



# Building for generation rent:

How a co-owned, co-operative model  
can solve the housing crisis

Jake Sumner

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Policy Network  
Second floor  
11 Tufton Street  
London SW1P 3QB  
United Kingdom

t: +44 (0)20 7340 2200  
f: +44 (0)20 7340 2211  
e: [info@policy-network.net](mailto:info@policy-network.net)

[www.policy-network.net](http://www.policy-network.net)

## Summary

In the later part of the 19<sup>th</sup> century a housing crisis saw the passing of the Public Health Act 1875 ushering in housing standards, slum clearance and social home building through reformers such as George Peabody. In the decades following the first and second world wars, social housebuilding programmes commenced to address the lack of housing. To tackle the housing crisis now facing London will require a similar commitment alongside new solutions applicable to today's needs.

This paper outlines reforms to one of the most challenging parts of the housing market, the private rented sector (PRS). It supports more PRS schemes such as those being developed by some councils, but offers a model to enable greater scaling and to bring more benefit to tenants as well as securing wider public gain. The paper is also a political argument for this to be a priority, made part of the suite of policies to meet London's housing needs. The proposal, which I have called *co-owned, co-operative housing*, offers affordable market rents and long-term secure tenure for millions of low- to middle-income-earning Londoners affected by the crisis, and creates long-term reform to the PRS housing market.

The concept is to change the rental market with an effective and scalable model by:

- Providing a mechanism to deliver significant levels of quality, desirable intermediate housing
- Stabilising the rental market and offering a new housing model with a significant tenant gain of long-term tenure and lower rents: effectively a much better PRS scheme model, giving tenants a greater sense of ownership and a credible alternative to home owning
- Enabling a way to use public land – such as that in council, Transport for London, NHS and Network Rail ownership – as a long-term income-generating asset, instead of being sold as one-off capital receipt. This will help cash-poor public authorities build new income streams
- Providing a mechanism to deliver societal goals and benefits – including environmental and low carbon gains (such as through lower energy use) – as well as a way to apply housing innovations and developments, such as housing bonds and new financial instruments

PRS housing is not a replacement for social housing. There is acute demand for social housing and more must be built. But, even if this happens, it still would not cater for the millions of lower- to middle-income earners (£20-60k pa). Home purchase is also out of reach too and would need interventions with significant political and economic implications to change this. The private rented sector is often the only option, but is not attractive as it is costly and gives little security. However, this option can be made much more attractive and a viable part of the housing solutions.

PRS schemes are being developed privately and publicly. While tenants may marginally benefit, the schemes are not designed with tenants in mind. Under the co-owning model the tenant is integral. Co-operative enterprises would be established, owned by tenants, to manage the properties on a not-for-profit basis. The enterprises would generally own the leasehold; if public assets are used then it is likely the freehold would be retained by the public body, although it could be bought by or transferred to the enterprise. Tenancies would offer enhanced security with long-term lets and rents benchmarked to lower market levels and / or tied to income. Properties would be retained for this type of housing and not sold, anchoring affordable market rents. The model reduces the biggest cost to households, housing, and helps counter market imbalances. In London rent is nearly three-quarters of gross earnings.<sup>1</sup> By reducing costs, tenants can build assets such as savings and it reduces the premium that home ownership accrues via rising house prices.

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<sup>1</sup>English Housing Survey as reported in the Guardian [16 July 2015](#)

The co-owning principle gives tenants stronger rights in the use of the property, a stake in their home, but not the ability to sell it. A tenant can relinquish it and it would be re-let. For a person looking for a property, the model would operate similar to the standard rental market except the 'landlord' would be the enterprise who lets the property. To cater for the target income bracket, an income tie could enable a premium payment if a tenant became considerably wealthier. There are similar models with a focus on affordable rental approaches, such as in Sweden: the model in this paper updates the approach particularly for high-need, high-land-value urban centres.

The model could be financed through, although not exhaustively: land transfer/use/sale, land trusts, public funding and assets, pension investment, bonds, and borrowing against future rental yields. A challenge is initial capitalisation and construction costs. This could be kick-started through land sale, but the model is ultimately about using assets to generate a long-term income as well as the social good of more affordable housing rather than land being sold off. Depending on rental yields the model would also be attractive for pension funds and private investment, including through new peer-to-peer lending platforms. Londoners could be given options to invest in this model and a preferential vehicle for co-owners could generate additional capital and enhance the model's benefit.

The model does not need new powers to be taken forward – the general power of competence provides a framework through which councils can act. Public bodies can use the model to help generate capital for priorities such as social housebuilding or to plug budget reductions. The model is an alternative to intermediate housing such as part-rent, part-buy, which has been found to be expensive and ineffective.<sup>2</sup> It is a model that can help meet London mayoral and borough housing agendas and can be applied in a variety of locations. It should be part of developments like Old Oak Common, and can be applied to the public land of councils, TfL, NHS, Network Rail, police, etc. It can also be applied to charities or semi-public institutions such as universities and further education colleges. It could also generate income and help these institutions enable their staff to live in London.

While the income generation element is similar to the PRS build-to-rent approach, the co-owning element provides an enhanced tenure for the tenant. The principle contains safeguards so rent affordability is retained and separates management from the public body with the enterprise undertaking this. Councils and public bodies are not necessarily the best candidates to be the landlords: they can be unwieldy, have chequered records in housing management and the social housing remit could be seen to be compromised. Management could be undertaken by the private sector but the profit element would reduce gain to tenant or public authority. The model could also be placed outside the housing revenue account (HRA), with important benefits for local councils.

