated the problem of first-time buyers owning their own home due to the stricter lending rules and difficulty in raising enough money for a deposit, so more people are using the private rented sector.
- There is also the issue of rising house prices, especially in London/South-East London. House prices in London have seen real annual trend-line growth of 3.6% over recent years.
- In terms of deposit affordability, in 2002, the deposit-to-income ratio in London was approximately 40%, but in 2015 that has gone up to over 120%.
- In the UK as a whole, the average deposit is £27,885, whereas in London alone it is £74,519.
- There has been a definite shift from owner-occupation in the under 35 and 35-44 years categories, with a fall of 732,000 and 783,000 people in mortgaged owner-occupation.
- People using the private rented sector went up 2.43m from 2001-2011– and in the under 35 category, went up 1.137m.
- In Lewisham, properties in the private rented sector went up from 15,930 in 2001 to 29,375 in 2011. The social rented sector was pretty static around 36,000 and owner-occupation went down slight from 53,826 to 50,664 in the same period. The growth of growth of households in the private rented sector has been over 80%, which outstrips the growth in London and England and Wales (just over 60%).
- The projection is that the shift to using the private rented sector is set to continue, with all age groups bar the over 65s seeing a growth in the use of the private rented sector.
- Policymakers have been looking to see how they support the ‘build-to-rent’ market to cater for this growth in use of the private rented sector.
- For local authorities, this is beneficial as it will help provide vibrancy and create a sense of place in large regeneration sites, ease waiting list for affordable housing, and it attracts dynamic and mobile young professional with high disposable incomes.
- The National Planning Practice Guidance (NPPG) has offered planning obligation flexibilities for particular schemes. Under ‘viability under the Guidance, it acknowledges explicitly that viability will vary with housing type, including housing for sale or rent.
- There were some examples of flexible arrangements to encourage ‘build-to-rent’:
 - North Acton, Ealing: M&G / HUB Residential
 - Ealing agreed to allow the conversion of the original S.106 affordable housing requirements to 20 discounted market rent units, so enabling M&G to manage the complete property as a single entity but with some tenants paying a percentage of market rent.
 - Lewisham Gateway - Muse developments and Fizzy
 - Fizzy helped to de-risk the development to ensure delivery
- The Mayor of London’s ‘Spatial Strategy also provides a number of initiatives to aid ‘build-to-rent’ developments.

3.2 In response to questions from the Committee, the following was noted:

- Research shows that people in this country still aspire to own their own homes, but this now happens much later than 30 years ago.

- Some landlords and developers have looked to offer longer-term contracts as per the 'German model' of private rented, but Savills have found through research that young people are happy to have more short-term, flexible contracts.
- The German private rented sector contract may start at market rate, but the rental rises are fixed, so the renter will know how much the rent will be incrementally.
- The Committee would like some additional information on developers who are experimenting with 'income-linked' rents.

3.3 Kath Scanlon, Deputy Director of the LSE, gave a presentation to the meeting. The key points to note were:

- Historically, private rented sector housing consisted of purpose built estates, for example Du Cane Court, Balham and Dolphin Square, Pimlico, both in London, built in the 1930s.
- However, things began to change post-WWII
 - Post-deregulation (starting in the 1950s) companies wanted to sell – and did over the next twenty years
 - Owner-occupation grew rapidly with well- developed leasehold arrangements and the possibility of buying long leases
 - Tax benefits and other incentives meant private sector building was almost always for owner-occupation
 - New rented housing provided in the social sector
- Private rented sector declined to 11% of total stock in England by the mid-1980s. However, the deregulation of rents in 1988 led to slow increase in supply of housing for the private rented sector.
- Other factors led to the growth of the private rented sector from the late 1990s, namely
 - Owner-occupation for young people badly was hit in early 1990s with the recession
 - Buy-to-Let mortgages introduced in late 1990s – therefore the private rented sector started to increase quite quickly
 - 'Affordability crisis' of housing in the early 2000s added to pressure on private rented sector.
- After the 2000 Financial Crash, this led to a number of additional factors that increased the supply of private rented sector housing:
 - Credit and housing markets dried up
 - Sellers could not sell; purchasers could not buy – so the private rented sector grew rapidly
 - New housing construction fell by more than half; while Immigration and natural growth increased the population of London very rapidly
 - Crisis of supply with all net growth concentrated in the private rented sector and among individual amateur/part-time landlords
 - Policy makers looked for more housing overall and new build in the private rented sector in particular
- Statistics show that since 1993-94-2009-2010, in London buying a housing with mortgage and social tenants has fallen, whereas owning home outright and the private rented sector has risen.

