

## Policy H11 Build to Rent

- A Where a development meets the criteria set out in Part B, the affordable housing offer can be solely Discounted Market Rent (DMR) at a genuinely affordable rent, preferably London Living Rent level. DMR homes must be secured in perpetuity.
- B To qualify as a Build to Rent scheme the following criteria must be met:
- 1) the development, or block or phase within the development, has at least 50 units<sup>66</sup>
  - 2) the homes are held as Build to Rent under a covenant for at least 15 years<sup>67</sup>
  - 3) a clawback mechanism is in place that ensures there is no financial incentive to break the covenant
  - 4) all the units are self-contained and let separately
  - 5) there is unified ownership and unified management of the private and Discount Market Rent elements of the scheme
  - 6) longer tenancies (three years or more) are available to all tenants. These should have break clauses for renters, which allow the tenant to end the tenancy with a month's notice any time after the first six months
  - 7) the scheme offers rent and service charge certainty for the period of the tenancy, the basis of which should be made clear to the tenant before a tenancy agreement is signed, including any annual increases which should always be formula-linked
  - 8) there is on-site management. This does not necessarily mean full-time dedicated on-site staff, but that all schemes need to have systems for prompt resolution of issues and some daily on-site presence
  - 9) providers have a complaints procedure in place and are a member of a recognised ombudsman scheme

<sup>66</sup> Boroughs may set their own thresholds to reflect local housing market circumstances and affordable housing need. However, it is important that where a lower threshold is set, Build to Rent schemes must still operate according to the stipulations in this guidance in order to qualify for the application of the Built to Rent policy.

<sup>67</sup> Covenant periods are expected to increase as the market matures.

10) providers do not charge up-front fees of any kind to tenants or prospective tenants, other than deposits and rent-in-advance.

- C To follow the Fast Track Route, Build to Rent schemes must deliver at least 35 per cent affordable housing, or 50 per cent where the development is on public sector land or industrial land appropriate for residential uses in accordance with [Policy E7 Industrial intensification, co-location and substitution](#). The Mayor expects at least 30 per cent of DMR homes to be provided at an equivalent rent to London Living Rent with the remaining 70 per cent at a range of genuinely affordable rents.<sup>68</sup> Schemes must also meet all other requirements of Part C of [Policy H5 Threshold approach to applications](#).
- D Where the requirements of C above are not met, schemes must follow the Viability Tested Route set out in [Policy H5 Threshold approach to applications](#). Viability assessments on such schemes should take account of the differences between Build to Rent and Build for Sale development and be undertaken in line with the Affordable Housing and Viability SPG.
- E On schemes that propose a proportion of homes as Build to Rent and a proportion for sale to the market, Part A of this policy will only be suitable for the Build to Rent element. The scheme should be assessed as a whole, with affordable housing calculated as a proportion of total habitable rooms across the scheme.

<sup>68</sup> Boroughs may publish guidance setting out the proportion of DMR homes to be provided at different rental levels to benefit from the Fast Track Route. In setting local DMR requirements boroughs should have regard to the relationship between the level of discount required and the viability of achieving the relevant threshold level.

- 4.11.1 Boroughs should take a **positive approach to the Build to Rent sector** to enable it to better contribute to the delivery of new homes. Build to Rent developments can make a positive contribution to increasing housing supply and are beneficial in a number of ways. They can:
- attract investment into London's housing market that otherwise would not exist
  - accelerate delivery on individual sites as they are less prone to 'absorption constraints'<sup>69</sup> on build-out rates
  - deliver more readily across the housing market cycle as they are less impacted by house price downturns
  - provide a more consistent and at-scale demand for off-site manufacture
  - offer longer-term tenancies and more certainty over long-term availability
  - ensure a commitment to, and investment in, place-making through single ownership
  - provide better management standards and better quality homes than much of the mainstream private rented sector.
- 4.11.2 The **Build to Rent Policy** has been developed in recognition of the fact that Build to Rent operates a different model to Build for Sale. Build to Rent relies on income through rent over a number of years, rather than an upfront return on sales (this is often referred to as the 'distinct economics' of the sector). Because of this, in some circumstances Build to Rent may not be able to compete for land on an equal footing with speculative Build for Sale, as it may generate lower initial land values. Longer term, however, Build to Rent is an attractive offer to institutional investors. This policy provides a specific approach to the affordable housing offer, where the aim is to maintain the integrity of the Build to Rent development, with unified ownership and management of all the homes.
- 4.11.3 Where a developer is proposing a Build to Rent development which meets the definition set out in Part B, the affordable housing offer can be entirely **Discounted Market Rent (DMR)**, managed by the Build to Rent provider and delivered without grant, i.e. entirely through planning gain. As it is not a requirement to be a local authority or a Registered Provider to deliver or manage intermediate rented homes that are delivered without grant, these units can be owned and/or managed by Build to Rent landlords themselves. DMR units should

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<sup>69</sup> The absorption rate is how long it will take a home to sell or be let for the identified price. The main constraint on absorption is the number of buyers or renters in the market willing (or able) to buy or rent the property at the identified price.

be fully integrated into the development with no differences between DMR and market units.

- 4.11.4 The Mayor's strong preference is for DMR homes to be let at **London Living Rent** level, to ensure city-wide consistency in approach. Unlike other DMR products, London Living Rent has an advantage in that it has a London-wide electoral mandate, can be consistently understood and applied across London, can earn the public's trust as being genuinely affordable, and will be backed by the GLA who will uprate it every year. DMR should be allocated according to intermediate eligibility criteria, which can include locally defined eligibility criteria. Where the borough has an intermediate or DMR waiting list they should agree with the applicant a process for providing priority access to the DMR units for those on the waiting list.
- 4.11.5 A threshold level of affordable housing has been introduced to provide an opportunity for Built to Rent schemes to take advantage of the Fast Track Route offered to Build for Sale schemes.
- 4.11.6 To follow the Fast Track Route schemes should provide the threshold level of DMR homes with at least 30 per cent let at London Living Rent levels. The remainder should be provided at a range of genuinely affordable discounts below market rent based on local need to be agreed with the borough and Mayor where relevant. The thresholds and required discounts to market rent will be reviewed and if necessary updated in 2021 through Supplementary Planning Guidance.
- 4.11.7 Proposals that do not provide 35 per cent affordable housing at the required discount to market rents, or 50 per cent on public sector land, or 50 per cent on industrial land appropriate for residential uses in accordance with [Policy E7 Industrial intensification, co-location and substitution](#) where the scheme would result in a net loss of industrial capacity, or that do not meet the criteria of Part C of [Policy H5 Threshold approach to applications](#) will be subject to the **Viability Tested Route** under Part E of [Policy H5 Threshold approach to applications](#).
- 4.11.8 In all cases the borough must ensure that the DMR units fully meet the definition of **intermediate housing** and are affordable to those eligible for intermediate rented housing in London, taking into account the Mayor's guidance on this issue.
- 4.11.9 Schemes that do not meet the Build to Rent definition set out in Part B and that do not provide a 15-year covenant or a clawback agreement in line with the Mayor's guidance will not qualify for the Build to Rent policy approach. These will be treated as **Build for Sale** developments for the purposes of determining affordable housing requirements.

- 4.11.10 Where justified in a Development Plan, boroughs can require a proportion of affordable housing as **low-cost rent** (social rent or London Affordable Rent see 4.6.4) on Build to Rent schemes in accordance with Part A of Policy H6 Affordable housing tenure. Low-cost rent homes must be managed by a registered provider. The low-cost rent affordable housing would contribute towards the relevant threshold required to meet the fast track route, as set out in paragraph 4.11.6. DMR is an intermediate product and is managed and allocated as such, therefore it is not appropriate to seek DMR at or close to social rent levels.
- 4.11.11 Schemes that qualify for the Fast Track Route will not need to provide a full viability assessment but will be subject the **15-year covenant and clawback** given the Build to Rent policy approach to affordable housing.<sup>70</sup>
- 4.11.12 The majority of DMR products, where they meet the requirements of the Community Infrastructure Levy (CIL) regulations qualify for **mandatory CIL relief**.<sup>71</sup>
- 4.11.13 Further **support for Build to Rent** can be given by boroughs through:
- allocating specific sites for Build to Rent or requiring an element of Build to Rent on larger sites in order to accelerate build out of the site
  - encouraging long-term institutional investment, working with the GLA and partners
  - supporting institutional investment on public sector land, including exploring the use of joint ventures or deferred receipts.
- 4.11.14 Further guidance on Build to Rent schemes can be found in the Mayor's Affordable Housing and Viability SPG.

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<sup>70</sup> A valuation of the market and affordable units must be included within the S106 agreement to enable the level of clawback to be calculated in the event that the covenant is broken.

<sup>71</sup> The Community Infrastructure Levy (Amendment) Regulation 2015 – amendment to Part 6 – exemptions and reliefs