A new development body could also be established to maximise benefits and leverage funding. TfL is ideally placed to establish a housing development arm and contract developers to build homes, which in turn could bring in new, innovative developer entrants. It could also broker funding options as it did for Crossrail. The body would help realise the savings of constructing in scale and broker savings through delivering low carbon homes (eg lower utility bills). There is an opportunity to drive new, high-level green building standards, complete with supply chains and apprenticeship places. A development body could unlock complex sites with multiple public owners. It could avoid developers sitting on land and putting weight on the clunky planning system to secure public benefit gains. Rental homes could be the first built (not the last, as in current models) and so address housing need more readily and generate income for the authority. Other public bodies could set up their own development bodies or indeed contract a TfL established body.

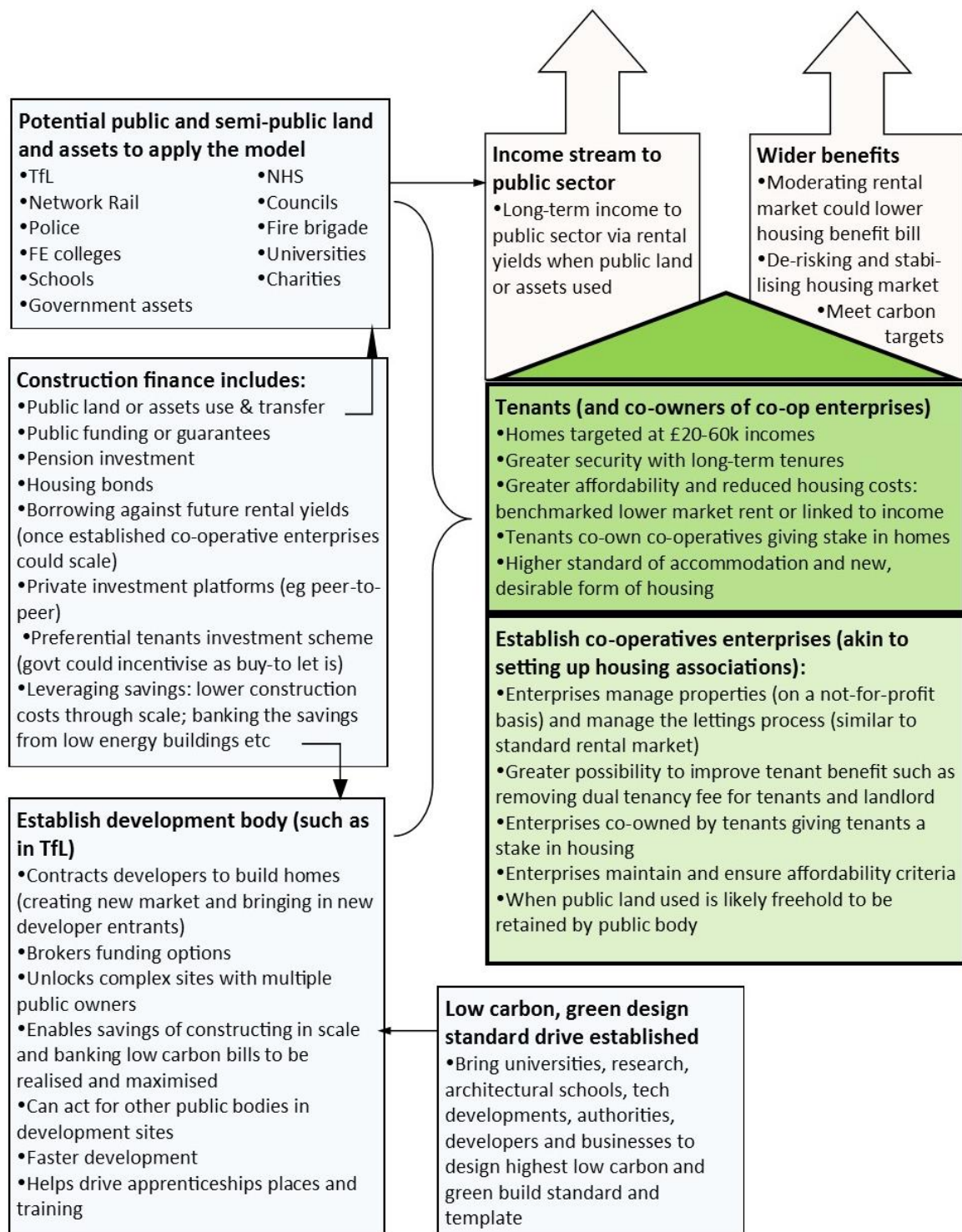
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<sup>2</sup>[The Guardian 3 July 2015](#)



By making this model central to housing plans for London, the private-rental market could be permanently transformed with a new form of housing aimed at the millions of low- to middle-income-earning Londoners and which generates a return to the public purse. This report outlines how.