- In terms of those who provide property for the private rented sector, nearly 80% of come from landlords who own only one property. That consisted approximately 40% of dwellings.
- For an international perspective, England's private rented sector constitutes 17% of the housing market, but in countries like USA (32%) and Germany (59%) it is much higher. Some other countries like The Netherlands (10%) and Spain (7%) it is much lower.
- It was stated that in most countries tenants:
 - Young or old
 - Low-income
 - Singles or single parents
 - Mobile
 - young professionals
 - students
 - high-income corporate transfers
 - Those who can't afford owner-occupation
 - housing benefit recipients
 - migrants
 - those who can't afford mortgage deposits
- Generally, those that do not live in the private rented sector, are the following:
 - Middle- and upper-income families almost always own their homes
 - Very few of the elderly rent privately in the UK (not the case in some other countries)
- A lot of Western countries have some form of 'rent control', whether that be rent regulation, or tenant has the first refusal on sale of unit. The UK does not have these controls
- For the 'German model', the terms and conditions for renting are as follows:
 - Tenants get indefinite leases
 - Landlords can evict only for reasons set out in the law; notice period 3 – 9 months depending on how long tenancy has lasted
 - If the landlord sells, the lease binds the new owner
 - Initial rent can be freely set, but not more than 20-50% above average rents in the local area—but new restrictions in Berlin, Munich...
 - Rent can go up every 15 months by average in the area
- Some typical new rents for Germany are as follows:
 - Tenants get indefinite leases
 - Landlords can evict only for reasons set out in the law; notice period of 3–9 months depending on how long tenancy has lasted
 - If the landlord sells, the lease binds the new owner
 - Initial rent can be freely set, but not more than 20-50% above average rents in the local area—but new restrictions in Berlin, Munich...
 - Rent can go up every 15 months by average in the area
- The rental offer in Germany has a number of factors:
 - Most private rented sector units are in rental-only blocks in single ownership
 - Tenants stay for long time (average 11 years)
 - Landlords invest into the longer term
 - Landlords provide minimal facilities beyond the dwelling itself: usually no furniture or kitchens

- The economic environment in Germany is different to the UK:
 - Over most of last thirty years real house prices fell in most areas
 - General inflation also very low so costs fairly predictable, though some problems as standards have risen for example energy efficiency
 - Some areas where pressures on rental market and difficulties in finding accommodation - extending to more cities since 2008
 - Owner-occupation and house prices in these areas now rising quite rapidly
- The conclusions of the presentation are as follows:
 - Private rented sector has grown quickly in London since early 1990s, mostly through transfer of existing homes rather than new build
 - 1988 deregulation of rents and leases contributed. English rental market much less regulated than in most European countries
 - Private rented sector rents higher in London than almost anywhere else—as are house prices
 - Effects of policies like rent control depend on legal, cultural and economic frameworks. What works well elsewhere might work very differently here. has grown quickly in London since early 1990s, mostly through transfer of existing homes rather than new build
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3.4 In response to questions from the Committee, the following was noted:

- The primary housing problem in London and the South-East has been the ‘housing bubble’ and high prices resulting from the supply of housing not keeping pace with demand resulting from economic growth and migration.
- Big property developers are more inclined to deliver longer-term tenancies, such as the East Village (London 2012 Olympic site).
- In terms of housing costs, to income, this should not be more than 30% of income to be comfortable. In London, most rents are above 30% of income.

3.5 **RESOLVED:** That the Committee noted the evidence given as part of its review, and thanked both witnesses for attending.

