



KEY WORKER LIVING RENT AS A FORM OF
RENT CONTROL HOMES FOR LONDONERS
CONSULTATION RESPONSE

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British Property Federation Response

On 19 October, the Greater London Authority published a consultation document on [Key Worker Living Rent as a form of rent control homes for Londoners](#).

The BPF held a workshop to gather members' views for a response, as laid out in this paper.

Section 3 – Key Worker Living Rent homes: what and why?

Q1. What do you identify as the main considerations for the Mayor to ensure that KWLR homes will be attractive to

- a) Londoners in need of intermediate housing, especially key workers
- b) developers seeking to build intermediate housing
- c) providers seeking to manage and let intermediate housing?

One of the main considerations for investors and developers concerning KWLR homes is how it will interact with other forms of intermediate rental housing, and the guidance that will be provided to boroughs on how, if at all, other intermediate rents are to be provided for alongside KWLR. While the consultation proposes KWLR's replacement of London Living Rents (LLR), it does not reference other intermediate rented tenures like discount market rents. If KWLR is introduced alongside other intermediate tenures, there is no guidance in this consultation document on how boroughs should approach the mix of intermediate tenures, including the 35% threshold for the Fast Track Route (FTR). As currently set out, KWLR is less viable for investors than LLR, as the market rent discount is larger and would result in lower rental returns. Even where the proportion of LLR homes via the FTR are replaced with KWLR, this will negatively impact rents and viability. This may also lead to confusion at the planning application stage and likely cause delays to these homes being developed. As we discuss further under Question 17, we believe that the system should be simplified to one intermediate tenure, which would improve both understanding and consistency.

Further, while not explicitly provided for in the consultation document – which appears to be more targeted at providing additionality of tenures and grant-funded delivery by registered providers and local authorities – we believe there is a role for private institutional investment in delivering these homes at scale. To achieve this, members feel strongly that KWLR should not have the drawbacks of LLR, centrally the lack of transparency around rent setting and increases. Rent setting is currently often the subject of political decisions, and updates to benchmarks are not guaranteed on an annual basis. This uncertainty makes LLR

an unattractive investment for institutional capital, and KWLR as set out in this consultation does not meaningfully change this uncertainty, presenting the same potential to deter investment and prevent delivery of these homes. We discuss the detail of this further below.

It is also important that boroughs are encouraged to take a holistic view of housing delivery across their locality, as opposed to a project-by-project view that often loses sight of the wider benefits that different forms of housing provide. We suggest mechanisms for this in subsequent questions.

Section 4 – Planning framework

- Q2. To what extent do you think that the steps set out at paragraphs 4.5 to 4.7 will provide clarity to
- developers and other housing providers seeking planning permission to develop KWLR homes, and/or
 - local authority planning departments assessing such proposals?

If you do not think they will be sufficient to do so, do you think there are additional or alternative steps the GLA could take to ensure that the Mayor's planning framework is enabling to the delivery of KWLR homes?

These steps will have limited impact unless the borough has a clear understanding of its own intermediate rent needs, and how to address these. Very few boroughs understand the need for intermediate housing in their locality and instead focus almost solely on the need for social housing. Ensuring boroughs and relevant large key worker employers (for example NHS Integrated Care Boards and Systems, relevant Government departments, the Metropolitan Police, etc.) are organised in a way that facilitates understanding of the need for intermediate and key worker rented homes is essential; otherwise, these intermediate rented homes will not be delivered at the required pace and scale. We strongly recommend that any changes in planning policy to facilitate KWLR come with a mandatory requirement on boroughs to have an intermediate rented policy to facilitate this (perhaps in collaboration with those large key worker employers), including with a cascade mechanism which could prioritise certain key worker categories particular in the sectors where the demand for those key workers is greatest. For example, boroughs could be asked to prioritise NHS health key workers in boroughs with NHS hospitals to help meet the ongoing challenge of workforce retention faced by NHS employers. The cascade mechanism could also allow KWLR homes to be provided to non-key workers or reverted to market rents where there is insufficient or unidentified demand.