## Diagram of how the model works



## Context and background

1. Despite London's wealth – an economy the same size as Poland and representing 22 per cent of UK GDP – increasing numbers of people cannot afford to live in the city. It is one of the most critical issues facing London and threatens its future success and competitiveness. Business leaders increasingly cite affordability as a major issue.<sup>3</sup> Other successful cities across the world are facing similar issues. New solutions are required and London can be a leader.
2. This paper does not seek to detail the welter of statistics showing the extent of the housing problem as these are well documented. But, to give a snapshot and backdrop, rent rises are outstripping inflation, house price rises are rapidly outstripping wages<sup>4</sup> and deposit levels needed to buy a home are growing hugely. It is increasingly clear that it is not pockets of London that have become unaffordable to those on low and middle incomes, but most areas of London. An Evening Standard report at the end of last year gives an indication. It reported the average annual house price rise in Newham is 12.5 per cent and Hillingdon 13.1 per cent. It cannot also be an acceptable proposition that everyone should move to the ever small numbers of relatively cheaper places such as Barking, which itself has seen increases of 12.1 per cent. Recently, the Evening Standard highlighted how only one in six wards in London has an average price below £300,000 (the outer limit of what is considered affordable for an average dual salary) and now no wards have average prices below £200,000 (in 2010 there were 63 wards). Property in affordable reach has shrunk by two-thirds since 2010. On the other hand the wards with an average price of £750,000 or above has doubled to 106 (it was 40 in 2010)<sup>5</sup>. The nature of the housing market and rising prices has led the International Monetary Fund to issue warnings that this threatens the economy, warnings previously flagged by the Bank of England governor Mark Carney.<sup>6</sup> The governor also issued warnings about the buy-to-let market.
3. It is widely accepted that London requires a significant acceleration in housebuilding but this alone is insufficient to solve the housing problems: new development models and housing options are also needed. Take the Battersea Power Station development: three years ago on-plan studio flats sold for £343,000<sup>7</sup> in a matter of days, mainly to buyers in the far east, and in some quarters this was cited as a success. In reality this was not addressing London's actual housing need. The price and the process means these homes are out of reach for many Londoners. The example is not a unique one. Many of the new homes being built or planned are luxury flats or at unaffordable prices. This is partly due to London property becoming a safe global asset which in turn affects the nature of properties being built.<sup>8</sup> (The current blip in the luxury market does not escape these long-term trends and direction). So, it would mean addressing the global market impacts and directing in some way the type of housing built. Even

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<sup>3</sup>50 business leaders recently signed a [letter](#) to the Evening Standard outlining the crisis of high prices and rents. A [CBI London business survey](#) in September 2015 found that 57 per cent of firms surveyed listed housing costs and availability impacting negatively on the recruitment of entry level staff. A [LCCI survey](#) in October 2015 had similar conclusions.

<sup>4</sup> A [KPMG report](#) suggested that a wage of £77,000 was needed to afford to buy in London, whereas the average wage is £28,000, the highest gap in the UK

<sup>5</sup> Evening Standard [15 April 2016](#) reporting on Savills figures using Land Registry data

<sup>6</sup> In December 2015 the IMF issued a report of the UK economy and cited the rising house prices as a concern. This was widely [reported](#)

<sup>7</sup>[Evening Standard 14 January 2013](#)

<sup>8</sup>There are numerous examples: The Evening Standard [reported that](#) The Liberty Building development has homes for £495,000 which the developer considers 'relatively' affordable. The Guardian [reported that](#) Knight Dragon, a company owned by a Hong Kong billionaire has consent to build 10,000 homes on the Greenwich peninsula with apartments with interiors designed by Conran & Partners and costing above £800,000

if this were done and sufficient numbers of homes targeting actual housing need are built it is hard to see that how they will be or remain within financial reach (government starter homes, for example, are not). Rapidly rising house prices will mean that in the not too distant future there will still be the situation that many people cannot afford to buy and renting is the only option. Housing purchase therefore cannot be seen as the sole housing solution.

4. London also requires many more social homes to be built. This will begin to address the huge backlog on the waiting lists but the challenge will remain how to help lower-to middle-income earners who cannot get on the waiting lists nor who can buy a home. In any case the government's plans through the housing and planning bill to force councils to sell off social housing is placing the future of social housing in doubt and could have negative repercussions for the rental sector and housing market. Indeed the sell-off of social housing driven through the bill would mean considerable numbers of social rented homes could move from the social sector to private rental sector and fuel increased rents and the housing challenges.
5. To address the needs of the millions of low-to middle-income earning Londoners (around £20-£60k if a single earner)<sup>9</sup>, what is needed is a fundamental reworking of the private rented sector market, over a quarter of the tenure in London and an increasing percentage of the housing mix. Renting is mainly a necessity rather than a choice. It can offer flexibility to some but there is little security and rents are high. Renting is not considered a long-term option as understandably people want to buy their home because renting it so unattractive. This is not the case in other countries where renting is considered an option – as in Germany, France and Switzerland – where there are higher levels of renting. In some countries renting is concentrated in urban areas: Vienna's PRS sector is double the average for the rest of Austria.
6. The London rented sector is getting more challenging. For example, unscrupulous 'investors' are turning two-bedroom flats into three-bedroom flats by converting the living area into a bedroom to increase rents. Tenants are also instigating such conversions themselves to reduce the high cost of rent.<sup>10</sup> This is further deteriorating the housing environment.
7. The cost of housing is affecting individual spending power, with rent in London on average 72 per cent of gross earnings, higher than the UK. It is also increasing the disparity between tenures, with an ever-widening gap between those with a property asset and those without. Those with a property are often able to generate an additional income, such as renting rooms to tourists. The cost of renting and property prices are an economic concern for London: to the service economy, an engine of its success. People need to be able to live in the city to maintain creativity, diversity and vibrancy. 'Housing anchors' – instances of more affordable rental property – are needed in all parts of London to prevent areas becoming homogenised and just for the wealthiest. London is strongest because of its diversity and mixed communities.
8. Rent controls have been put forward as a response to the private rented housing issue but such measures look challenging to implement, politically for one, and it is not clear that they will be able to overcome the underlying problems in the market. Rather than this regulatory framed response there is an opportunity to remake the market. This is what these proposals seek to do.

