Mandatory Inclusionary Housing in London

Inclusion, Integration and Housing Production

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Background

IZ/IH as a land value recapture strategy
• Produce and preserve affordable housing
• Promote inclusion and integration by creating mixed-income housing and providing affordable housing options in expensive areas

Common criticisms:
• Limited application/production/affordability
• Discouraging market-rate housing development and pushing prices higher
The Evidence Base for IZ

On production of affordable housing:

• 27 affordable units per year per program among 221 local programs across the U.S. (Wang & Balachandran, 2021)

• Large variations between programs (Schuetz, Meltzer & Been, 2009; Schwartz et al., 2012)

• Mandatory programs are more effective than voluntary ones (Brunick, 2004; CCRH & NPH, 2007)

• The most successful programs tend to be more flexible and provide more incentives or cost offsets (CCRH & NPH, 2003, 2007)
The Evidence Base for IZ

Fewer studies on the social inclusion/integration outcomes

Affordable units created under IZ:
• are spread across the jurisdiction (Schwartz et al., 2012; Kontokosta, 2014, 2015)
• are more dispersed than affordable housing produced by other supply-side programs, e.g., LIHTC (Schwartz et al., 2012)
• have entered some low-poverty neighborhoods (Crook et al., 2016; Schwartz et al., 2012)
• tend to be located in neighborhoods with lower household income (Schwartz et al., 2012; Kontokosta, 2015)
• are concentrated in minority neighborhoods (Ryan and Enderle, 2012; Kontokosta, 2015)
The Evidence Base for IZ

On the housing market effects:

• Theoretical models predict reduced housing supply and increased housing prices (Clapp, 1981; Hughen & Read, 2014; Read, 2009)

• Empirical studies comparing jurisdictions with and without IZ using statistical controls find no or mixed effects (Bento et al., 2009; Mukhija et al., 2010; Schuetz et al., 2011)

• IZ jurisdictions in California have seen faster growing rents after Palmer, suggesting that IZ on rental housing probably did not cause higher rents (Hollingshead, 2015)

Caveats: heterogeneous programs, varied features, apples and oranges
The “Planning Gain” Approach in England

Nationalized development rights (*Town and Country Planning Act 1947*)

The approval of a development plan is therefore viewed as a “planning gain” that justifies a “planning obligation” settled via **Section 106 agreements** (*Section 106 of the Town and Country Planning Act 1990*)

The “Planning Gain” Approach in England

Central Government
• National Planning Policy

Greater London Authority
• London Plan

Local Authorities (LAs)
• Local Plans

Most developments need planning permission from local authorities; no “as-of-right development”

Local authorities are bound by the IZ framework set in the London Plan, but some features in local IZ policies and implementation could vary
The “Planning Gain” Approach in England

Types of affordable housing:
- Social rent (“genuinely affordable”)
- Intermediate housing (“genuinely affordable”)
- Affordable rent (up to 80% of market rent)
The “Planning Gain” Approach in England

Crook & Monk, 2011. Planning Gains, Providing Homes. *Housing Studies*

Target affordable set-asides by local authorities in greater London
The London Studies

1. Poverty dispersal and mixed-income communities under IZ:
   • Are S106 affordable units more dispersed than those produced via conventional means (i.e., in the public or nonprofit sector)?
   • Are S106 affordable units more likely to be located in high opportunity areas than conventional affordable housing?
   • How do local policy agenda and politics affect the distribution of S106 affordable housing?

2. The market response to an expansion of IZ
   • The 2008 London Plan extended IZ to smaller development sites (from developments with 15 or more units to those with 10 or more units)
   • Do affected developers react to IZ by switching to smaller sites, neighboring jurisdictions, or other investments?
The London Studies

Data

• The London Development Database (LDD)
• GLA and local planning documents
• Interviews with local planners and developers

Study Period & Scope

• April 1, 2004 to March 31, 2014 (10 financial years)
• 32 boroughs in greater London (excluding City of London)
Poverty Dispersal & Mixed-Income Communities

Despite being embedded in market-rate developments, S106 affordable units are more concentrated than those provided on 100% affordable sites.

Both S106 and conventional affordable units are disproportionately located in poor, minority neighborhoods. Compared to those on 100% affordable sites, the average S106 affordable unit sees even higher unemployment rate and % social housing in the neighborhood.
Poverty Dispersal & Mixed-Income Communities

At the development level, the on-site inclusion of affordable housing (and the % affordable) is strongly associated with neighborhood level deprivation and existing affordable housing.

Local housing targets and the share of Labour seats in local councils interact with some neighborhood variables in determining the development-level provision of affordable housing, though controlling for those factors does not explain away the association between deprivation and the on-site inclusion of affordable housing.

Among the 1,961 development sites above the IZ threshold size, 678 included no on-site affordable housing.

S106 sites by affordable share (N = 1,283)
Market reaction to the expansion of IZ

Fewer new developments in the target size range but more smaller developments

No net loss of new housing

Small but significant increase in affordable housing
Market reaction to the expansion of IZ

The 2008 London Plan lowered the IZ threshold size from 15 to 10 units.
Discussion

IZ does not necessarily place affordable housing where it is needed most
• Inevitable trade-off between the two IZ objectives?
• More targeted measures needed to create affordable housing in unaffordable neighborhoods
• Project-level vs. neighborhood-level integration

The introduction or expansion of IZ could divert some development to unregulated markets, though the overall effect on housing supply may be limited
• Analysis of alternative market sectors
• Regional vs local adoption
• Piecemeal vs. blanket approach

Data availability and consistency are essential for evaluation efforts
References


