

A new perspective on Compact-living

THE SOCIAL AND ECONOMIC BENEFITS FOR LONDON:
A REPORT BY DEVELOPMENT ECONOMICS COMMISSIONED
BY U+I



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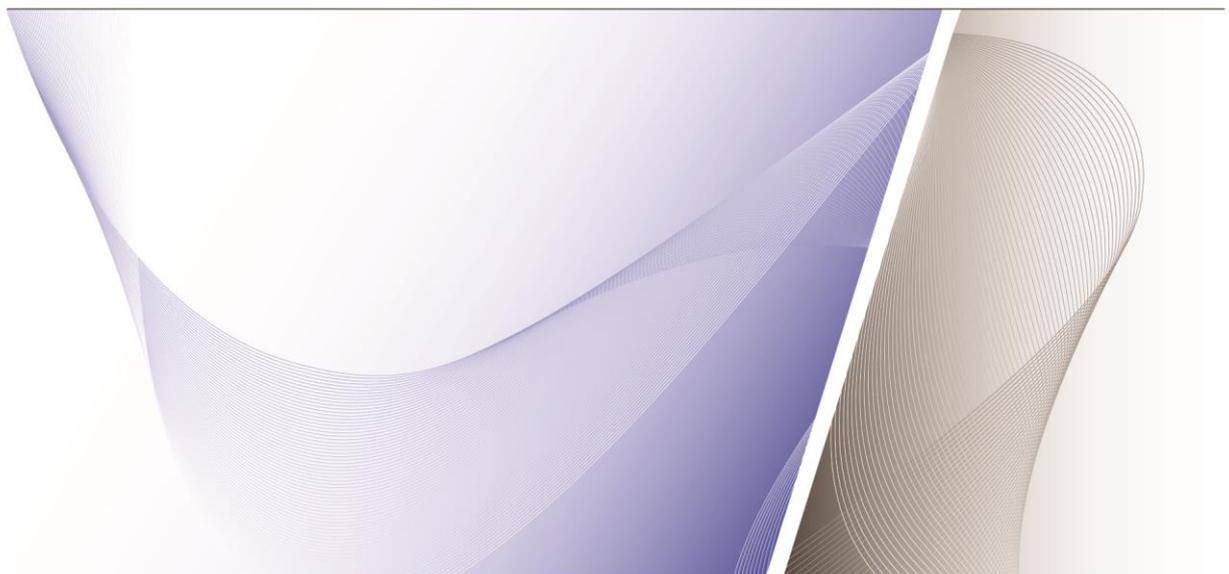


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1: Executive Summary

- 1.1 The shortage of housing in London is a widely acknowledged crisis, which is reflected in rising average house prices and increasing average rents. According to the London Housing Commission around 50,000 new homes are needed in London each year but recent levels of housebuilding are only providing around half this number on an annual basis.
- 1.2 The most severe housing affordability issues affect the Central London Boroughs.
- 1.3 The chronic inadequate supply of housing in Central London is already having a number of adverse social and economic consequences, including the following:
 - Increased overcrowding of dwellings and an over-reliance on Houses in Multiple Occupation (HMOs), especially among younger people.
 - Additional strain on public transport networks (including train and tube services) as people who work in Central London are increasingly forced to live in other parts of the capital and commute to work.
 - An unbalanced social structure of communities, with younger people under-represented in Central London. This ‘hollowing out’ of communities in Central London is also leading to reduced demand for some business activities, such as the provision of pubs, restaurants and eating places, as well as live music and other entertainment venues.
 - The changing social structure of communities is also potentially contributing to a shortage of workers and skills in Central London which is causing difficulties for businesses and other employers.
- 1.4 Future housing demand pressures will not lessen: over half a million new households are expected to form across London between 2011 and 2036, with 1-in-6 of these new households being of a single person. The overall population of London is expected to increase by 1.5 million between 2011 and 2036. Housing this number of additional residents means that London must double recent rates of housing delivery and maintain this increase for a period of 20 years and beyond. It is also necessary to recognise the needs of the different types and sizes of households.
- 1.5 The purpose of the report is to examine the economic and social consequences of an alternative tenure that challenges current regulations on minimum space standards required for one room studio apartments in London, a concept known as Compact-living. The other key aspect of the Compact-living concept is that the dwellings would be built for rental only, with the developer able to control tenure and provide effective management of the building within which the flats are located.
- 1.6 This report considers the implications of introducing Compact-living developments in Central London for matters such as the future supply of housing and labour, and also the future demand for local services in areas that host Compact-living developments.
- 1.7 The report was commissioned by U+I Group PLC in June 2017 and has been prepared by Stephen Lucas, an economist and director of Development Economics Ltd.

- 1.8 This report comes at a time when there is a growing body of research indicating that Londoners (and young people in particular) are increasingly choosing location over space when deciding where to live. For example, research recently published by the London Central Portfolio found that *'42% of properties let [in the past 12 months in London] have been studios or one bedrooms by tenants prioritising lifestyle and transport links over square footage'*.¹
- 1.9 At the same time there has been a rise in the salience of place-making as an issue for developers, think tanks and policymakers. For example, the Local Government Association this year launched a series of case studies on the subject, entitled *'People, culture, place - The role of culture in place-making'* while the concept also exists at the heart of London Mayor Sadiq Khan's estate regeneration guide.
- 1.10 In light of this, this report also considers the wider, and at times more intangible, effects of an increase in the number of young working people living in Central London from a societal perspective, in addition to the socioeconomic aspects explored. This includes consideration of the consequences of compact living developments for business, individuals and communities in terms of the so-called 'Crossrail Effect'.²
- 1.11 As well as examining the economic and social potential of compact living in Zone 1, by comparing a compact development with a typical build model, this report looks specifically at the effects of compact living developments affordable to those earning between £30,000 and £60,000 per year.
- 1.12 The Compact-living development proposal assessed in this report would contain 200 self-contained build-to-rent units with a circa 24 m² floorplate (and a minimum volume of 60 m³) and be part of a building that provides shared amenity space for dining, leisure, visitor entertaining, work space, storage and 24-hour on-site management.
- 1.13 A typical Compact-living development would also provide:
- a building located within Central London, most likely within TfL's Fare Zone 1;
 - a ground floor dedicated to entrance, management space, parcel lockers, screening room and with some commercial space providing an element of retail floorspace available to be used by residents and the local community;
 - an upper floor would be provided for amenity including communal lounges, dining areas, function rooms and private study space; and
 - a roof top area providing a communal garden and outdoor amenity space for relaxation and social interaction.
- 1.14 In order to evaluate the potential impact of a Compact-living concept in Central London (Zone 1) we have compared a compact solution with a typical traditional development model on the same site. This assessment takes into account a range of economic and social criteria, including the number of working people expected to be housed in Central London.