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<sup>9</sup> The average London wage is around £28,000 although there are [variations across boroughs](#). The model is aimed at those that find it hardest in the London housing market. For joint incomes the upper level would be around £80,000-£90,000. A [KPMG report](#) said found that a wage of £77,000 is needed to buy in London.

<sup>10</sup> As for example reported in the Independent [19 November 2014](#)

## The model: co-owned housing and the tenant perspective

9. **Aligning tenant/landlord interest:** A co-operative solution changes the dynamic of the market and the tenant position. In private rented tenure the interest of the landlord is not aligned to that of the tenant because the nature of the market would mean a landlord quite naturally seeks to maximise income. The sizeable increase in buy-to-let with property bought for investment, income and a pension has partly driven this. A benign landlord might not want to maximise income but this should not be the basis for millions of people housed in the private rented sector. Co-owned housing would align tenant and landlord interest. It changes the dynamic for renters, and fundamentally changes the system: renters themselves would in effect be their own landlord as they are co-owners of the co-operative enterprises.
10. **Tenancy security and lower market rents:** Under the new model the 'tenant' would be a co-owner of the co-operative enterprises running the properties. Tenancies would be lifetime or very long term, giving significant security – tenants would not be bound by this, just the enterprise. Rents would have a mechanism, maintained by the co-operative enterprise, to ensure rents are not purely market levels but are instead benchmarked against the lowest market rents in an area. This could be a benchmarking to lower market levels such as the lowest 10 per cent market rents in an area or linked to income or a combination of both. The usual rental market structure is such that when there are regular rent rises a benchmark is sought and letting agents and landlords can seek to match the highest average rents, for example the top 25 per cent of rents. This then creates a circle of ever-increasing rents. Properties can be flipped, enabling this to happen more regularly. Letting agents also receive charges each time this happens so there are incentives for this to occur more frequently. The co-owning model helps put a brake on this. An alternative or additional mechanism for keeping rents more affordable is linking them to income levels. This would mean that if a tenant becomes significantly wealthier (such as reaching an income level of a multiple – eg four times the average London income level) – then they would pay more. They could opt to leave the property enabling the property to be re-let or pay the premium. It would be their choice and these arrangements would be known up-front before the tenant moves in. If a tenant remains in the property it raises more income, which can be recycled, for example, into investing in more co-owned housing. The level at which the premium rent would kick in would be set appropriately so that it retains the principle underpinning the housing model and does not act as block to employment earnings self-improvement. Tenants would not be permitted more than one co-owned property to ensure that as many people as possible benefit. By reducing rental costs, the biggest cost to households – housing – is reduced and tenants can build up other assets (for instance saving for a deposit). The model will also support the growing numbers of the self-employed and freelancers who find access to pensions, mortgages and other financial instruments much more challenging.
11. **Creating co-op enterprises:** Co-operative enterprises would be created to manage the properties and over time they would likely have a range of properties in their portfolios. They would manage the properties for the co-owners primarily on a non-profit basis. The enterprises would generally own the leasehold (funding of the proposal is covered in more detail below). The co-owners – the tenants – would be members of the co-operative and would have a stake in their housing. The properties would not be able to be sold but retained for this type of housing and safeguards put in to that effect. There are a range of co-operative enterprise models outside of the UK which demonstrate ways this is being undertaken: in Sweden, HSB<sup>11</sup> – a cooperative association for housing – has a share-holding system through which people buy shares in the co-operative and sell their stake when they leave. The concept outlined in this paper is that there

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<sup>11</sup> Housing International Co-ops [website](#)



would be a range of co-operative enterprises in a way that there are housing associations or letting agents. Governance measures for the co-operatives would be established so that if a co-operative got into difficulty, it could be resolved, for instance by being taken over by another co-operative. This would be similar again to housing associations. Given the ownership and interest of the co-owners and the greater transparency that co-operative and mutual models can bring it there would be strong internal safeguards and mechanisms and good practice can be shared among co-operatives. In any case the structure would have stronger safeguards than current private rented models, where tenants can be forced to leave by landlords selling their properties, terminating the lease, or property companies going bust, with little recourse for the tenant.

