

MAYOR OF LONDON

Rt Hon James Brokenshire MP

Secretary of State for Housing, Communities and
Local Government
Ministry of Housing, Communities and Local
Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Date: 27 FEB 2019

Dear James,

Brexit impact on housing delivery in London

As representatives of organisations committed to tackling London's housing crisis by building many more council, social rented, and other genuinely affordable homes that Londoners need, we are deeply concerned about the impact that a 'no deal' Brexit, or a Brexit deal that is bad for the capital, would have on London. Both would impact heavily on a very wide range of businesses and communities, with a 'no deal' exit being particularly catastrophic.

Housing and construction are two key areas that would be affected, and the ongoing and growing uncertainty around Brexit in recent months is already having an impact on these sectors. We are aware of reports from agents, builders, and housing associations of falls in sales and enquiries. Our organisations have spent considerable time establishing the likely impacts of a 'no deal' or 'bad deal' Brexit, including detailed discussions with our partners, and want to share some of their conclusions with you as the negative impacts that are beginning to emerge will only worsen unless the Government takes urgent action in the areas outlined below.

Affordable housing delivery

First, there are growing risks to the delivery of new affordable housing as it is very dependent on cross-subsidy from the surpluses provided by building homes for sale. Sales receipts typically provide most of the subsidy for new affordable homes in London – far more than affordable housing grant at current rates. This places at risk the delivery of housing association development plans, potentially depriving Londoners of the homes they need and risking jobs in the supply chain.

It is also becoming clear that most private home builders and major developers are holding back on starting new projects. This will lead to a loss of affordable housing, given that around 20 per cent of affordable supply is generated through S106 agreements.

Using a model collaboratively created by the G15 and the Greater London Authority (GLA), we have calculated that to compensate for lost cross-subsidy from market sales, and to adequately de-risk housing association and council programmes, emergency grant investment – of around £5.2bn in the event of a 'no deal' Brexit – would be required. This would support approximately 30,000 affordable homes which are currently planned to start over the next 18 months or so, and would remove sales risk by enabling the conversion of around 9,000 market sale homes to affordable homes based on social rent levels. In addition to this, it will also be necessary to introduce additional public investment to de-risk sales for shared ownership homes, or to convert them to social rent.

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We also believe that councils need to be freed from red-tape to enable rapid and responsive investment in an uncertain market, and a first step towards this would be removing rules restricting use of their own receipts from Right to Buy sales. The work of the Regulator of Social Housing and of housing associations across the sector to ensure that they have sufficient corporate borrowing facilities to see them through any forthcoming period of uncertainty should provide some reassurance to government and other stakeholders. However, without the measures outlined in this letter, this will be at the expense of new supply, and should be kept under review. The Government must be ready to provide an emergency support package of corporate lending to housing associations if required.

Supporting continued delivery

Second, if, as may happen under a number of Brexit scenarios, house prices fall significantly, private home builders will inevitably come under pressure. They will need support from the Government, either through direct lending, or loan and sales guarantees, to keep activity going. Whilst it is encouraging that the relatively new Build-to-Rent sector is likely to be more resilient to the impacts of Brexit as it has no exposure to consumer sales, it may also require commercial lending support if existing sources of development finance became harder to obtain. Further to this, we recognise that there will be existing land owners who are unable or unwilling to build out at the pace Londoners need in the face of considerable uncertainty. An expansion of the land funds currently provided to the GLA would help bring these opportunities forward.

In light of these significant challenges, it is crucial that the London share of the Housing Infrastructure Fund is released without delay. More than two years after the funding was first announced by the Chancellor, no funding has been released for boroughs' bids that would unlock around 18,000 new homes. We are encountering similar delays in the larger 'forward funding' bids that are key to unlocking the delivery of tens of thousands of homes. The Government must ensure it deploys the resources that have already been allocated for housing delivery at a much greater pace.

Construction workforce

Third, there are very serious threats to the supply of essential labour that require immediate and decisive action. Even if a 'no deal' Brexit is avoided, we are very concerned that the Government's approach to immigration is already making valued construction workers from Europe feel less welcome. London has a unique reliance on a non-domestic construction and technical workforce required to design and build new homes. Over half are currently non-UK nationals, and many builders, architects, engineers and specialist construction businesses are already reporting the loss of key staff who are returning overseas.

We strongly support the training of a new generation of Londoners in construction skills. We are supporting this through the work of the Homes for Londoners Board and the newly launched Mayor's Construction Academy. However, the numbers involved cannot replace the likely loss of existing labour, and of course it takes many years to fully train new entrants to the level of skills required.

We are concerned that construction workers of the future will find it much harder to secure entry to the UK under the proposals in the Immigration White Paper. In the event of a 'no deal' Brexit this would become even more urgent with additional steps likely to be needed to ensure a smooth flow at borders and to make our neighbours feel valued and welcome. Without a sufficient construction workforce all other measures to keep new building going would be ineffectual.

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Construction materials

Fourth, we have similar concerns in terms of construction materials. Imported materials and components are critical to housing development in London. The UK has a £10bn trade deficit on construction materials and official statistics show that 60 per cent of imported construction materials come from the EU. Some vital building supplies are almost entirely imported, with 92 per cent of softwood timber used in the UK being shipped from the EU. It is very difficult to see how housing development could continue at scale unless ongoing access to materials can be guaranteed.

Homebuilders have already had to absorb rapidly escalating costs because of the devaluation of sterling post-referendum, and there is now a strong likelihood that costs will rise still further, through tariffs and/or a weaker pound, and through major disruption to supply chains in transporting construction materials into the UK and onto sites. In the event of a 'no deal' Brexit the Government would almost certainly need to assume control of materials supply chains to keep construction moving.

The impacts of potential shortages of labour and materials are not limited to new build homes. Housing association and council landlords are likely to also experience problems in relation to their existing stock and services. Many housing associations and councils provide supported housing, care or specialist accommodation for older people. But with Skills for Care reporting that 17 per cent of care staff are non-UK citizens, housing providers will struggle to provide services unless care workers are able to continue working in the UK. In addition, many components used to repair existing homes are imported, including a large proportion of essential parts for lifts and heating systems.

Whatever happens, Brexit is already impacting the homebuilding sector in London. It is very frustrating, especially given our success over the last two years in building confidence with our partners, and given the shortage of good quality and affordable homes. There is an urgent need for certainty and we urge the Government to step up and take responsibility for addressing these serious challenges, which not only have the potential to jeopardise homebuilding in London, but also your own national target of 300,000 homes each year.

In any scenario, we are committed to doing all we can to keep London building the council, social rented, and other genuinely affordable homes we need. We would welcome your Government's full and immediate support to make sure that, whatever happens with Brexit, we can continue to deliver on this agenda.

Yours sincerely,

Sadiq Khan
Mayor of London

Cllr Darren Rodwell
Executive member for Housing and
Planning, London Councils

Paul Hackett
Chair, G15