As set out above, if multiple intermediate rented tenures are in force, the Mayor must set out how these interact and their order of priority for boroughs, with an acknowledgement that where provided rents are lower (e.g. KWLR homes are provided instead of LLR), a corresponding lower number of units provided at intermediate rents should also be permitted to ensure viability.

Section 5 – Eligibility and allocation

Q3. Please share any insights you have on demand for intermediate housing and, in particular, intermediate rented homes, from key workers, as defined by the GLA's list of key worker occupations or local additions to it? This might include insights on the role of intermediate housing in supporting

recruitment and retention, or on the profile of key workers seeking and securing intermediate housing. (Please also see question 19 below.)

Expanding on our response to Question 2, it is important that boroughs are aware not only of those who need intermediate rented homes generally, but also the different needs within the intermediate rented tenure. BPF member research into employer-led key worker housing has identified two distinct kinds of demand: short- to medium-term affordable accommodation (for those on night shifts, international recruits, etc.) and long-term affordable housing for those key workers on intermediate incomes. These two groups have different needs, which fundamentally shapes what is being built, including the level of discount needed and the kind of home provided – for example, while cluster flats may suit the former, they may not be suitable for the latter). Disposable income and proportion of income spent on rent must also be a consideration in this, as families may well meet the £67,000 threshold, but will spend a disproportionate amount of their income on housing where they need larger homes with additional bedrooms.

Q4. Beyond the two Practice Notes and LPG on affordable housing described above, what more, if anything, could the Mayor do to support boroughs and housing providers to prioritise key workers for KWLR homes?

As we reference above, the Mayor must ensure, via a mandatory requirement, that boroughs have intermediate housing policies. To ensure consistency and efficacy across London, it is important that councillors and borough stakeholders are aware of and are actively addressing the need for intermediate rents through local plans.

Q5. What do you think of the possibility that the Mayor makes allocating any KWLR homes he funds to key workers a condition of that funding (paragraph 5.8)?

While we do not have a specific view on conditions associated with grant funding, we would again reinforce our earlier point under Question 2 that there should be a cascade mechanism in place.

Q6. Do you have any insights or suggestions on how the Mayor could work with organisations and institutions interested in providing or securing accommodation for employees to support them to develop KWLR homes for staff (paragraph 5.10)?

Local planning departments should work with large key worker employers, (for example, NHS Integrated Care Systems) to ensure the types of the homes being built and the level of discount needed target the retention of staff working from an evidence-based identification of the posts and grades that have experienced the trend towards higher vacancy and turnover rates.

Members note that certain key worker employers can be overly detailed and granular in how they assess employee housing need, and a more strategic approach (perhaps undertaken by relevant agencies, as is currently done by the private Build to Rent and Purpose-Built Student Accommodation sectors) may be more practical and efficient, including in assisting boroughs in understanding their need.

Section 6 – Rent setting and increases

Q7. Please outline any comments or concerns you have about the framework of policies that the Mayor has identified as considerations when setting rent and service charge benchmarks for KWLR homes (at paragraphs 6.5 to 6.10 above)?

It is essential that certainty over increases the rent benchmarks are transparently modelled using ONS data, rather than reviewed within a period or decided intermittently by the GLA. This could be implemented as an Intermediate Rent Enabling Programme (IMR), a grant of which makes the tenure more attractive and reliable regarding who is being housed. Rent benchmark reviews decided and published by the GLA will lead to uncertainty and reduce the attractiveness of this tenure to institutional investment, as is currently the case with other intermediate rented tenures. We discuss this further under Question 8.