12. **A different, aspirational model:** The model would offer aspirational housing and a good alternative to purchasing a home or a positive housing option before one is able to purchase a home. It would likely appeal to a wide range of people and change the nature of the market. The badging of this form of housing as 'co-owning' is important. It is not just a rental option and should be seen as a much more than just an enhanced tenure (calling it solely a co-operative model might not fully recognise the wider appeal or what it aims to be). Co-owners cannot sell the property asset itself, so the concept is a mid-point between owning outright and renting, hence the idea of co-owning. But, being a co-operative does mean having a stake and the co-operative enterprise is owned and accountable to the co-owners.
13. **Links to existing co-operative models:** This model is not necessarily the same as the more traditional co-operative housing model, which often has elements of communal living and has been a niche (although valuable) part of the housing tenure mix. Its strength and difference can be its limitation because it is not a form of housing that necessarily a large number of people seek. This is why the co-owning label is an important differentiator from these other types of co-operative housing. There are pockets of new thinking and schemes in the UK but it is in Wales, supported by the Welsh government and Wales Co-operative Centre, where this looks to be developing more significantly. Models exist in other countries too in various forms (some more social-rented, some more market), for example in Germany and Sweden, and there are tested propositions. In Sweden, co-operative housing makes up a greater portion of the housing market than the whole UK rental sector. Models have tended to be more extensive in northern Europe, although there are examples in other countries. Research also shows that where co-operative (and social housing) models have been eroded there has been a negative impact on the housing market, and suggest their need is stronger than ever.<sup>12</sup> Given the size of the housing challenge in London and scale of housing building needed there is an ability to create a long-term transformation, updated, modern co-operative model that could have wider application. Co-operative, mutual and social enterprise organisations and expertise can be engaged on the legal and governance models which have been developed<sup>13</sup> and this would be accelerated with early indications of support for introducing the model from the London mayor and London councils. Setting up the enterprises is not an insurmountable task and is akin to when housing associations were established.
14. **Obtaining a co-owning property – the tenant perspective:** The market for co-owned housing would operate in the same way as the standard rental market except the letting agent/landlord would be the co-operative enterprise. The enterprise would advertise and let the property accordingly and finalise the agreement with the would-be tenant. A tenant could leave at any time and relinquish the property, which would be re-let. Other benefits from the model could also flow. As an example, the high fees that letting agents charge for letting properties – billing

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<sup>12</sup> Examples of international co-operative models [www.housinginternational.coop/co-ops](http://www.housinginternational.coop/co-ops) and <http://www.housinginternational.coop/co-ops>

<sup>13</sup> Confederation of Co-operative Housing



the landlord and tenant for the same service – could be removed and create further savings for tenants. A ‘mini social-market’ in the co-owned model could be established with enterprises offering a range of options.

## The model: financing, delivery, and income generation for public bodies

15. **Financing:** The model could be implemented through a variety of sources, and as the concept scales additional funding options would become available. Funding sources could include, although not exhaustively: direct public funding and guarantees; land transfer and use; land trusts; pension investment; bonds; private investment platforms including new peer-to-peer models; creating a preferential investment scheme for the tenants; borrowing against future rental incomes; and combining with property sales to generate capital. There is not a single solution to achieve scale – the model is a framework to apply various financial solutions being put forward to solve the housing crisis, such as housing bonds.
16. **Income stream for the public sector:** Critically, when public assets are used it could generate a long-term income for the public sector. Some councils have gone down the PRS route to generate an income: Barking and Dagenham is one such council<sup>14</sup>. Mansfield council has a different model and is pursuing the development of a commercial property portfolio to generate income.<sup>15</sup> This power is allowed through the new general power of competence. It could enable councils and public authorities to raise revenue and over time cover some of the government funding cuts and fund new capital projects (and in the case of councils it could fund, for example, the building of new council housing). The co-owned model generates an income like the PRS model, but delivers a better product for the tenant and contributes much more to the public good. The opportunity is for the widest range of authorities to consider and implement the model and develop local application to harness the considerable public land portfolio in London. It provides an alternative to selling an asset (land or existing property asset) for a one-off (fire-sale) receipt, where the asset is lost to the public purse and a developer banks the development gain, to instead generate a long-term income stream for the public body. The asset would be generating a return *and* retained for wider social benefit of more affordable housing. The public bodies this could apply to and not exhaustively include councils, TfL, Network Rail, police, fire brigade and schools as well as semi-public bodies like universities and FE colleges, and charities with surplus land and assets. Former transport secretary and peer Andrew Adonis has written about the scale of land available and the possibly for more effective use.<sup>16</sup>
17. **Financing factors:** Key considerations to unlocking deliverability and scaling the model include: the ownership and price of land; unlocking public land and assets; capital for building works; and the estimated rental yields to leverage long-term investment. There are trade-offs: higher rental yields would make it a more attractive investment vehicle, including for pension funds or as a return to the public sector (if public sector land or property were used), but higher rents would also weaken the benefits of the model. Scaling the number of projects delivered could reduce building and financing costs and enable a greater range of negotiated returns. For example, delivering the highest environmental building standards would enable greater longer term savings in energy and utility bills. Building to scale could reduce the cost of achieving higher standards. These savings could be banked in the investment chain, such as enabling slightly higher rents due to lower utility bills (and in turn being able to recycle this money for future

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<sup>14</sup> A summary can be found [here](#)

<sup>15</sup> Mansfield has bought a Travelodge among other [assets](#)

<sup>16</sup> Andrew Adonis [suggests](#) that local authorities own between a third and a quarter of their boroughs

investment in the model or leveraging in additional investment). The concept would in effect create a larger pie of public benefit that can be divided.

18. **Transport for London:** Perhaps the single most significant driver of the model could come through TfL using its sizable land portfolio and development potential. Given TfL's asset base and financial expertise, such as putting together the Crossrail funding package, it could be tasked with providing the economic forecasting and packages to unlock the model and give it considerable impetus, particularly with regard to its own estate. There are considerable benefits to TfL taking a lead, including the income stream it could develop (which in turn could be used to invest in public transport and lower fares). It could also influence and curb negative externalities of transport development such as property and rental increases forcing out existing communities. This is important for TfL in considering future developments such as Crossrail 2, as it could help build local support. The co-owned housing model could generate an important long-term income stream for TfL rather than a one-off capital sale of land. MTR, the rapid transport system in Hong Kong, receives most of its income this way rather than from fares,<sup>17</sup> enabling it to fund expansions of the network and high levels of maintenance. Just as TfL/the mayor has borrowed against future business rates income as a part of the Crossrail funding package, an argument could be made for borrowing against the future rental stream to fund transport network expansion and deliver more co-owned housing. This creates a virtuous investment framework and delivers multiple social goods: better transport plus more affordable housing. TfL has the financial deal-making, property development and management expertise to be tasked with developing an explicit programme to deliver co-owned housing across its land.
19. **Addressing gentrification:** New and improved transport infrastructure leads to higher property prices. This can unlock private development and it can also be a boon if land value can be captured. However, local people can also be priced out, affecting the mix of communities. Establishing co-owned housing as part of new transport development would provide a counter to the negative impacts of 'gentrification' and anchor lower rents in the areas of development. This would enhance support for transport projects as the externalities that can lead to people being forced out of areas would be reduced. TfL could also be given an explicit remit to link transport, development and affordability in projects and the co-owned model would be a solution.
20. **Better use of public sector assets:** While TfL action and leadership will help scale the model, a similarly sizeable amount of land and assets is held by Network Rail, the NHS (and the government) and these can also be unlocked. The model could create long-term income streams. It would also address the issue of staff working in public institutions (from frontline nurses and police officers to backroom and support staff) being unable to live in London. These properties are exactly targeted at the income profile of these workers. There is a question as to why some public bodies might forgo potential higher rental streams by having a lower rental level through the co-owned model. There is a trade-off. Selling the assets, which is the traditional approach, certainly does not adequately address housing need. A PRS scheme would have some benefit to the authority, but what the co-owned model achieves is a return for the public body and tenant gain. It would also generate a contribution to wider public value of affordable housing, and therefore meets the ethos of those public bodies, while also creating a benefit to employees and future employees in the those authorities.
21. **Local councils:** There is a considerable opportunity for councils to introduce the model. It is important to recognise that the idea is not that co-owned housing would replace social housing building programmes. It would complement these programmes. The model would be an

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<sup>17</sup>As reported in the Evening Standard [3 February 2014](#)

alternative to selling off an asset: it could form part of future developments and it could replace the part-buy/part-rent (intermediate housing) element of schemes. Additionally, PRS schemes could be turned into co-owned models to bring about the greater benefits that have been outlined. Importantly, the model can be outside the HRA giving authorities greater room for manoeuvre and generating income into the general fund.

22. **Complex land deals:** A significant prize is being able to unlock projects across multiple land and asset ownership. The co-owned model, because of its income return to the public body, could help deliver complex projects across these different land and assets ownerships. The London mayor (potentially through TfL) could establish a body to enable complex sites to be unlocked (see below). It could also lobby government for the powers to enable this to take place more readily, perhaps through land transfer mechanisms and gaining additional powers over land ownership and use, and developing funding mechanisms to purchase land to enable housing plans to be taken forward at pace and efficacy.
23. **Development sites:** There is a major opportunity to use the co-owned model at London's largest development sites including Old Oak Common, one of the last major development sites in inner London. It could provide the anchors in this part of London and give a significant kick-start to this form of housing.
24. **Royal Mail:** There is not an infinite range of assets in London that can be used in this way. It is therefore imperative that the opportunities are not missed. It is regrettable therefore that the Royal Mail privatisation was rushed through too quickly and sold too cheaply. It has a large property portfolio in high-land-value areas that could have been used for this model and would have made an excellent partner for putting in place the co-owned housing model. It is also worth noting how little value the public sector got from the sale. The Royal Mail property assets were valued at £787m freehold and a little more than £1bn with the inclusion of leasehold for 2,000 sites across Britain. One site alone, Mount Pleasant in north London, is said to have a value of around £1bn.
25. **Yield models:** A detailed analysis of yields and financial models need to be undertaken on the most suitable sites and models. London local authorities (such as through the umbrella body London Councils) and the London mayor could take a lead in developing this work. The Resolution Foundation<sup>18</sup> has undertaken some modelling although it did not focus on the co-owned model. But there is widespread evidence of the viability of the model. Barking council's model involves using private investment and enabling sufficient returns to investors. Wellesley is one of a number of private investor widely advertising investment opportunities; while start-ups are entering this space, such as a new sharia-compliant investment site for London rental housing<sup>19</sup>.

## New development model

26. To secure the greatest gains it is likely a new development is needed. The current housing building model has flaws. Developers are not building sufficient numbers and the planning system is often too clunky to act as an exemplar for what is needed on affordability, design and environmental standards. Planning is a confrontational process with each side trying to secure what they see as the best deal. It is natural that house-builders build and secure what makes

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<sup>18</sup>[Resolution Foundation Building Homes for Generation Rent October 2013](#)

<sup>19</sup>[Yielders](#)

them the greatest profit not necessarily what London needs; hence the prevalence of luxury flats. Instead of selling public assets to a developer (who gets the gain), a new model could be established where the public body becomes the developer. A development body for London could be established by the mayor, similar to the example of the Olympics, and potentially through TfL, as it has the expertise in managing asset ownership and financial deal making. Public bodies, instead of creating their own body, could engage and contract the development body to enable developments to take place in their areas.