4. London Borough of Newham - Red Door Ventures

4.1 Dave Baldock (Head of Strategic Finance, London Borough of Newham), gave a presentation to the meeting. The key points to note were:

- LB Newham’s housing sector is set in context of:
 - Newham having a large private rented sector (40,000)

- The private rented sector is increasing at a rapid rate (was 30,000 only 5 years ago)
 - Standard of management of properties is “variable”
 - Landlords can be problematic
 - Length of stay is typically 6 months – so there is a transient population
- The national context of an increasing use of private rented sector property, with a fall in owner-occupation is also prevalent in LB Newham.
- There has been political support to intervene into the housing sector in LB Newham.
 - Private rented sector growing
 - Landlords of variable quality
 - HMO issues significant in Newham
 - Desire to intervene
 - LB Newham already has a Private Sector Licensing scheme
 - Council to develop a private rented sector offer
 - Previously created Local Space – an Registered Social Landlord providing Temporary Accommodation
- In terms of land, the Council has considerable land holdings in the borough. There is also the London Development Agency land in the borough, as well as the London Legacy Development Corporation has land at the Queen Elizabeth Olympic Park.
- LB Newham are able to access a lot of land, including their own, which makes it more feasible to build its own housing than other London Boroughs.
- LB Newham proposed in December 2012 setting up a wholly owned company – Red Door Ventures -with the objective of operating a business to let homes for market rent which would purchase land and develop/purchase housing for rent from which the Council would receive a return on its investment as well as re-payment on any loans over a set period.
- LB Newham would initially be the sole shareholder and funder. Legal advice received to the Council allowed for the Company to trade and allows for ownership outside of the Housing Revenue Account. It also stated that rent levels need not be restricted, and could be of market and ‘affordable’ (80% of market rate).
- Red Door Ventures would look to target young professionals, families, and those caught in the difficulties of high rent in London, but still unable to afford their own home.
- 13% of the homes in the first development would be 1-bedroom, 43% would be 2-bedroom, and 44% would be 3-bedroom.
- For the delivery of Red Door Ventures, it will subcontract a range of functions like management and rent collection. Staff for Red Door Ventures would initially be seconded or recruited direct.
- The business model for Red Door Ventures is for the company to act just like any other commercial developer, and would also comply with the Council’s planning obligations like any other developer.
- The Red Door Venture’s business plan is to build 3158 properties over 30 years, and acquire 518 street properties. It is projected that 39% of these properties will be family units of three bedrooms. There are no plans to build outside the borough, but there is potential to do so in the future.
- The financial returns to LB Newham for setting up this company are:
 - Council Tax up to 2028 of approximately £18.1m
 - Community Infrastructure Levy funds of £17.5m

- Borough Wide Property Licensing Fee of £96,000
- Planning fees of £570,000
- Returns from developments and sales of units
- Shareholder dividends
- Income from payments for any possible services

4.2 In response to questions from the Committee, the following was noted:

- Red Door Ventures will look to plough the dividends back into the company, once it gets profitable in 5-10 years' time, to allow the company to build more properties.
- Maintenance services is better provided by a subcontracted company, until there is a 'critical mass' of properties that means economies of scale allow you to employ your own staff.
- Red Door Ventures can vary its capital programme, so they can increase their borrowing requirements where necessary.
- The modelling done for Red Door Ventures has provided estimates such as rent of approximately £2,000 a month for a 2-bedroom property.
- Red Door Ventures will set its own lettings policy. There will be an affordable rent element, which will be 80% of market rent.
- Red Door Ventures will look to 'front-load' the properties – of approximately 1,800 – to garner the returns to the company quickly. The prime location of the properties – with great transport links across London, with continuing improvement with the upcoming Crossrail – will make this viable.
- The first development will need about £8m start-up costs.
- Red Door Ventures will act as any other commercial developer, so that will determine how many 'affordable rent' properties are provided.
- There may be issues of political influence with LB Newham being the sole shareholder, but it should not affect its role as a commercial developer.
- LB Newham will look to see how Government legislative changes will affect the development of Red Door Ventures.
- If there is an economic downturn any time in the future, Red Door Ventures will take a balanced approach to ensure it can slow down/increase its developments where necessary.
- Red Door Ventures will look to go into partnership with developers only if they want to provide properties for tenants not just build and leave unoccupied to accumulate wealth.