We also recommend clarification around the £67,000 income cap, specifically whether this is per household or per key worker. In our view, if it were to apply at a household-level – which would only allow a couple to earn £33,500 each – it is not a particularly high income for London and would exclude many key workers in need of these KWLR homes, and who would otherwise spend high proportions of their disposable income on rent.

Q8. What do you think about the potential starting point for setting rent and service charges presented at paragraphs 6.14 and 6.15 and Table 1, and why?

We are concerned that the use of both benchmarks and formulas is unnecessarily complex and will be difficult for stakeholders to understand, as well as creating additional administrative responsibilities for the GLA, which is more complex than currently exists for LLR and risks delays to reviews and updates.

Our preferred position is a straightforward discount to market rent of 30%, as opposed to benchmarking that is then checked against this market rent discount. This would simplify the process for all parties, while ensuring key workers access a discount market rent product. However, where the Mayor decides to proceed with benchmarking rents, it is essential that these benchmarks are automatically adjusted annually in accordance with published ONS data on income growths. This will allow investors to more effectively plan for rental growth.

Further, we do not agree that service charges should be included in rents; these can vary from development to development depending on the level of amenity provided, and in Build to Rent developments, these amenities are often much more comprehensive. Allowing service charges to be calculated and discounted separately will further improve viability for KWLR homes.

Q9. What do you think about as Options A and B, outlined at paragraphs 6.17 to 6.20 above, as approaches to rent setting, and why? In particular, what do you think of the link between rent and service charges for KWLR homes and local market rents that Options B allows, and why?

We reiterate here that we do not agree that benchmarks, if used, are set by the Mayor and published, as is the default position in both Options A and B. It is more effective and consistent to publish the methodology and refer to ONS data on annual wage growth, than to rely to the GLA to publish these.

If benchmarks are used, then a blanket rent across London will be problematic and create viability concerns, given the variance in rents across boroughs; rents that are affordable in Outer London will likely not be viable for Inner London. However, setting benchmarks at a borough-level is a large administrative task for the GLA and risks reviews being delayed, which, as we have noted above, will increase uncertainty. We would suggest a two-tier system, with one set of benchmarks for Inner London and another for Outer London.

Q10. Do you think the Mayor should expect providers to set rents and service charges for KWLR homes at benchmarks when they re-let homes, or just when they first let them (see paragraph 6.21 above)?

No, rents should be set at the benchmarks when they are first let, with re-let rents then index-linked and capped at 70% of market rents.

Q11. What do you think about the potential approaches to permitted increases in rent and service charge benchmarks for KWLR homes outlined at paragraphs 6.22 to 6.25 and illustrated in Table 2 and why?

We recommend the CPI+1 model; this is familiar to the sector and does not require the GLA to review or confirm any permitted increase, which allows investors to more effectively plan for rent increases over time and reduces administrative burdens. It would also avoid the 'saw-tooth' rent situation which exists for LLR, creating a depreciating asset.

Section 7 – Tenancies and management

Q12. Do you have any insights on or concerns about the types of tenancy that providers would be likely to use for letting KWLR homes (paragraph 7.1)?

The Mayor needs to communicate with the Government on how the abolition of assured shorthold tenancies will affect his proposals for KWLR, and ensure that KWLR will be workable and attractive investments as periodic tenancies, which it appears they will default to. In particular, the ability to end a tenancy where a tenant no longer meets the criteria for KWLR will need to be provided for, as we discuss below.

Q13. To what extent do you agree that tenants of KWLR homes should not be obliged to leave their home if they cease to work in a key worker occupation and/or their household income increases above the threshold at which the household would be eligible for intermediate rented housing (paragraph 7.2) and why?

Allowing KWLR tenants to remain in their home when they no longer meet the criteria for KWLR homes – or intermediate rented homes generally – seems counterintuitive and presumes that a constant and sufficient supply of KWLR homes will be developed in London to replace any lost homes, which, as development over the past several years has demonstrated, is not guaranteed. Any decline in development due to market or viability conditions will mean that potential KWLR tenants will have a smaller pool of homes available to them, further exacerbating any undersupply. We appreciate the need for stability for tenants and recognise that this issue is not limited to KWLR homes, however, we believe that tenancies should be contingent on

eligibility to avoid inequities. Perhaps, if tenancies are periodic post- Renters' Rights Bill, eligibility could be reviewed biennially, with a sufficient period for ineligible tenants to find new homes; alternatively, the Mayor could consider the concept of a 'living rent', where KWLR rents track household incomes. One of the benefits of Build to Rent homes here is that units are under single ownership and management, meaning tenants can remain in their homes even once they are no longer eligible, paying market rents and allowing another discounted unit to be provided to someone in need of it.

As we note above, the Mayor should explore whether the tenancies in place after the abolition of assured shorthold tenancies are able to be terminated, or the rents increased to market rents, if and when the tenant no longer meets KWLR criteria. This does not currently appear available under the Renters' Rights Bill, and the Mayor should work with the Government to ensure this is possible.

Q14. Are there particular challenges you anticipate providers might face as a result of letting KWLR homes, with joint tenancies, to households with two or more members who are not partners? If so, are there approaches that you recommend providers adopt to help them manage these challenges.

We note that, for those organisations involved in impact investment into housing, lettings to households with two or more members who are not partners could dilute the impact of these homes, and this may reduce the attractiveness of the tenure.

We would also reiterate our point under Question 7 here – if the income cap is £67,000 per couple, this does not equate to a particularly high individually income for London and would exclude many key workers that are in need of these KWLR homes.

Section 8 – Funding and viability

Q15. Do you have insights on how much funding IPs might require to deliver KWLR homes, relative to the funding needed to deliver social rented, LLR or shared ownership homes? Please set out the evidence that informs these insights.

No comment.

Q16. What are the key assumptions about cost and viability that potential investors, developers and providers of KWLR homes would need to take into account?

To effectively plan for rental income, key assumptions that investors will need to take into account include the starting rents, how these rents will increase, what the rental caps will be on both starting and increasing rents, and how the caps themselves will increase. To ensure KWLR is an attractive investment, it is essential that these factors are as consistent and transparent as possible, as we discuss above.

Section 9 – Relationship to and future of LLR

Q17. To what extent do you think KWLR homes should replace LLR homes as the Mayor's preferred intermediate rented tenure, with rents linked to incomes? Please explain the reasons for your answer.

We believe that the intermediate rented market would greatly benefit from simplification. The most effective policy would be one intermediate rented tenure, for example KWLR replacing LLR and Discount Market Rent products. Provided that the rent setting and increases are supported by a clear, consistent, and transparent formula, this would make the intermediate rented tenure more attractive to investors and could facilitate increased development of these homes to address the existing undersupply. However, we note that, given the larger discount to market rent, where KWLR replaces LLR, there must be a lowering of the 35% FTR affordable homes requirement, to ensure development viability.

Section 10 – Any other comments, including equalities impacts

Q18. Is there anything else that you think the Mayor should consider in developing his plans for KWLR homes?

For investors, the detail of this policy will be key, and this is not provided for in the consultation document. It will be essential to work with potential investors on the draft wording of s 106 agreements and to agree details on how the scheme will be administered, including how applications will be received and nominations agreed.

Q19. Please share any intelligence or insights you have on the possible impacts of the Mayor's initial proposals on Rent Control Homes, including different options set out in this document, on Londoners – and, in particular, London key workers who are eligible for intermediate housing - with different protected characteristics and combinations of those characteristics. (Please also see question 3 above.)

We disagree on principle with rent-controlled homes, as they disincentivise investment into the rented sector and reduce the supply of homes, which drives up rents and excludes people from the PRS. Where rent controls are in place, they must not create additional uncertainty for investors, which will affect the attractiveness of the tenure and result in fewer homes being delivered, further exacerbating undersupply.