27. Just as TfL contracts bus companies to run services or contracts construction firms to build Crossrail, the development body could contract developers to build homes according to the specifications needed. This could open up the market to new developers and types of developers, and new innovations such as kit-built homes. There are potential savings through common design costs and the mayor could drive a London mission to attract and develop the best new building standards. This model would also support the delivery of a much more effective and coordinated skills strategy including the scaling of apprenticeships places. The clunky planning system will also not be required to secure the gains as they will be integral to the development process and not reliant on trying to secure this through planning gain.
28. This new development model would mean a shift in risk from developers to the public body. This would be built into the financial models as it was in the Crossrail funding package. It also places a premium on securing capital for building works, which initially could impact the public purse, and hence initially continuing with the sale of some assets might be needed to kickstart the model. However, once established the new model will secure much greater benefits, the value will be retained and projects can proceed at pace – developers would not be able to sit on land with development opportunities waiting for market changes, or use phased processes with private sale elements undertaken first and gradually brought onto the market for maximum profit. This is particularly important for tackling London's housing crisis as developments under the new model could have the rental element built first, rather than last, with the incentives in this direction rather than the other way round due to income being generated straight away for the authority. It would also start addressing affordable housing need straight away rather than it being part of a phased process. In addition other benefits such as environmental gain (as below) would be more easily realised and would bring down financing costs.
29. As has been stated, the for-rent model is being considered, and in some cases implemented, by the private sector, housing associations and councils. However, the current for-rent model would not bring about all the benefits of the co-owned model. This would also be more enduring, and a permanent benefit to the housing mix in London and it is likely to be more scalable as it overcomes the concerns with regard to the purely for-rent model.

## Co-operatives enterprises: securing benefits and arms-length management

30. **Housing associations and councils:** To secure the benefits of the model there should be an explicit separation of the management of properties and rental conditions from the public body. Why is this needed? The track record of housing associations and councils as landlords is not a universal success and in turn could affect the public view of this new rental form of housing. Social and council housing, however unfair this view might be, is sometimes viewed negatively and might not appeal to lower-and middle-income earners – for example adverts for new homes are sometimes advertised as having no social housing, or social housing is designed in a different



way in new developments to differentiate social and private housing.<sup>20</sup> The for-rent model might also be considered in conflict with the main social housing remit of councils or housing associations and complicate the housing revenue account (HRA). The co-owning, co-operative model could be placed outside of the HRA, an important consideration. Critically though, it is the benefit of aligning landlord and tenant interest and the co-owning stake that are absent from the pure for-rent model. Without the co-owned, co-operative element it is unlikely that there could be as robust a long-term guarantee that rents would be protected – a political change in government or locally could force rents higher for example. Indeed, political change has seen a threat to social housing per se – the co-owned model seeks to lock in this model of housing as much as possible and differentiate it from social housing. It therefore seeks to be a different model from councils or housing associations and so would not be subject to the same political pressures as is currently affecting social housing. If housing associations or councils are pursuing PRS for-rent models, consideration should be made to moving to the co-owned model to bring more benefits as laid out.

31. **Private sector:** The managed rented model is also growing in the private sector (and is for example, an expanding part of the housing model in the USA). However, this private sector model is also less attractive in similar ways: business would be seeking a profit which would likely feed into rents and so achieve less gains for tenants. In turn, the alignment of tenant and landlord interest would not occur and there would be less security for the tenant, who also would not be co-owners. It is unlikely that public sector assets would be able to be as readily used for this purpose – for example political support would be less forthcoming, and, in any case, it could be seen as a loss of public assets. There is though nothing to stop the private sector developing this model itself – the question is more about public policy and public institutions and their focus on which model to pursue and with the greater benefits from the co-owned model this is the one that should be given support and prioritised.

## Further funding options

32. **Housing bonds, pension funds and private investment vehicles:** There are significant investment possibilities through pension funds, housing bond models, or other financial instruments, which seek a long-term return. These funds want stable assets to invest in and this model would be precisely the vehicle that is required. The market is already developing new products and investment platforms. Enlightened investors, such as Hermes<sup>21</sup>, have said that investments should be prioritised that do not just deliver a return but also deliver a public good at the same time. This is exactly the type of model that would achieve this dual benefit.
33. **Co-operative enterprise borrowing:** Co-operative enterprises once established and capitalised could finance more schemes, borrowing against the long-term stable income these housing programmes provide. Government or regional support, such as providing initial guarantees, could enhance the scaling of this funding (as happens in countries with established co-operative models). Once established, and if there were suitable capital, there could be opportunities to purchase property and convert it to co-owned, co-operative housing, which could also generate a further income and virtuous circle.

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<sup>20</sup>The Guardian reported [14 January 2015](#) on an advert boasting of no social homes in luxury flats. The Evening Standard [3 December 2015](#) reported on complaints about social homes being built in an expensive area of Westminster

<sup>21</sup> For example the CEO [Guardian 25 January](#)

34. **Co-owner investment vehicles:** Preferential investment vehicles for the co-owners could also be established – such as an ISA type models or via platforms such as Funding Circle (local councils currently invest in local businesses through Funding Circle giving capital to business and bringing a return back to the authority). A co-owned housing fund platform could also be established which could enable Londoners, or even investors more widely, to invest money in the model and secure a return in a similar way to private investment rental schemes as described previously. This could receive a significant boost if the government were to support this through tax incentives, especially given that buy-let to let has previously received preferment though tax relief. Supporting co-owned housing could bring benefits without the negative issues buy-to-let has generated. The mayor could also seek powers from the government to enable this to happen, and there might also be possibilities through the new business rates powers. Enabling co-owners to benefit from preferential investments would help them realise an asset and further improve the attractiveness of the model. France, for example, has a state-supported financial product to invest in social housing.
35. **Housing design and banking environment savings:** Standards are generally worse in private rented accommodation. The co-owned model would be able to secure much higher standards – a benefit of the landlord/tenant interest aligning. This is particularly true for energy efficiency and other utility savings. Community energy models could also be integrated: this would enable London to meet its climate change commitments and create pathways for a just low-carbon transition. Critically, it also provides a considerable opportunity for banking these savings. For example, the rental yield could be maintained and the environmental savings banked, therefore increasing the viability of the model and bringing more projects forward. Or the savings could be used to develop investment streams for developing future co-owned projects. Capturing this value will be enhanced through scaling the model due to reduction of costs for implementing new standards on a greater scale.

## Scaling London as a green design leader

36. London is a global centre for architectural practice and building design. It has world leading universities, research and scientific centres, and architectural schools. The Bartlett Architecture School, part of UCL, alone has around 1,500 architecture students. London is also the centre of tech and start-ups in Europe. Drawing expertise, organisations, and businesses together, London could define some of the most advanced green building designs in the world. With London's scale and considerable domestic and commercial development in the pipeline (including through small schemes, developers, councils, institutions and major projects such as Crossrail or Old Oak Common), there is an opportunity to shape a new market and enable London to become a centre of expertise. This could have application in many cities across the world – and with export potential. Singapore, for example, is doing just that, using its environment lead in south east Asia and bringing this expertise and design to leading Chinese cities.
37. The benefits are considerable: there is the opportunity to generate a new design template. There could be quality design, high standards, beautiful buildings, environmental space, and desirable properties to transform London's housing and build for the long term which stands the test of time. It could be the equivalent of modern 'Georgian renaissance'. There could be savings in energy and water, energy efficiency (such as delivering Passivhaus standard), green design such as green walls, community energy and renewables built in, green space and highest level digital infrastructure. Overall the cost would come down given the scale and the benefits would be applicable for private and public building. It would be applicable to the co-owned model and it would be a key early adopter and driver, and make significant improvements to the private

rented sector. A new design standard could also lead to the development of supply chains for smaller business and low carbon suppliers, new training schemes, and spur innovation.

## Commercial property

38. Similar models could be applied to the commercial property sector, which faces similar difficulties with exponential rent increases denuding areas of key shops and services. The rapid decline in artistic and studio space is a manifestation of this and there have been calls for action. The lack of affordable commercial space and the lack of housing affordability is combining in some areas as a dual concern and is affecting a range of jobs.
39. Anchor commercial tenancies could be established through vehicles such as Business Improvement Districts (BIDs) who would help manage the business mix enabling a range of businesses to operate in an area. A BID can be an effective mechanism, as it is business-led and market-driven, but is not-for-profit and is able to shape the market. Public land and assets such as TfL could be used to anchor commercial property and there is a strong case for Network Rail to be used in this way. As the Mansfield council model shows, authorities can develop property portfolios to generate an income: what can be built into the model is anchoring affordable commercial property in areas. This paper does not go into the commercial perspectives in the same degree as domestic property but seeks to highlight that the commercial sector does have similar possibilities.
40. The planning policy change introduced by the government to enable commercial property to change automatically to housing use has been cited by the government as a source of creating new housing. This policy has been much criticised as it has not achieved this in an effective way. It has enabled expensive luxury housing to replace viable economic space. An example of this is in Camden where a dynamic startup employment space housing tens of businesses ended through the conversion to luxury homes. This policy should be ended and power given back to councils to manage this through the planning process.

## Creating ongoing progress

41. This paper is not a documentation of the problems of London's housing market, but seeks to bring together ideas and solutions and to make the political argument to focus on and address a critical element of the housing market, the private rented sector. It seeks to reboot an idea of co-operative housing with an updated frame – co-owning – and bring together wider housing solutions and thinking to create a viable and beneficial model and concept that has application in a wide variety of settings across different public bodies to different areas of London. This paper can hopefully sit aside other wider work to remove the barriers for considering schemes and models of this nature and provide authorities with the ability to ask the appropriate questions to develop co-owned models and re-shape PRS schemes to a co-owning approach. The next stage is for specific projects, models and applications across London to be developed so that we can secure the housing changes that London needs, and bring about the benefits and possibilities laid out in this report.

## About the author

**Jake Sumner** has more than 20 years' experience of public policy in government and local government.

He served as chief political adviser to Chuka Umunna, the former shadow business secretary, in the last parliament. Previously he was a special adviser to John Denham MP during his time as secretary of state for communities and local government. Jake has served as an elected councillor, including as a member of cabinet and as vice-chair of planning, taking the decision on the landmark King's Cross development. He has held positions in several councils across London and at Transport for London. Past roles including leading the Crossrail funding campaign at TfL and writing and implementing the Crossrail communication strategy when funding was secured. He is a trustee and vice-chair of a leading community charity and co-chair of Sera, an environmental campaigning organisation.