4.3 **RESOLVED:** That the Committee noted the presentation.

5. **Housing-Led Regeneration Opportunities - Exclusion of Press and Public**

5.1 The Chair noted that item number 6 was restricted from press and public and reported that:

- 'It is recommended that under Section 100 (A)(4) of the Local Government Act 1972, the public be excluded from the meeting during discussion of this item because it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act as set out

below and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

- Information relating to the financial or business affairs of any particular person (including the authority holding that information)'.

6. Housing-Led Regeneration Opportunities

- 6.1 These minutes are restricted from press and public for the reasons listed in paragraph 5.1 above.

7. Private Rented Sector Licensing Scheme - Update

- 7.1 Roz Spencer (Co-ordinator, Rogue Landlords Taskforce), gave a presentation to the meeting. The key points to note were:

- There have been a few Government changes since the consultation was initiated:
 - Housing Bill introducing new system of fines
 - Consultation on amending Mandatory Licensing regime to include all Houses of Multiple Occupation (HMOs)
 - 'Right to Rent' requirements on private landlords – risks for the council
- The consultation lasted 12 weeks - from 1 September 2015 to 24 November 2015 (10 weeks statutory minimum)
- The consultation consisted of:
 - Consultation document and on-line survey on Lewisham website
 - Mail shot of over 4000 letters to all addresses with combination of commercial and residential, with invitation to public meeting, summary of the proposal and link to website
 - Public meeting 15th September 2015, which had 40 attendees
 - Emails to subscribers to Lewisham Life magazine with links to the consultation document on the council website
 - A written briefing note to Ward Assembly meetings
 - National Landlord Association (NLA), Residential Landlords Association (RLA), Generation Rent, London Property Licensing.co.uk and all neighbouring borough's websites asked to publicise the consultation and provide hyperlink to our website
 - hard copies of the document available at Laurence House Customer Access Point
- In terms of responses, there were 136 on-line responses. There were four detailed organisational responses - NLA, Citizens Advice Bureau (CAB), LB Lambeth and RLA.
- Respondents information:
 - Overwhelming majority live in the borough
 - Largest group of respondents were owner-occupiers, about 40% of whom were private landlords
 - Slightly more of the respondents were private tenants than private landlords (56% vs 44%)
 - More than half the landlords let only one property, only 3% have portfolios over 10 properties
- The opinions on the '5 key questions' from the consultation are as follows:

- “More properties for private rent should be licensed” - Strongest opinion and biggest consensus this included a quarter of the private landlords. No private landlords disagreed with the statement
- “Licensing improves conditions” - big majority agree including just under a third of private landlords, though 21% disagreed with the statement
- “It is right to target flats above commercial premises” 60% agreed though private landlords were divided on the question with only one quarter of them agreeing. 90 % of tenants were in agreement
- The standards to be met for a license: a small majority felt standards proposed are about right, but 28% who were overwhelmingly private tenants, felt the standards were not tough enough. Just under half of landlords considered them too tough.
- On the proposed fee of £100-110 pa – opinion was most divided on this question; a small majority favoured the fee being at least the proposed sum but more than two thirds of landlords thought the fee too high
- Some of the qualitative feedback from the consultation consisted of the following:
 - NLA in support of the scheme, see this as a positive opportunity to campaign for more small landlords to gain accreditation – partnership work plan in place
 - CAB - no evidence of more people from over shops complaining – in keeping with council enforcement teams experience – maybe these complaints are not forthcoming due to fear of retaliation from landlords is unknown.
 - There was a fear that a licensing scheme could cut links to immigration; there was some agreement that there was a risk of driving those immigrants and those that exploit them further underground.
- There were a number of other questions posed in the consultation, some examples being:
 - Should there be a requirement to control pests?
 - Will we give landlords a chance to comply with licence conditions first before refusing it?
 - Can we increase fines for landlords who don't comply?
 - Can we require annual inspections by qualified surveyors?
- The consultation recognised that there were some challenges posed by the licensing, such as:
 - The Licensing scheme penalises good landlords while the rogues go under the radar
 - The costs will be passed onto tenants and will reduce supply of affordable housing
 - There are more cost effective schemes based on self-regulation and partnership
- There are revised estimates for the scheme now, with the scheme costing in total £431,000 per year. License fee income is estimated to be £175,000 per year and net cost to the council £156,000 per year.
- In conclusion, the consultation found that:
 - All aspects of the proposals were supported by a majority of respondents
 - The survey captured the opinions of both landlords and tenants; landlords were more negative about the proposals while tenants were strongly supportive
 - Landlords did not disagree with the principle of licensing

