

# The role of residential land use credits

The "credit" concept can deliver more housing faster while supporting mixed use in central Westminster, argues Barry Smith and Hugh Bullock.



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Formulating and applying land use planning policies in Central London is, to state the obvious, complicated. In the central area and the Central Activities Zone (CAZ) in particular, there are vital commercial uses that support London's World City role.

Mixed use character is important in some areas; housing needs are widespread. There are few bare sites and most buildings have a substantial current (even if recently lowered) market value. It is important to attract capital investment and to generate sufficient return in relation to development risk, in order to secure development, especially in the foreseeable future.

Commercial buildings need to be improved and/or redeveloped and good quality homes, of all tenures, created. A range of well designed affordable housing is essential with good facilities and spaces, easily and cost effectively managed by RSL's with affordable costs of occupation which include service charges. Without this investment - in its widest sense - London will struggle to retain its premier World City status.

The Town Planning response in terms of land use policy formulation,

that has evolved since the early 1990s has been to develop and implement a mixed use policy approach whereby increases, over a certain threshold, in commercial floorspace (principally offices but also hotels and retail) are required to be offset by increases in residential floorspace. This policy approach, combined with affordable housing policies, has leveraged affordable housing from the residential floorspace provided through such mixed use policies. Westminster City Council was the first local planning authority to develop and to implement this mixed use approach consistently in Central London.

Experience has shown that whilst, in some cases, the cumulative policy objectives can be achieved (about a third of all new homes in the CAZ in Westminster have been secured from this mixed use approach), increasing evidence is being put forward that opportunities are also being lost or overly compromised. Designated conservation areas, townscape constraints and historic plot sizes mean that the scale of developments is often relatively small. Changes to development capacity, as a whole, are

relatively marginal. Achieving all the land use and increasingly wider spatial planning objectives on a site by site approach can result in investment not happening at all or poor quality commercial and/or residential accommodation being provided and/or no affordable housing being provided, albeit that financial contributions in lieu may become payable. A report prepared for Westminster City Council by their consultants as part of the evidence base for the emerging Local Development Framework (LDF) pointed to this conundrum and the need to review mixed use policy.

A partial response to some of these complexities has been so called land use "swaps" between sites, usually in the vicinity of each other. As above, Westminster was the first planning authority to lead the policy debate, working with the development industry represented by the Westminster Property Association. This idea has been pioneered in the property sector by the Great Estates such as Grosvenor, The Crown Estate and The Portman Estate and by Land Securities amongst others.

The benefit of the concept of use

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The views of both authors are their own and do not necessarily represent the views of their respective organisations.

swaps, whereby two or more developments in the vicinity of each other could be brought forward together, has been a more achievable development solution - providing better quality commercial buildings and more residential accommodation than would otherwise be provided on a strict site by site approach. Whilst this has often worked well, one of the difficulties has been that development projects may not enter the planning and development process "at the same time" making swap solutions more difficult to achieve.

Because of this, the concept of residential land use credits has evolved. In principle, the idea is simple. Given the priority for the provision of housing, including affordable housing, the developer pre-provides the residential part of the mixed use policy requirement on another site. This then constitutes either a mixed use policy "credit" and/or an affordable housing policy "credit" (assuming that the affordable housing policy has been triggered), when the related commercial development(s) is

subsequently brought forward.

The potential for the credit concept to work in practice can be illustrated by Land Securities' recently completed mixed development at Wilton Plaza in Victoria, which people have moved into this year. This scheme provides 74 affordable homes, 37 private homes, 3 shops and student accommodation for University College London. The site was acquired at market value with the benefit of a pre-existing commercial and open market housing permission. With the support of Westminster, and the Greater London Authority, the proposed development was completely changed to become, predominantly, residential with affordable housing provision well in excess of usual policy requirements.

These residential and affordable housing credits can then be drawn down as Land Securities' develops its extensive portfolio within Central Westminster. The scheme represents the largest amount of new affordable homes provided in the heart of central London within the CAZ in many years. The development is

socially inclusive, well designed, with good outdoor space. The RSL, A2 Dominion, are able to keep down service charges and manage the building effectively for the occupiers.

In the light of the experience of Wilton Plaza, the London Plan (2008) includes specific provision for swaps and credits (paragraph 5.178) consistent with PPS3 (paragraph 29). The City Council is now refining the policy to be brought forward within the emerging LDF to build on the common ground and shared objectives established by the credits initiative. Some issues to be assessed include:-

**Mixed Use Character of the CAZ** – Westminster are keen to ensure that the overall mixed use character of the CAZ is maintained and enhanced. Therefore, one option is to ensure that the draw down of credit happens between buildings within the same vicinity and/or within the Core CAZ rather than, for example, having one building inside the Core CAZ and one outside.

**Loss of Windfalls** – Westminster's concerns are that the "credits" approach could lead to a loss of

housing windfall sites within the CAZ and that some buildings currently in commercial use may come forward for conversion to residential use in any event. In the last five years alone, windfall sites within the CAZ have delivered around 10% of all new homes. On the other hand evidence, garnered over the last 16 years in one part of the City, shows that use swaps have resulted in very substantial relative increases in residential floorspace compared with commercial floorspace. From 1992 to 2009 the net increase in residential floor space was +18,416.3 (sq m GEA); net reduction in office floor space of -5,551.9 (sq m GEA) and increase in residential units of +100. The credit concept would therefore merely accelerate the provision of the residential part of the swap.

A credit would have a pre-determined life after which it would be extinguished and, if unused, would constitute a windfall. In the case of affordable housing credit, given the very substantial write-down in capital value, the life of the credit would need to be longer.

**Sustainable Communities** – Westminster acknowledges that within the Core CAZ, achieving mixed use including residential and, where appropriate, affordable housing solutions in practice, on each and every site individually is difficult, particularly where existing buildings often have a significant market value. For example, an office building is capable of being used perfectly well into the future without any change of use unless there is a clear investment advantage in changing use. Land use residential credits and multi-site solutions may create sufficient financial return in order to justify change of use of buildings where otherwise there would be no financial case for doing so.

As the Wilton Plaza example shows the "credit" concept, conceived and implemented openly, transparently and within lawful land use planning parameters, offers the opportunity to deliver more housing faster while supporting the mixed use character of Central Westminster as a whole with more people being able to live near their



place of work and leisure. Without the concept of residential land use credits, schemes such as Wilton Plaza would not have got off the ground. This scheme alone brought forward 60 per cent of the City's 2008-09 affordable housing target in

what is the ninth most deprived local authority area in London.

In conclusion, mixed use, residential and affordable housing "credits" are one way of helping to unlock development opportunities in central London. The City Council will be

working these ideas through further with the Westminster Property Association and other stakeholders as part of the LDF consultation and engagement process.

## What is a Residential Land-use Credit? from Westminster Planning

The **mixed-use policy** in the draft Core Strategy requires provision of an equal amount of residential space to provided on site, where practical, when an increase in commercial space over 200 sq m is proposed. Where it isn't practical, off-site provision in the vicinity will be the first option considered. Normally this is provided by a land-use "swap", but land use credits could provide an alternative means of providing such space.

WPA and Land Securities argued strongly for such credits in their consultations submissions on the new Local Development Framework. There are two types of credit – residential land-use credit and affordable housing credits. The former is where a developer provides new, off-site market housing in advance to satisfy the requirements of mixed-use policy generated by a future commer-

cial development. Affordable housing credit is where new affordable housing is created when it is NOT a policy requirement. This "credit" affordable housing can then be "drawn down" against future affordable housing requirements arising from the development of other sites.

The starting point for such housing is that should always be provided on site, where possible.

### Other uses

The WPA is also keen to discuss other possible credits relating to other land uses that Westminster planning policy protects – hotels, social and community uses. These credits will be discussed in the consultation on the City Management Plan.

### Swaps

It is envisaged that "swaps", whereby a developer provides off-site residential to satisfy the housing requirement generated by a specific development, will remain the most common arrangement. The two applications for the subject sites in swaps are considered together and linked by a S106 agreement or "Grampian" condition.

### What's in the (Draft) LDF?

The draft Core Strategy Mixed Use Policy says that where on-site provision of residential "is not considered appropriate or practical, a cascade of other options, including the use of land swaps or residential credits, will be considered as detailed in the City Management Plan".

### Background

The issue of land credits was raised by

landowners as an alternative to payments-in-lieu in 2005 and in 2007 the the council's Housing Strategy said it would examine the feasibility and desirability of a credits systems in the new LDF. A report by Drivers Jonas to the council in 2007 recommended a review of parts of the mixed-use policy which appeared to be causing developers to reconsider office development in favour of other uses because of the perceived disadvantages of including small amounts of residential in otherwise commercial schemes. The new LDF offers the council the opportunity to incorporate a new system of credits in the mixed-use policies of the City Management Plan.

### Examples so far

Wilton Plaza, and 42-46 Bryanston Square are two residential land-use credits Westminster has approved. Land Securities is also proposing a

residential land-use credit site outside the borough at Fermoy Road, W9. The principle of "over provision" against future development was also accepted in the Crown Estates' proposals for various developments on and around its Regent Street holdings.

### Arguments for...

Credits would help protect Westminster's global commercial role. They would encourage provision of housing earlier in the development process, particularly that of affordable housing. Higher quality homes in more neighbourly settings can be achieved. More homes would be built because of the economic benefits to developers of segregation of uses, rather than less under the contributions to Westminster's Housing Fund which has found it difficult to spend the money. Earlier provision should improve grant availability

for housing in times of reducing grant.

### ...and against

Decline in housing delivered because the "credit" sites would have come forward as housing anyway. Boring, less heterogenous "monocultural" areas and streets as over time single-use commercial and residential areas develop. Fewer mixed-use schemes with on-site housing. A less sustainable city, increased travel between segregated housing, work and leisure areas. Pressure outside the core CAZ area to provide housing, concentrated in lower land value areas.

### What next?

Land-Use credits were discussed in a Commercial Activities workshop last July at Westminster City Hall. A report on this went to the LDF sub-committee in September.