¹ <https://www.showhouse.co.uk/news/the-rise-of-the-micro-apartment/>

² <http://www.homesandproperty.co.uk/property-news/the-crossrail-effect-the-top-elizabeth-line-stations-tipped-for-house-price-growth-a99801.html>

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- 1.15 Specifically, alternative development scenarios have been developed for comparison that are assumed to be capable of being built on the same development site:
- Scenario 1 assumes a mix of residential development satisfying normal housing space densities with a mix of studio, 1 bed, 2-bed and 3-bed flats. This 'status quo' scenario provides a reference case against which the compact living concept can be assessed.
 - Scenario 2 assumes that the minimum size of a studio flat is reduced from 37m² to 24m² (and with a minimum volume of 60m³) and that developments are allowed that consist of 100% of these types of units for rent on highly accessible sites in Central London.
- 1.16 Both scenarios assume the same open market land values, consistency with planning policy and total development costs.
- 1.17 The purpose of the scenarios is to illustrate the different project outputs that would be delivered by the alternative forms of development occupying the same site. The information that has been used to design each of the scenarios has been supplied by U+I and is based on a 'real world' development viability appraisal for a proposed Compact-living scheme.
- 1.18 For example, the compact living development used for the purpose of preparing this report uses a particular compact living concept designed by U+I for a site under the company's ownership located in Southwark.
- 1.19 Although a floorplate of 24m² per apartment has been used for the purposes of this study, the concept works using a range of values, provided the overall volume of the units remains similar (i.e. circa 60m³) and the quality of the design is high. For example, U+I have also modelled the same development using units with a floorplate of 19m² with a mezzanine which also provides 200 residential apartments.
- 1.20 It is envisaged that the majority of the tenants of Compact-living developments would be young, single workers with graduate qualifications, typically with annual incomes between £30,000 and £60,000 and working as professionals, associate professionals or administrators for private sector and public service employers. Compact-living as a concept is not designed specifically as key worker housing, but some occupants are likely to be employed by the public sector, e.g. as teachers, college lecturers, nurses, and emergency services workers.
- 1.21 When assessed against a range of economic criteria, the Compact-living scenario is expected to perform as well as or better than the Reference Case scenario across a range of indicators:
- The Compact-living scheme would be expected to provide 200 homes compared to 94 for the Reference Case on the same site.
 - The Compact-living scheme would be expected to provide homes for typically around 265 people compared to 230 for the Reference Case development.
 - The schemes would each be expected to provide 16 gross direct jobs.
 - The Compact-living scheme would be expected to house 265 working age adults compared to 186 for the Reference Case development with family accommodation.
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- The number of economically active residents expected to be contributed to the London labour market would be expected to be 231 for the Compact-living scheme vs 152 for the Reference Case scheme.
 - Annual household expenditure expended by households accommodated by the scheme would be just over £9 million per annum (2014 prices) under the Compact-living scenario vs nearly £4.5 million p.a. under the Reference Case.
 - This annual household expenditure would be sufficient to support 45 local jobs under the Compact-living scenario vs 22 local jobs under the Reference Case.
- 1.22 Moreover, because Compact-living developments would provide apartments for rent, with this control over tenure and ownership both land and residential property values would not be inflated by the introduction of the concept.
- 1.23 An important objective of the Compact-living scheme would be to provide dwellings targeted to achieve the Mayor's London Living Rent. Under the Compact-living scenario assessed in this report, the target would be to provide the majority – if not all – the 200 dwellings at the London Living Rent.
- 1.24 An increasing trend is for Central London residences to be bought as second homes. This trend creates the danger of a 'hollowing out' of Central London, with a declining demand for services required by a full time residential population. The Compact-living development proposals on the other hand are designed to be active communities lived in by those renting the studio apartments provided by the scheme.
- 1.25 The Compact-living proposals, if developed, could also perform an important role in terms of reinforcing active and energetic communities in Central London with well-managed shared amenity space. There are a number of aspects to the role the scheme would play in promoting lively local communities:
- A blend of innovation in residential property development combining elements found elsewhere in London but not in a single scheme;
 - Support for local services and facilities; and
 - Support for local business clusters.
- 1.26 The report also demonstrates that the replication of the compact living concept across a number of sites in Central London would deliver multiple benefits. In particular, the report identifies that delivering 5 compact living developments in Southwark alone would contribute an additional £23 million of household expenditure to the economy per annum. The originators of the concept (U+I) have confirmed that there are at least 5 suitable sites in each of the 9 Boroughs defined for the purposes of this report as Central London. On this basis, if the compact living concept was to be replicated across 5 sites in each of the Boroughs the overall increase in household expenditure in Central London would be just over £200 million p.a.

- 1.27 Compact-living development would require a site of around 0.3 acres (0.12 ha) to provide a floorplate of between 400m² and 600m² plus an allowance to accommodate servicing requirements and defensive space for the development. Such a site would typically require 11-15 storeys. A number of studies have identified that Central London does have a large number of sites of sufficient scale and type of location (for example, with proximity to very good public transport infrastructure and in areas that have an active and lively environment) suited to this type of development.
- 1.28 Moreover, the London Plan 2015 is predicated on the idea that London can meet its own future requirements without a need for the release of Green Belt or Metropolitan Open Land. The Plan acknowledges that this can only be achieved by optimising densities on previously developed land, particularly on sites that are highly accessible by public transport.
- 1.29 The proposal for Compact-living developments providing apartments for rental only on highly accessible sites is therefore the type of innovation in housing delivery that London will need if the enormous challenge of meeting future housing demand in the capital is to be met.
- 1.30 Allowing the option of Compact-living developments on suitable sites could not by itself address the entirety of London's housing shortage. However, the introduction of more flexible design guidance to allow for the development of schemes of 100% studio apartments with a minimum volume of 60m³ on centrally located sites with a very high degree of public transport accessibility could make a significant difference and, if implemented as part of a strategy along with other policies, could make a substantial contribution to the future supply of homes for Londoners.
- 1.31 For these reasons it is recommended that the proposals for Compact-living developments in highly accessible locations in Central London are given serious consideration as a policy innovation in the next redraft of the London Plan.

2: Introduction

- 2.1 The context for this report is the acute housing supply challenge affecting London, which is resulting in housing becoming increasingly unaffordable for many whose jobs are located in the capital. The ratio of average house prices to average earnings in Central London ranges from around 14 to 1 in Tower Hamlets to around 25 to 1 in Kensington & Chelsea, and in recent years the average price of flats & maisonettes have increased by around 9% p.a. to 13% p.a. in each of the Central London Boroughs (except Tower Hamlets, where the average increase has been around 6% p.a.).
- 2.2 Price increases of this extent are driven by an excess of demand over supply. Demand is driven by the economic success of London as powerhouse for the creation of wealth and jobs. The success of London is crucial to the future prosperity of the country as whole, and it is no solution to implement policies that would dampen or undermine the future economic growth potential of London.
- 2.3 The solution for London's housing crisis should instead focus on measures to increase the supply of housing in the capital, including increasing the supply of currently underused sites which could be developed to provide housing for Londoners.
- 2.4 One element of a comprehensive strategy to increase the supply of housing in Central London could be to consider being more flexible with current design guidance concerning the minimum size of flats that can be built within a high density residential development on suitable sites (i.e. in locations that are highly accessible by public transport and where the local environment is very active). The specific proposal that is assessed in this report is a proposal to allow the development of studio flats where the minimum unit floor area is circa 24m² (or 19 m² with a mezzanine) and a minimum volume of 60m³, and to compare the economic consequences of such a policy with current design guidance, which recommends a minimum size of around 37m² per unit.
- 2.5 A scenario where the minimum volume of a studio apartment is around 60m³ and where these apartments are for rent only is termed Compact-living. Under a Compact-living scenario, for any given development site the relaxation of design guidance would mean an increase in the number of housing units that could be provided compared to a situation where current design guidance continues to prevail.
- 2.6 The purpose of the report is to examine the potential economic and social consequences of a relaxation of current design guidance concerning the development of flats and apartments in London. The report considers the implications of such a policy across a range of themes, including the future supply of housing, and the potential consequences for the supply of labour from households accommodated and also the potential implications for the demand for local services.
- 2.7 The report was commissioned by U+I Group PLC in June 2017. The report has been prepared by Stephen Lucas, an economist and director of Development Economics Ltd. Stephen has 25 years' experience of advising on regeneration and development projects across the UK, and he has given expert witness evidence at planning inquiries on numerous occasions.
- 2.8 The remainder of the report is structured as follows:

- Chapter 3: provides an overview of the housing market shortage in London and the expected future drivers of additional housing demand, in particular employment growth and population growth.
- Chapter 4: introduces two alternative future development scenarios for the development of high density apartment schemes: the first scenario based on current design guidance, with a second scenario (the Compact-living scenario) being based on relaxed design guidance. This chapter also introduces the assessment framework used in the assessment of the scenarios.
- Chapter 5: considers the potential implications of each scenario for the supply of working age and economically active people (and their skills) for the local and London-wide labour market.
- Chapter 6: assesses the potential implications for local expenditure effects via the spending of household incomes.
- Chapter 7: provides a brief summary of the typical site-specific implications of a Compact-living development compared to a scheme based on current design guidance.
- Chapter 8: considers the potential contribution that a Compact-living project could make to the communities where they are located.
- Chapter 9: considers the potential implications of extending the Compact-living concept across a larger number of sites in Central London.

3: Background and Context

- 3.1 The purpose of this report is to examine the potential implications of a strategy to address London's housing crisis, which is the provision of smaller studio flats for rent within high density residential developments on suitable sites in Central London. The concept of introducing smaller minimum size studio apartments for rent in such schemes is termed Compact-living.
- 3.2 For the purposes of this report, the Central London authorities are defined as those that are covered, or partly covered, by London's public transport Fare Zone 1 area. These authorities are:
- Camden
 - City of London
 - Hackney
 - Islington
 - Kensington & Chelsea
 - Lambeth
 - Southwark
 - Tower Hamlets
 - Westminster
- 3.3 The shortage of housing in London is a widely acknowledged crisis, which has been the subject of a number of investigations and studies undertaken by the UK Government, the Mayor of London and others. According to the London Housing Commission around 50,000 new homes are needed in London each year but the current level of housebuilding is falling well short: for example, in 2015 only around 25,000 new homes were built.³
- 3.4 The shortage of housing is reflected in rising average house prices and increasing average rents, as well as increasing levels of overcrowding, homelessness and extended commuting.
- 3.5 One manifestation of the chronic and severe housing shortage in London has been the outpacing of average house prices and rents compared to average incomes. The ONS publishes annual data on the ratio of median house prices to median incomes in each local authority in London and other local authorities across England. Of all the local authorities in England, 10 of the authorities with the highest ratios are located in London, with authorities in Central London being conspicuously represented.⁴

³ London Housing Commission, March 2016

⁴ Unfortunately, survey sample sizes are insufficient for data to be published for two central London areas: Kensington & Chelsea and the City of London.

Table 3-1: Ratio of Median House Prices to Median Annual Salaries (2015)

Authority	Ratio	Authority	Ratio
Westminster	23.13	Waltham Forest	14.58
Camden	21.15	Tower Hamlets	14.10
Hammersmith & Fulham	21.09	Newham	14.02
Islington	17.63	Hounslow	13.66
Barnet	17.25	Enfield	13.47
Hackney	17.01	Kingston upon Thames	13.41
Richmond upon Thames	16.69	Hillingdon	13.40
Brent	16.65	Lewisham	13.04
Ealing	16.45	Greenwich	12.39
Haringey	16.12	Sutton	12.22
Lambeth	15.93	Redbridge	12.06
Southwark	15.78	Bromley	12.02
Wandsworth	15.62	Croydon	11.70
Merton	15.15	Bexley	11.05
Harrow	15.01	Havering	10.71
		Barking & Dagenham	10.27

Source: ONS *Housing Summary Measures*

- 3.6 Another manifestation of the housing shortage is the ratio of median monthly private rents to median monthly salaries. The table below summarises the most recent data for the London Boroughs.

Table 3-2: Median monthly private sector rent as a percentage of median monthly salaries (2015)

Authority	Proportion	Authority	Proportion
Westminster	73.4	Harrow	56.7
Camden	70.7	Wandsworth	55.1
Hackney	67.7	Richmond upon Thames	54.8
Brent	67.4	Waltham Forest	53.9
Newham	65.9	Hillingdon	53.3
Islington	62.8	Hammersmith and Fulham	52.9
Hounslow	62.3	Kingston upon Thames	52.4
Barnet	62.1	Greenwich	51.0
Lambeth	61.2	Barking and Dagenham	50.3
Tower Hamlets	61.1	Lewisham	50.0
Enfield	60.9	Sutton	47.7
Southwark	60.8	Croydon	46.4
Ealing	60.0	Redbridge	45.2
Haringey	59.0	Bexley	44.2
Merton	58.2	Bromley	44.0
		Havering	42.1

Source: ONS *Housing Summary Measures*

- 3.7 It is many of the Central London Boroughs – in particular, Westminster, Camden and Hackney – that are the most unaffordable places to rent in the capital.
- 3.8 A key driver for London's housing shortage is the growing population of the capital. Between 1997 and 2015, the population of London increased by nearly 24%, from 7.02 million to 8.68 million. The overall increase in population was 1.66 million, equivalent to an average increase of 1.2% p.a.⁵
- 3.9 Another determinant of demand has been the growth of jobs located in the capital. Between 1997 and 2015 the number of jobs in London increased by about 1.39 million, representing an increase of around 33% over this period.⁶

⁵ Office for National Statistics, Annual Population estimates, 1997-2015.

⁶ Office for National Statistics, Workforce jobs estimates, 1997-2015.

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- 3.10 These drivers are not expected to reduce in significance in future years. For example, between 2016 and 2030 the population of London is expected (according to Government projections) to increase by a further 1.41 million (16.0%). This represents an average annual rate of increase in population of just over 1%.
- 3.11 Of the expected overall population increase, around 22% is expected to occur in the Central London Boroughs, with the largest percentage increase expected to occur in Tower Hamlets (26.3%).
- 3.12 The expected future increase in population will translate into a large expected increase in the number of households in London. The 2015 London Plan identifies that there are expected to be an additional 520,000 households in London by 2036 compared to 2011.
- 3.13 Another important consideration is the changing structure of households. GLA household projections indicate that 16% of anticipated household growth will be in the form of one person households.⁷
- 3.14 However, in order for the expected future demand to be accommodated, a significant increase in future housing supply in Central London will be needed. Allowing Compact-living developments could provide an important element of a comprehensive strategy to boost significantly the future delivery of housing in this part of the capital, and is particularly relevant to the expected future increase in single person households.
- 3.15 Providing accommodation that is particularly suited to the needs of young, single, professional workers in Central London would also generate other benefits and advantages:
- It would help to relieve pressure on Houses in Multiple Occupation (HMOs) and also help to address problems with overcrowding in some households where young people are sharing rental costs.
 - It would also help to relieve pressure on the public transport network. This is because many younger workers who cannot find suitable accommodation in Central London are forced to commute into the centre from outlying parts of London, thereby contributing to overcrowding on peak train and tube services.
- 3.16 It is also important to take into account expected future job growth across the capital. According to recent independent forecasts, overall employment growth in London between 2016 and 2030 is expected to amount to about 763,000 jobs, an increase of 13.4%.
- 3.17 The nine Boroughs defined as Central London for the purposes of this report together account for over half (55%) of the overall job growth expected across London over this period.
- 3.18 Moreover, of the ten Boroughs that are expected to experience the highest absolute increase in employment growth across London, the first eight all are located in the area defined as Central London for the purposes of this report.

⁷ Mayor of London, 2013 *Strategic Housing Market Assessment*, paragraph 7.3

Table 3-3: Employment projections, 2016-2030

Authority	Increase ('000s)	% increase
Camden	81.1	20.1%
Westminster	77.6	10.4%
Southwark	58.6	23.2%
Tower Hamlets	52.8	17.7%
City of London	45.2	9.6%
Islington	37.7	15.4%
Lambeth	29.1	16.2%
Hackney	23.5	17.1%
Hounslow	23.3	14.5%
Barnet	20.9	13.1%
Hillingdon	20.0	8.8%
Wandsworth	19.6	14.0%
Harrow	17.0	17.9%
Hammersmith & Fulham	16.1	10.9%
Redbridge	15.9	16.1%
Ealing	15.8	9.7%
Merton	15.8	16.6%
Enfield	15.4	12.3%
Bromley	15.4	11.9%
Croydon	14.9	10.6%
Newham	14.7	12.0%
Richmond upon Thames	14.3	14.8%
Brent	13.9	9.6%
Greenwich	13.4	14.2%
Kensington & Chelsea	13.3	9.5%
Haringey	13.2	13.7%
Sutton	12.4	15.0%
Havering	11.3	11.6%
Waltham Forest	10.2	10.9%
Kingston upon Thames	9.1	10.9%
Lewisham	8.8	10.4%
Bexley	8.1	9.6%
Barking & Dagenham	4.7	7.8%
Total	763.0	13.4%

Source: Oxford Economics, Employment forecasts, 2016

- 3.19 To accommodate the expected population and household growth, the recent annual rates of housing output that have been achieved must be doubled and the new trajectory of housing delivery must be sustained over a period of at least 20 years.
- 3.20 It is generally accepted that there is no single solution for resolving London's housing shortage, but there have been a variety of proposals including:
- relaxation of development controls on London's Green Belt
 - speeding up the time taken to make planning decisions
 - enforcing hard housebuilding targets for local authorities
 - making more unused or underused public sector land available for housebuilding
 - increasing development density levels
 - local authority housebuilding.

- 3.21 However, the London Plan 2015 is predicated on the idea that London can meet its own future requirements without a need for the release of Green Belt or Metropolitan Open Land. This can only be achieved by optimising densities on previously developed land, particularly on sites that are highly accessible by public transport.
- 3.22 There has already been a track record of improving development densities for residential land in London, especially in Inner London. The table below shows the extent of improvements made since 1996.

Table 3-4: Density of new dwellings built 1996-2011 (dwellings per hectare)

Location	1996-1999	2000-2003	2004-2007	2008-2011	Change since 1996/1999
London	57	78	105	140	146%
Inner London	84	126	164	230	174%
Outer London	40	47	66	81	103%
UK	24	28	41	42	75%

Source: DCLG 2013, Table P231 Land Use Change, density of new dwellings built in England

- 3.23 However, satisfying London's enormous future housing needs will require a commitment for recent improvements in development densities to continue to be achieved, and even greater strides to be made on appropriate sites.
- 3.24 The purpose of this study is to examine the potential implications of one specific policy initiative, which would be to relax design guidance for one bed studio apartments for rent on selected development sites in Central London that can demonstrate exceptional standards of public transport accessibility and are located in areas that are active and have a lively '24 hour' environment.
- 3.25 In London, guidance on minimum space requirements have been part of the London Plan since 2011. The 2012 Housing SPG provided a detailed breakdown on minimum floorspace for all housing types. For a one-bed studio flat, the minimum Gross Internal Area (GIA) was set at 37m². More recently, the Government has released National Space Standards, but these are very similar to those established for London, with the minimum GIA for a 1-person bed-space dwelling set at 37-39m² (with the lower value applying where a shower room is provided instead of a bathroom).

Conclusion

- 3.26 This chapter has highlighted the enormous future housing supply challenge facing London. In short, over half a million new households are expected to form between 2011 and 2036, with 1-in-6 of these new households being of a single person. The overall population of London is expected to increase by 1.5 million between 2011 and 2036. Housing this number of additional residents means that London must double recent rates of housing delivery and maintain this increase for a period of 20 years and beyond.
- 3.27 The recent failure to build enough houses has contributed to growing housing unaffordability across London as a whole, but with the most severe affordability issues affecting the Central London Boroughs. This highlights that there is a backlog of previous housing under-delivery that needs to be addressed, as well as the meeting of expected future additional demand for housing.

- 3.28 London – and especially Inner London – has already made large strides towards achieving higher residential development densities since 1996. However, further strides will need to be taken – especially on sites that have a high degree of public transport accessibility – if the future housing challenge facing London is to be adequately addressed.
- 3.29 It is not suggested here that allowing the option of ‘Compact-living’ developments on suitable sites could by itself address the entirety of London’s housing shortage. However, the introduction of relaxed design guidance to allow for the development of 100% compact studio apartments for rent on appropriate, centrally located sites with a very high degree of public transport accessibility could make a significant difference and, if implemented as part of a strategy along with other policies, could make a substantial contribution to the future supply of homes for Londoners.

4: The scenarios and assessment framework

Introduction to the scenarios

- 4.1 Part of the response to the large scale and urgent need to provide a very large and sustained increase in London's housing supply is to provide a larger number of small studio flats for rent on sites highly accessible by public transport in Central London. This form of housing would be highly suited to younger professional workers.
- 4.2 'Highly accessible' sites are defined here as those that achieve a score of 6 using Transport for London's public transport access level (PTAL) tool.⁸ These sites are largely found in London's public transport Fare Zone 1 area.
- 4.3 For the purpose of assessing the potential implications of relaxing design guidance on minimum space standards, two alternative development scenarios have been developed for comparison that are assumed to be capable of being developed on the same development site:
 - Scenario 1 assumes conventional residential development at normal housing space densities with a mix of studio, 1 bed, 2-bed and 3-bed flats. This scenario reflects current guidance on minimum space standards and essentially reflects an assumption that the current status quo would be continued. In appraisal terms this scenario forms a reference case against which the effects of a change in policy can be assessed.
 - Scenario 2 assumes that the minimum floor area of a studio flat is reduced from 37m² to 24m² (or 19m² with a mezzanine) and a minimum space volume of 60 m³, and that development is allowed that consists of 100% of these types of units for rent, together with substantial shared supporting spaces. The communal spaces included as part of the compact living development assessed in this report includes substantial breakout and co-working space, bookable dining rooms and lounge areas.
- 4.4 The purpose of the scenarios is to illustrate the different project outputs that would be delivered by the alternative forms of development occupying the same site.
- 4.5 The information that has been used to design each of the scenarios has been supplied by U+I and is based on a 'real world' development viability appraisal for a proposed Compact-living scheme. This proposed scheme is considered to be typical of the types of developments that would be submitted as planning applications if the current relevant design guidance for studio apartments were to be relaxed.
- 4.6 More details on each of the alternative development scenarios is introduced below.

⁸ <https://tfl.gov.uk/info-for/urban-planning-and-construction/planning-with-webcat>

Reference Case: Dwellings meeting current National and London Space Standards

- 4.7 Current National and London Plan design guidance state that residential development proposals for 1 person studio apartments are expected to provide a minimum 37m² Gross Internal Area. Developments conforming to this standard can be regarded as meeting normal residential development standards for apartment schemes.
- 4.8 This scenario has been designed as a 'reference case'. The purpose of a reference case is to provide a benchmark against which alternative scenarios based on differing assumptions can be compared.
- 4.9 Under this scenario there is assumed to be a variety of flats of different sizes provided within the same development scheme, which is the typical approach for apartment developments in Central London. The assumed development mix under the Reference Case scenario is as follows:

Table 4-1: Reference Case – assumed development mix

Type of flat	Proportion of scheme	GIA m ² total	Number of dwellings	Residents
1 bedroom studio	15%	836	22	29
1 bedroom flat	15%	950	19	25
2 bedroom flat	40%	2,210	34	102
3 bedroom flat	30%	1,615	19	76
Total		5,611	94	233

Source: Development Economics Ltd, based on information supplied by U+I Group plc

- 4.10 Overall, the reference case scenario is assumed to provide a total of 94 dwelling units and provide housing for 233 people.
- 4.11 It is also assumed that there would be 1 full time equivalent job required to manage the scheme (i.e. a concierge).
- 4.12 Of the housing units provided, it is assumed that 28 units (30% of the total) would provide contributions to the Affordable Housing requirement. However, none of these units would be expected to be at the level of the Mayor's London Living Rent for middle income households.

Compact-living development scenario

- 4.13 In response to London's considerable housing supply challenge U+I Group Plc have developed proposals intended to achieve denser development on highly accessible sites where 100% of the residential units would be developed with a floorplate of 24m² (or 19m² with a mezzanine) and a minimum volume of 60m³. The apartments would be built for rent only, with the aim of achieving the Mayor's London Living Rent for middle income households.
- 4.14 In order to make such developments attractive for modern city centre living, the Compact-living proposals would provide 200 self-contained build-to-rent flat units and be part of a building that provides shared amenity space for dining, leisure, visitor entertaining, work space, storage and 24-hour on-site management.
- 4.15 Under this scenario the building would accommodate 200 apartments with:

- a ground floor dedicated to entrance, management space, parcel lockers, screening room and commercial work space;
 - an upper floor would be provided for amenity including communal lounges, dining areas, function rooms and private study space; and
 - a roof top amenity area would be regarded as essential, and would provide a communal garden area and outdoor amenity space for relaxation and social interaction.
- 4.16 Parking would not be required but basement space would be provided accommodating storage and a bicycle space of one per flat. The scheme would also provide a bicycle repair workshop facility.
- 4.17 For the purpose of estimating occupant density it is assumed (based on information supplied by U+I Group) that one-third of the apartments would be shared by two adults.

Scenario specifications

- 4.18 The table below provides confirmation of the specification for each of the two scenarios on a side-by-side basis. The basis of the assumptions used for both scenarios is information provided by U+I Group plc.

Table 4-2: Assumed development mix

Indicator	Reference Case (typical housing scheme)	Compact-living
Gross area (m ²)	6,877	6,877
Net area (m ²)	5,502	4,800
Mix	<ul style="list-style-type: none"> • 15% 1 bed-space studio (@38m²) • 15% 1 bed-space flat (@50 m²) • 40% 2 bed-space flat (@65 m²) • 30% 3 bed-space flat (@85 m²) 	<ul style="list-style-type: none"> • 100% 1bed-space studio (@24 m²)
Ground floor commercial uses	269m ² (Net internal area)	191m ² (Net internal area)
Units	94	200
Occupants	230	265
Employment	1 full time job (conciierge)	5 fill time jobs
Affordable units	28 units (30%) affordable Assume 0 units at London Living Rent	200 units at London Living Rent

Source: *Development Economics Ltd, based on information supplied by U+I Group plc*

Approach to the assessment of scenarios

- 4.19 In the assessment of the scenarios in the chapters that follow, the main focus is on the following indicators:
- The number of jobs supported and the number of workers that will be provided for the London labour market and the skills profile of these workers. These outputs and impacts are assessed in Chapter 5.
 - Household expenditure supporting the purchase of goods and services in the local economy. These effects are assessed in Chapter 6.

- Support for local services and contributions to the local community. These effects are assessed in Chapter 8.

5: Employment and labour market effects

5.1 This chapter considers two aspects of the expected permanent economic contribution of the two development scenarios:

- the ongoing contribution to the supply of labour expected from the residential population accommodated by each of the two alternative development scenarios; and
- the expected permanent employment effects created as a result of the jobs required to operate the building and ground floor commercial uses.

5.2 The temporary employment effects resulting from the development and construction of each scheme are excluded from the assessment.

Labour Market effects

5.3 The first aspect to consider is the potential effect of each scenario on the local and regional supply of workers. There are two aspects to this:

- the simple quantum of working age and economically active residents; and
- the likely skills profile of these residents.

Working Age residents

5.4 The developer estimates likely occupancy for each scenario as follows:

- Reference Case (typical apartment development scheme): 230 people
- Compact-living development: 265 people

5.5 However, we have used additional assumptions to estimate the number of occupants who are of working age. The standard ONS definition of working age is 16-64 years, but this definition is becoming increasingly outmoded due to changes in the usual school leaving age. For these reasons we define the functional working age slightly different, as being from 18 to 65 years.

5.6 Basically, it is assumed that 100% of occupants of the Compact-living development will be within this functional working age range. The developer assumes that 33% of units are shared, and we make an additional assumption that all tenants will be aged between 18-65 years.

5.7 For the Reference Case it is appropriate to make a slightly different assumption. This is because 70% of units are 2-bed and 3-bed flats, and while some of these are likely to be flat shares it is also likely that a proportion will be families with non-working age children.

5.8 The additional assumptions used in assessing the Reference Case are that:

- 1/3rd of the 2 bedroom flats are occupied by families with 1 child
- 1/3rd of the 3 bedroom flats are occupied by families with an average of 2 children per family

5.9 A further assumption is made about the proportion of adult residents of the development who are of pension age. For example, Census data indicates that about 10% of the adult population of Southwark is aged 65 or over. On this basis, for the working example case considered here (which is located in Southwark), it is simply assumed that 10% of the adult population of the Reference Case scheme are aged over 65.

5.10 Based on these assumptions, the breakdown of the population between adults and children for the two scenarios can be summarised as follows.

Table 5-1: Occupants: working age and children

Age	Reference Case	Compact-living
Adults (working age)	186	265
Adults (pension age)	21	0
Children	23	0
Total	230	265

Source: Development Economics Ltd

5.11 The result is that the Reference Case scheme is expected to accommodate 186 working age adults whereas the Compact-living scheme would be expected to accommodate 265 working age adults.

Economic activity rates

5.12 The next step is to estimate the number of working age residents who are likely to be economically active. Adults are classified as being economically active if they are in employment (on either a full-time and part-time basis) or are actively seeking and are available for work.

5.13 Economic activity rates vary by area, so the proportion of adults of working age that are economically active may vary according to the location of the development site. Using Southwark as a working example, the economic activity rates in that local authority is 81.6% based on the most recent data from the ONS (12 months from January to December 2016). The activity rate in Southwark is about 3.3 percentage points higher than the London average, and 3.8 percentage points higher than the Great Britain average.

5.14 In Southwark, the main reasons why working adults are economically inactive are the following:

- In full time education – 43%
- Long term sickness or disability – 21%
- Looking after children or other family members – 25%
- Other reasons (including short term illness, early retirement, and discouraged workers) – 11%.

- 5.15 Some of the reasons for inactivity are less likely to be relevant to the residents of the Compact-living development, such as looking after children or being in full time education. For this reason it is considered justifiable to make an upwards adjustments to the average economic activity rate of adult working age residents of the Compact-living development compared to that for the standard residential development.
- 5.16 The specific adjustment that is made is to assume an average economic activity rate of 87% for adult residents of this scheme.
- 5.17 The results that are produced using this approach are set out in the table below.

Table 5-2: Economically active adult occupants

Age	Reference Case	Compact-living
Adults (working age)	186	265
Economically active adults (total)	152	231
Economically active adults (%)	81.6%	87.0%

Source: *Development Economics Ltd*

- 5.18 As a consequence of these assumptions, the estimated total number of economically active adults in the Reference Case scenario is 152, whereas under the Compact-living scenario it is 231.

Skills profile of economically active residents

- 5.19 Additional assumptions have also been deployed to estimate the potential breakdown of skills supply offered by the additional economically active residents under each scenario. The average skills profile of resident populations varies to some extent on a Borough-by-Borough basis. The relevant assumptions for the working example of Southwark are set out in the table below and are derived from local data obtained from the ONS Annual Population Survey (2016).

Table 5-3: Skills profile: Southwark (2016)

Highest qualification	% working age adults	% economically active adults
NVQ4 or higher	60%	62%
NVQ 3	13%	14%
NVQ 1 and 2	13%	14%
Other qualifications	7%	7%
No qualifications	6%	3%

Source: ONS Annual Population Survey, January to December 2016

- 5.20 Based on these assumptions, the skills profile of the economically active population of each development is summarised in the table below.

Table 5-4: Skills profile: development options

Highest qualification	Reference Case	Compact-living
Economically active adults, of which:	152	231
<i>NVQ4 or higher</i>	95	150
<i>NVQ 3</i>	21	32
<i>NVQ 1 and 2</i>	21	32
<i>Other qualifications</i>	11	17
<i>No qualifications</i>	3	0

Source: *Development Economics Ltd*

- 5.21 Under the Compact-living scenario, 231 economically active residents would be expected to be housed by the scheme, of whom 150 would be expected to be qualified to level NVQ4 or higher (i.e. degree qualified or equivalent, or higher).
- 5.22 On the other hand, under the Reference Case there would be expected to be 152 economically active residents, of whom 95 would be expected to be qualified to level NVQ4 or higher.

Employment effects

Gross direct employment

- 5.23 The first step in estimating direct employment is to estimate the number of permanent jobs (in gross terms) likely to be required to manage and operate the building. Based on information supplied by the developer, the assumed number of jobs required to provide building management and concierge services for the two scenarios are as follows:
- Reference Case (typical housing scheme): 1 full time staff
 - Compact-living development: 5 full time staff.
- 5.24 There would usually also be jobs found in ground floor commercial units that would typically be provided for both types of development. These units would provide services for tenants and for the wider local community, and would be expected to accommodate the types of businesses typically found in small retail units, such as: mini-supermarket; newsagents; hairdressers; café/restaurants; etc.
- 5.25 The quantum of commercial floorspace provided under each of the two scenarios is slightly different, as follows:
- Reference Case (typical housing scheme): 269m² (Net Internal Area - NIA)
 - Compact-living development: 191m² (NIA).
- 5.26 The reason why the Compact-living scheme provides a smaller amount of ground floor commercial floorspace is that under this scheme around 78m² of ground floor area is assumed to be required to provide leisure and recreation space for tenants rather than being available for let to commercial users. The 78m² of ground floor area is instead assumed to be used for the provision of screening rooms and private dining rooms for use by tenants.
- 5.27 The approach used in estimating gross permanent employment is to convert the amount of proposed commercial floorspace (retail/café' etc.) of each use type into jobs based on standard conversion factors as set out in the current edition of the HCA's *Employment Density* guide.⁹
- 5.28 The specific assumption that are used are as follows:
- Small retail units: 1 FTE job per 17.5m² of NIA floorspace

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484133/employment_density_guide_3rd_edition.pdf

- Café/restaurant: 1 FTE job per 17.5m² of NIA floorspace

5.29 The current (2015 edition) HCA guidance recommends the same job density (17.5m² per FTE) is used for both small Use Class A1 retail units and for Use Class A3 restaurants/cafes. On that basis it is not necessary to make any assumption about the likely split between A1 and A3 uses for either scenario.

5.30 The results of the assessment – in terms of gross direct jobs – for each scenario are set out in the table below.

Table 5-5: Gross Direct Employment

Indicator	Reference Case (typical housing scheme)	Compact-living
Building management	1	5
Ground floor commercial units	15	11
Total	16	16

Source: Development Economics Ltd, based on information supplied by U+I Group plc and assumptions from the HCA Employment Density Guide (2015 edition)

5.31 Under each scenario there is expected to be 16 gross direct jobs provided. In the case of the Compact-living scenario there are fewer jobs hosted by the ground floor commercial units, but this is offset by the greater number of jobs required in providing building management services and in the provision of facilities for use by tenants.

Net additional employment

5.32 So far the focus has been on the gross number of jobs hosted by each scenario. The next step is to convert the respective gross direct estimate for each scenario into a net additional employment estimate using assumptions for each of the additionality factors (leakage, displacement, multipliers).

- **Leakage:** is the proportion of project outcomes that benefit individuals or organisations located beyond the relevant area of impact. The 'relevant area of impact' is usually assumed to be the area of jurisdiction of the local planning authority, which in the case of the Compact-living concept would be one of the Central London authorities. However, it may also be useful to consider additionality at a higher spatial level, such as for London as a whole. Information about the leakage from any local authority can be obtained from the 2011 Census.
- **Displacement:** is an estimate of the economic activity hosted by the site that would be diverted from other businesses in the spatial impact area. The extent of displacement varies by development type, with leakage usually considered higher for types of activities for which local substitutes can readily be found (e.g. non-specialist retailing).
- **Multipliers:** composite employment multipliers measure the employment benefits created through the indirect and induced effects of subsequent rounds of direct expenditure in the relevant spatial areas. Values for multipliers vary according to the size and complexity of the economy under consideration, and are generally lower at a more localised level.

5.33 In the case of the schemes under consideration the precise extent of local additionality will vary slightly according to the location of the project (e.g. it will vary slightly according to which London Borough in which the development site is located).

5.34 As a working assumption it is assumed that the hypothetical development site in this case is located in Southwark. Additionality is calculated for two spatial levels: local (Southwark) and for London as a whole.

5.35 The additionality assumptions that are relevant to this choice of location are set out in the table below. The additionality assumptions are the same for both scenarios.

Table 5-6: Additionality assumptions

Indicator	Local (e.g. Southwark)	London region
Leakage	84.0%	20.2%
Displacement	25.0%	75.0%
Multipliers	0.21	0.47

Source: *Development Economics based on the HCA Additionality Guide (4th edition)*

5.36 For example, local leakage is 84% but regional leakage is only about 20%. This means that only 16% of jobs created would be expected to be filled by residents of the local authority area, but that only 20% would be expected to be filled by workers who live outside London.

5.37 The results of the additionality assessment for the two scenarios are summarised in the tables below. The first table shows results at the spatial level of Southwark, while the second table shows the equivalent results for the London region as a whole.

Table 5-7 (a): Net additional jobs – Southwark

Scheme element	Reference Case Gross jobs	Reference Case Net additional jobs	Compact-living Gross Jobs	Compact-living Net additional jobs
Building management	1	0.1	5	0.7
Commercial units	15	2.2	11	1.6
Total	16	2.4	16	2.3

Source: *Development Economics based on the HCA Additionality Guide (4th edition)*

Table 5-7 (b): Net additional jobs – London region

Scheme element	Reference Case Gross jobs	Reference Case Net additional jobs	Compact-living Gross Jobs	Compact-living Net additional jobs
Building management	1	0.3	5	1.5
Commercial units	15	4.5	11	3.2
Total	16	4.8	16	4.7

Source: *Development Economics based on the HCA Additionality Guide (4th edition)*

5.38 When converted into net additional jobs, the performance of the two scenarios is almost identical:

- At the spatial level of Southwark, the Reference Case provides a total of 2.4 net additional jobs, whereas the Compact-living scenario provides 2.3 jobs; and
- At the spatial level of the London region, the Reference Case provides a total of 4.8 net additional jobs, whereas the Compact-living scenario provides 4.7 jobs.

6: Household expenditure effects

- 6.1 This chapter considers the aggregate household expenditure that could be expected to be associated with the residential population housed by each development scenario.
- 6.2 These estimates are produced by combining data concerning the expected number and size of households accommodated under each scenario with ONS data covering average household expenditure of different types and sizes in the London region.
- 6.3 The ONS average household expenditure estimates are sourced from the annual Family Spending Survey series which estimates household expenditure of various types (i.e. different household sizes, compositions and adult ages) at a regional level across the UK. Note: the estimates from this survey are in 2014 prices.
- 6.4 Based on estimates produced for the London region, it is estimated that the additional annual household expenditure that would be associated with the residential population housed by each development scenario option is as follows (in 2014 prices):
- Reference Case: £4.45 million per annum
 - Compact-living development: £9.06 million per annum.
- 6.5 The reasons why there is expected to be substantially more aggregate expenditure accruing from residents of the development under the Compact-living scenario (compared to the Reference Case) are as follows:
- The number of households that would be accommodated under the Compact-living scenario is greater than the alternative scenario.
 - These households would be expected to provide, in aggregate terms, a greater number of employed adults. As a consequence, the aggregate incomes earned by the households that would be accommodated by the Compact-living development is significantly larger than the aggregate incomes earned by the households accommodated by the Reference Case specification.
- 6.6 Assumptions about the amount of gross and net employment supported through household expenditure were developed based on data derived from the ONS Annual Business Survey (which provides estimates of business turnover by sector on a regional basis) and the ONS Business Register and Employment Survey (which provides estimates of employment by sector on a regional basis).
- 6.7 Given these estimated total levels of household expenditure and also a set of assumptions about average spend-per-job, it is possible to estimate the direct and indirect/induced employment consequences of this additional expenditure on the local economy. The results of this estimation are as set out in the table below:

Table 6-1: Aggregate household expenditure and associated employment

Age	Reference Case)	Compact-living
Aggregate annual expenditure	£4.45 million	£9.06 million
Gross employment supported	49	100
Local employment supported	22	45

Source: *Development Economics Ltd*

- 6.8 Thus, under the Reference Case scenario a total of 49 jobs are expected to be supported by household expenditure. Of these, 22 jobs are expected to occur in the relevant local authority area (i.e. in this working example case, Southwark).
- 6.9 Alternatively, under the Compact-living scenario a total of 100 jobs are expected to be supported by household expenditure. Of these, 45 jobs are expected to occur locally (e.g. Southwark).
- 6.10 It should be noted that these employment estimates cannot be simply added to the job totals previously estimated for the commercial floorspace (retail, cafés/restaurants etc.) expected to be provided by either development options. This is because of the danger of double-counting, as some of the jobs:
- in the commercial floorspace will be supported by resident household expenditure; and
 - some of the jobs in the commercial floorspace jobs may be filled by residents of the scheme.

7: Summary of quantifiable site-specific effects

- 7.1 Before moving on to consider both qualitative and wider effects of the Compact-living concept, it is useful to summarise in brief terms the key quantifiable differences between a standard high density housing development and the equivalent outputs from a Compact-living project on the same site.
- 7.2 The table below summarises the key outputs expected to be delivered by a typical scheme of each scenario type on the same site.

Table 7-1: Summary of key project outputs

Indicator	Reference Case (typical housing scheme)	Compact-living
Dwellings	94	200
Occupants	230	265
Gross direct employment	16	16
Net direct employment (local authority – e.g. Southwark)	2.4	2.3
Net direct employment (London)	4.8	4.7
Working age adults	186	265
Economically active residents	152	231
Aggregate household expenditure (£million, 2014 prices)	£4.45 million	£9.06 million
Local employment supported by household spending	22	45

Source: *Development Economics Ltd*

- 7.3 The Compact-living scheme is expected to perform as well as or better than the Reference Case on every single indicator:
- The Compact-living scheme would be expected to provide 200 homes compared to 94 for the Reference Case on the same site.
 - The Compact-living scheme would be expected to provide homes for 265 people compared to 230 for the Reference Case development.
 - The schemes would each be expected to provide 16 gross direct jobs and virtually the same number of net additional jobs.
 - The Compact-living scheme would be expected to house 265 working age adults compared to 186 for the Reference Case development.
 - The number of economically active residents expected to be contributed to the London labour market would be expected to be 231 for the Compact-living scheme vs 152 for the Reference Case scheme. The Compact-living scheme would therefore provide an increase in economically active residents of just over 50% compared to the Reference Case.
 - Annual household expenditure expended by households accommodated by the scheme would be just over £9 million per annum (2014 prices) under the Compact-living scenario vs nearly £4.5 million p.a. under the Reference Case. The Compact-living scheme would therefore provide double the level of annual household spending compared to the Reference Case.

- This annual household expenditure would be sufficient to support 45 local jobs under the Compact-living scenario vs 22 local jobs under the Reference Case, which represents a doubling of the employment supported.

8: Contributions to city culture & communities

- 8.1 The purpose of this chapter is to highlight the likely characteristics of the typical Compact-living occupier and to review the potential contributions of Compact-living developments to their host locations beyond the employment and household expenditure impacts that have been quantified in previous chapters.

Profile of typical occupier

- 8.2 It is envisaged that the majority of the tenants of Compact-living developments would be young workers with graduate qualifications working as professionals, associate professionals or administrators for private sector and public service employers. Compact-living as a concept is not designed specifically as key worker housing, but some occupants are likely to be employed by the public sector, e.g. as teachers, college lecturers, nurses, and emergency services workers.
- 8.3 The typical age profile of occupants would be expected to be aged between 25 and 44 years. Occupants are therefore expected to be well-qualified, and would often be at an early stage on the career ladder.
- 8.4 There were estimated to be 3.11 million people aged between 25 and 44 years living in London in 2016. According to ONS Population Projections, this figure is expected to increase by a further 124,000 by 2020, and a further 133,000 by 2030.

London Living Rent

- 8.5 An important objective of the Compact-living scheme would be to provide dwellings targeted to achieve the Mayor's London Living Rent.
- 8.6 The London Living Rent is a scheme designed for middle-income households who are renting but want to build up savings to buy a home.¹⁰ This can be either through shared ownership or outright purchase. Under Living Rent schemes, build-to-rent landlords are expected to encourage their tenants into home ownership within ten years. The build-to-rent apartments under such schemes would usually be offered on tenancies with a minimum of three years' duration. Tenants will be supported to save and given the option to buy their home on a shared ownership basis during their tenancy. The target rent level under such a scheme would usually be around two-thirds of the median market rent for the locality, but this might vary according to the particular circumstances of the site.
- 8.7 Under the Compact-living scenario assessed in this report, the target would be to provide 200 dwellings achieving the London Living Rent. (However, given the evolving nature of the funding market and given the variability of site-specific development constraints and abnormalities, it may not be possible to achieve this goal on every site).

¹⁰ <https://www.london.gov.uk/what-we-do/housing-and-land/renting/london-living-rent#acc-i-47690>

- 8.8 This compares to the standard apartment development (i.e. the Reference Case) where 30% of apartments are assumed to be offered as affordable dwellings but none would be expected to achieve the London Living Rent.
- 8.9 Compact-living developments therefore stand to make a substantial contribution to the London Living Rent policy objective, and also to assist many young Londoners in taking their first step onto the capital's housing ladder.

Filling the holes of hollow London

- 8.10 A report produced by the Centre for Housing Policy at the University of York (2017) suggests that around 13% of new market housing across London was bought by overseas investors in the two years to March 2016.¹¹ However, a report produced for the GLA by the LSE suggests that the proportion of sales in Central London could be around 50%.¹² The LSE report also confirms that around 30% of residential properties bought by overseas investors were bought either to accommodate family (e.g. students studying at London universities) or to be used for work-related or vacation visits. For those units bought as a second home, occupancy can be limited to just a few weeks each year.
- 8.11 An increasing trend towards Central London residences being bought as second homes creates the danger of a 'hollowing out' of Central London, with a declining demand for services required by a full time residential population.
- 8.12 The Compact-living development proposals on the other hand are designed to be active communities lived in by those renting the studio apartments within the scheme. The creation of a portfolio of Compact-living developments within Central London would therefore go some way to compensate for the part-time occupancy of an increasing proportion of other residential property in the Central London area.

Cultural and community impacts of the scheme

- 8.13 The Compact-living development also has an important role to play in terms of reinforcing active and energetic communities in Central London. There are a number of aspects to the role the scheme would play in promoting lively local communities:
- A blend of innovation in residential property development combining elements found elsewhere in London but not in a single scheme
 - Support for local services and facilities
 - Support for local business clusters

¹¹ Wallace, Rhodes and Webber (2017) Overseas investors in London's new build residential housing market – interim report: Centre for Housing Policy, University of York

¹² Scanlon, Whitehead and others (May 2017): The role of overseas investors in London's new build residential market: final report, London School of Economics, May 2017

Innovation in residential property development

- 8.14 Other new residential property developments provide elements of what is proposed by the Compact-living scheme, but none provides all of these features in combination in a single development:
- **Compact studio flats:** other schemes propose to provide small flats below the standard residential density, but these are proposed for sale to investors, or are to be provided within a scheme consisting of a range of different unit types and sizes. The Compact-living development on the other hand would provide 100% town flat studios for rent.
 - **Central scheme:** there is at least one other scheme proposed where smaller studio flats would be developed, but the alternative scheme is not proposed for the Zone 1 central area. The Compact-living development is specifically targeted at London's central (Zone 1) area.
 - **Not second homes:** other schemes have been proposed that are specifically targeting the market for second homes in London. The Compact-living development, on the other hand, is specifically striving to create new, active residential communities for the benefit of Londoners.

Support for local services and facilities

- 8.15 By helping young workers find more easily affordable rental housing in central London locations, the developments would also help to stimulate demand for cafés, restaurants, cinemas and other types of entertainment and cultural venues. This is because, above all, Compact-living apartments are designed to be occupied on a full time basis. They will be built-for-rent and occupied rather than being bought and left empty by investors.
- 8.16 Creating new, high-density housing developments providing homes for younger, professional workers in locations that are lively and well served by public transport will provide additional sources of demand for businesses and facilities catering to the service and entertainment demands of a young and active population.
- 8.17 This is important because there is evidence that some types of cultural and performance facilities are being lost from Central London: indeed, according to a report published by the GLA between 2007 and 2015 London lost 35% of its grassroots music venues:¹³ Compact-living schemes would help to ensure a sustained source of demand for a variety of pubs, entertainment venues and other cultural facilities within Central London. This contribution would feed in directly to a number of the Mayor's policy initiatives, including the London *Night Time Economy* strategy¹⁴ and the *London is Open* campaign.¹⁵
- 8.18 A similar point can also be made about the support that a larger population of young professionals would provide to restaurants and food preparation establishments in Central London. Research evidence (such as from the ONS annual household expenditure surveys) clearly indicates that younger households spend more per head on eating out than do older households.

¹³ GLA (October 2015): London's Grassroots Music Venues: Rescue Plan

¹⁴ https://www.london.gov.uk/sites/default/files/ntc_spg_2017_a4_public_consultation_report_fa_0.pdf

¹⁵ <https://www.london.gov.uk/about-us/mayor-london/londonisopen>

Support for business clusters and economic innovation

- 8.19 The previous chapters have highlighted the role of Compact-living projects in helping to fuel London's huge demand for workers, including large numbers of urban professionals.
- 8.20 The development of the Compact-living concept also reinforces the concept of business clusters, whereby individuals in linked industries can operate in close proximity, leading to more frequent interactions and collaborations. In the UK and internationally, creative and other knowledge-based industries businesses often congregate together in urban quarters, generating an 'urban buzz' that is attractive to skilled workers and helps to foster effective collaboration within and between businesses and knowledge-industry workers. Compact-living projects are especially suited to helping stimulate the urban buzz of central London locations as they provide an affordable option for younger workers, especially those at an early stage in their career progression.

9: London-wide implications

- 9.1 The analysis presented in this report confirms that the introduction of housing developments conforming to Compact-living specifications could make an important contribution to providing additional homes for some Londoners compared to what would be expected under standard design guidance for apartments.
- 9.2 Clearly, a number of different approaches will be required in order to address in full the demand for different types of housing that London will need in future. The introduction of Compact-living developments on suitable (i.e. highly accessible) sites in central London could be a very important part of the overall solution. Compact-living developments are potentially of particular relevance in terms of providing homes for younger professionals, key workers and others preferring to live in single-person households.
- 9.3 Younger persons are expected to contribute a significant portion of London's expected population increase over the next decade or so. According to the official ONS population projections (2014-based), the overall population of the eight Zone 1 London Boroughs is expected to increase by around 388,000 persons between 2014 and 2030: of this increase, about 771,000 (37%) is expected to be contributed by people aged between 25 and 44 years. Finding homes for these people is a key aspect of London's overall housing supply challenge.
- 9.4 There are also expected to be a growing number of households formed of a single person (of any age). GLA household projections indicate that 16% of anticipated household growth will be in the form of one person households.

Aggregated effects across a portfolio of sites

- 9.5 The analysis presented in this report confirms that a typical Compact-living development could be expected to provide an additional 106 dwellings and house an additional 35 people compared to an apartment development on the same site that is built according to current density standards. The Compact-living scheme would therefore provide twice as many dwellings and house 30% more people compared to the Reference Case.
- 9.6 The Compact-living development would also be expected to deliver the following benefits that are additional to what a development built to current standard densities would be expected to achieve:
- 79 additional adults who are of working age and are economically active – this is just over 50% more than would be delivered by the Reference Case scheme;
 - additional aggregate household expenditure worth around £4.45 million per annum (2016 prices) to the London economy – which is double the level expected under the Reference Case scheme; and
 - additional local employment supported by this expenditure amounting to 23 jobs – which is also double the level expected under the Reference Case scheme.

- 9.7 These benefits would be replicated for each site of this type and scale that is developed according to Compact-living principles rather than standard development densities for apartments.
- 9.8 Therefore, for every 5 sites of this type that are developed instead of the standard high density development type, an additional:
- 530 dwellings could be provided and households housed
 - 175 individual occupants could be housed
 - 395 working age and economically active adults could be housed
 - £23 million of annual household expenditure would be available to be spent on purchasing goods and services from providers in London
 - 115 jobs would be supported through this household expenditure.
- 9.9 The table below sets out these aggregated results, plus the additional benefits that could be delivered by expanding the portfolio of Compact-living sites in Central London still further (to 10 sites and 20 sites respectively). These results are based on aggregating the expected results that would be delivered based on the example of the Southwark site, which is regarded as being typical of the type of site that would be suited to this type of development in Central London.

Table 9-1: Additionality of Compact-living across a portfolio of sites: (Net additional benefits compared to developing standard high density developments on the same sites)

Indicator	5 sites	10 sites	20 sites
Dwellings	530	1,060	2,120
Occupants	175	350	700
Gross direct employment	0	0	0
Net employment (London)	0	-1	-2
Working age adults	395	790	1,580
Economically active residents	395	790	1,580
Aggregate household expenditure (£million, 2014 prices)	23	46	92
Local employment supported by household spending	115	230	460

Source: *Development Economics Ltd*

- 9.10 It should be noted that there would be no difference in the expected number of gross direct jobs accommodated by Compact-living development compared to a standard residential development on the same site. Although there would be some loss of ground floor commercial floorspace, the jobs that would be sacrificed there would be compensated for by the expected number of additional jobs in managing the building and providing services to the tenants housed by the scheme.
- 9.11 In terms of net additional jobs, a negligible number of net jobs would be expected to be lost (equivalent to just 1 FTE job for every 10 sites), but this effect is miniscule compared to the number of additional jobs expected to be supported through net additional residential spending that would be anticipated as a result of the greater numbers of working age people housed across the portfolio of sites.

Capacity of Central London to provide suitable sites

- 9.12 Compact-living development – such as that envisaged for the Southwark site discussed in this report – would require a site of around 0.3 acres (0.12 ha) to provide a floorplate of around 600m² plus an allowance to accommodate servicing requirements and defensive space for the development.
- 9.13 A number of studies have identified that Central London does have a large number of sites of sufficient scale and type of location (for example, with proximity to very good public transport infrastructure and in areas that have an active and lively environment) suited to this type of development.
- 9.14 For example, a recent report published by Transport for London¹⁶, indicates that TfL have identified 100 priority sites for housing development, with the majority of these located in Zones 1 and 2, with many close to stations and other public transport hubs and therefore being potentially suited for a higher density of development.
- 9.15 Of course, TfL are only one public sector landowner in Central London, and the GLC's Land Commission is continuing to investigate the full extent of the portfolio of sites that could be developed for housing in Central London and across the capital as a whole.
- 9.16 Moreover, the London Plan 2015 is predicated on the idea that London can meet its own future requirements without a need for the release of Green Belt or Metropolitan Open Land. The Plan acknowledges that this can only be achieved by optimising densities on previously developed land, particularly on sites that are highly accessible by public transport.
- 9.17 The proposal for Compact-living developments on highly accessible sites is therefore the type of innovation in housing delivery that London will need if the enormous challenge of meeting future housing demand in the capital is to be met.
- 9.18 For these reasons it is recommended that the proposals for Compact-living developments in highly accessible locations in Central London are given serious consideration as a policy innovation in the next redraft of the London Plan.

¹⁶ Transport for London, *Homes down the Track*, June 2017