- Just under half of the landlords considered the proposed standards too tough, and only one third agreed licensing improves standards
- Less than a third of landlords were in support of the proposed fee
- Only a quarter of landlords agreed with licensing flats over commercial
- The next steps for the consultation are take the recommendations via scrutiny to Mayor & Cabinet on 16 January 2016. After Mayor and Cabinet considers the consultation and revised costs, Implementation of the Licensing Scheme will be drawn up. A Statutory Notice would need to be issued for 3 months prior to going live with the Licensing Scheme.

7.2 In response to questions from the Committee, the following was noted:

- The Committee were happy with the conclusions of the consultation and the way they had been presented to the Committee.

7.3 **RESOLVED:** That the Committee noted the presentation and commended the results of the consultation before they went to Mayor and Cabinet.

8. Proposed Rent and Service Charge Increases

8.1 Mark Humphreys (Group Finance Manager, Customer Services), presented the report to the meeting. The key points to note were:

- In the July 2015 budget statement, Government announced that it intends to legislate for a 1% reduction in social rents to be applied each year for the next 4 years from 2016/17. This is expected to be passed within legislation within the next few months.
- The impact of the change in policy is a total reduction of forecast rental income within the business plan is £1.90m. The expected rent reduction over the next 4 years is £25m, with £374m being lost over the life of the 30 year business plan.
- Officers will look to make savings to offset the impact of the reduction of social rents, for example:
 - Officers, together with Lewisham Homes, have already identified an saving of £1m arising from a reduction in Repairs and Maintenance allocations. This budget has under spent by at least this amount in the last financial year and is expected to do so again in the current year. This is as a result of the Decent Homes improvements carried out over the last four years.
 - Further savings are expected once a review of other asset investment priorities is completed in January 2016.
- In respect of services charges, it is proposed that the overall tenant increase being proposed is 11.20% or £0.81 per week (pw). This will move the overall charges from £7.26pw to £8.08pw for existing services, and the introduction of two new charges for lumber disposal and enhanced housing management for sheltered housing units at a polled average of £0.60pw and £0.88pw respectively.
- In respect of garage rents, they have been proposed to rise in line with RPI inflation at September 2015 which is 0.80%. This represents an increase of £0.09pw and would raise the average charge from £11.56pw to £11.65pw. The proposed increase would raise an additional £9,000 of revenue income.
- The report will go to Mayor & Cabinet in February 2016.

8.2 In response to questions from the Committee, the following was noted:

- The Committee noted their worry about the loss of revenue for the Council to build affordable homes due to the Government's policies.

8.3 **RESOLVED:** That the Committee noted the presentation.

9. Select Committee work programme

9.1 Roger Raymond (Scrutiny Manager) introduced the report. The key points to note were:

- The items scheduled for the January 2016 meeting are as follows:
 - Lewisham Homes - mid-year review
 - Brockley PFI – mid-year review
 - Lewisham Homes - Management Agreement: Update
 - Lewisham's Housing Strategy (2015-2020) - Update
 - Allocations Policy
 - Rehousing the homeless - Charity Groups
 - Health and Housing
 - Key Housing Issues

9.2 In response to questions from the Committee, the following was noted:

- That the Lewisham's Housing Strategy (2015-2020) – Update can be put back March 2016 meeting when there will be time to take into account the Government legislative changes to housing.

9.3 **RESOLVED:** That the Committee agree the work programme for 2015-16.

10. Items to be referred to Mayor and Cabinet

10.1 No items were referred to Mayor and Cabinet.

The meeting ended at 10.35pm

Chair:

Date:
