

Build to Rent policy - Annexe to the Housing Strategy

Consultation Draft

Purpose

1. This policy outlines the approach that the councils will take around the development of new, purpose-built homes for rent. It will be a material consideration in making planning decisions. It will form an annexe to the Greater Cambridge Housing Strategy 2019-2023, and will help to inform how Build to Rent is dealt with in the emerging Greater Cambridge Local Plan and in any future relevant Supplementary Planning Document.

Introduction

2. Build to rent is defined in the [National Planning Policy Framework](#) as:

‘Purpose built housing that is typically 100% rented out. It can form part of a wider multi-tenure development comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control.....affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).’

3. Build to Rent and Affordable Private Rent are different from Social and Affordable Rent homes provided by councils and other registered providers specifically for applicants on the councils’ housing registers.
4. [National guidance on build to rent, 2018](#), states that local planning authorities should use a local housing need assessment to take into account the need for a range of housing types and tenures in their area, including provision for those who wish to rent. If a need is identified, authorities should include a plan policy

setting out their approach to promoting and accommodating build to rent, recognising the circumstances and locations where build to rent developments will be encouraged.

5. The Greater Cambridge Housing Strategy supports the development of purpose built private rented housing to help provide additional housing choice and to help accelerate the delivery of new homes. This Build to Rent policy gives more detail on what the councils expect from new developments coming forward.
6. The affordable housing requirement on Build to Rent schemes detailed in this policy does not change the overall requirement for 40% affordable housing on larger sites as set out within the councils' Local Plans.
7. The policy has been informed by the National Planning Policy Framework and Guidance, together with recent research on Build to Rent commissioned jointly by the two councils (these being "Savills: The Build to Rent market in Greater Cambridge and West Suffolk, June 2020" and "Arc4: Market demand appraisal reports, and Build to Rent Market Strategic Overview and Summary of Site-Specific Appraisals (draft) 2020"). Implementation of the policy will also take into account any subsequent relevant research, including work to identify housing needs of specific groups which is currently under way to inform a new Greater Cambridge Local Plan.

What this policy covers

8. There is no single model for Build to Rent schemes, and sizes of schemes can vary. They can be stand-alone schemes – for example in infill areas – or blocks/phases within larger development areas planned or being brought forward for development. In the context of the National Planning Policy Framework and the councils' wider objectives, this policy applies to scheme which:
 - 8.1. Provide good quality homes, designed and built specifically and entirely for rent (excluding conversions);
 - 8.2. Are held as Build to Rent under a covenant of at least 15 years;

- 8.3. Offer tenancies of three years or more to all tenants who want them;
 - 8.4. Are professionally managed stock in single ownership and control; and;
 - 8.5. Are expected to include appropriate provision of affordable housing.
9. It does not cover stock built for sale where a developer/investor or registered provider decides to retain a number of the homes for use as private rented stock. It also does not cover for-sale homes that are purchased on completion of a private for sale scheme.

Policy

10. An appropriately balanced mix of property sizes will be required in any scheme, taking into account profile of demand, and to help support the councils' aspirations around place shaping and creating mixed and balanced communities.
11. The councils may require schemes on larger sites to be spread out across the development in small groups. They may also require a limit on the size of schemes and/or the proportion of Build to Rent homes provided in a particular location.
12. Quality of schemes is important; particularly environmental standards in line with the councils' Sustainable Design and Construction Supplementary Planning Document. National space standards will also apply, as will the relevant local authority's Local Plan accessibility standards. Some internal and/or external communal space and/or in-house amenities are expected to be provided, including work-space provision which should be available for use by both market and Affordable Private Rent tenants. Design also needs to take into account likely frequent movement of furniture and belongings through communal areas.
13. A single management company or operator will be expected to manage the whole Build to Rent scheme, including providing an appropriate level of daily on-site management.

14. A robust market report will be needed to clearly demonstrate how any scheme would meet local need and demand. Information will also be required on how schemes and management will support the place-shaping agenda.
15. The affordable housing contribution, as a long-term benefit in perpetuity, will normally be expected to be provided on-site where necessary to build or contribute to a mixed and balanced community, as Affordable Private Rent or through other affordable tenures where part of a wider development. Although there may be circumstances where the councils consider a financial contribution to be more appropriate.
16. A minimum of 20% homes in Build to Rent developments of 10 or more homes will be required to be provided as Affordable Private Rent, subject to paragraphs 15 above and 31 below.
17. All the Affordable Private Rent homes must be constructed and managed to the same high-quality standards as the market rent homes. They must be tenure-blind and physically indistinguishable from the market homes in terms of design, quality, size and location on the site. In the case of apartments, different buildings for different tenures will not be acceptable.
18. Affordable Private Rent homes must be provided at a minimum discount of 20% relevant to local market rents, and be affordable and available to households on a range of incomes who would struggle to rent or buy locally on the open market. In setting rent levels regard should be had to the councils' Greater Cambridge Housing Strategy and Setting of Affordable Rents policy.
19. There should be clear arrangements for setting and reviewing rents, providing some certainty to applicants from the outset about how rent levels are likely to change. Rental discounts for the Affordable Private Rent homes should be reviewed on the same basis as rents for market homes.

20. The councils may want particular groups to be given some priority for the Affordable Rent homes; local workers on developments close to areas of employment for example.
21. For Affordable Private Rent homes, criteria around issues such as: eligibility; rent setting and review; marketing; monitoring; and clawback and other arrangements should units be decommissioned at any time, will need to be agreed with the relevant council.
22. The section 106 agreement will need to include a monitoring and review mechanism covering the option for post-occupation trade-off between the number of Affordable Private Rent units and the rental discount offered on them should future circumstances justify a higher level of discount.
23. Changing of Affordable Private Rent to another tenure may be permitted in some circumstances. For example, one-for one swaps between market and affordable; where a trade-off is agreed with the council between the number of Affordable Private Rent units and the rental discount offered on them; or where it is clearly impracticable to continue to retain the dwellings as Affordable Private Rent.
24. A clear exit plan will need to be agreed with the council through the section 106 in case some or all of the market and/or affordable homes are decommissioned in the future, with agreed clawback arrangements in place.
25. Tenancies of at least three years should be offered, and preferably longer.
26. All tenants (market and affordable) should be given the opportunity to renew their tenancy at the end of their tenancy period, with tenant-only tenancy break clauses in place allowing a month's notice any time after the first six months. This should apply during the overall covenant period as a minimum.
27. No-one should be excluded on the basis of being in receipt of state benefits; and mechanisms should be in place for support to be available if a tenant falls into financial difficulties.

28. Introduction packs are expected to be provided for all new tenants.
29. A covenant period of at least 15 years will apply to the market homes. Longer covenants of up to 25 years or more may be required in some circumstances. A valuation of both the market and affordable units will be required as part of the s106 agreement to enable the level of clawback to be calculated should the covenant be broken.
30. Valuation for viability purposes should be in line with up to date nationally recognised guidance for Build to Rent.
31. On larger multi-tenure developments or as part of larger development areas, viability should form part of the wider viability assessment covering the whole development area. As part of this, 40% of the homes across the whole development will be required to be provided as affordable housing with the Affordable Private Rent or other Build to Rent affordable housing contribution contributing towards the 40%.
32. Any potential trade-off between complying with all the policy requirements and keeping rents, including service charges, at reasonable levels which are affordable to households on a range of incomes, will need to be negotiated with the council, providing clear evidence of why those requirements cannot be met.

Justification for policy

Strategic context

33. This policy is set within the Greater Cambridge Housing Strategy's long-term vision and objectives, which in turn reflect the broader priorities of the two councils. In particular it will help to: promote health and well-being; support the local economy; and reduce carbon emissions and promote environmental sustainability, through:

- a) The creation of mixed, balanced, inclusive and sustainable communities;
- b) A mix of homes to meet a range of needs, including affordable housing;
- c) High quality homes, built to high sustainability standards, with built-in resilience to climate change and fuel poverty, which can help with the councils' aspirations to achieve zero carbon status by 2050;
- d) Creating links between housing and local employment, helping to reduce reliance on private car journeys and promoting active travel, including through walking and cycling.

The potential pros and cons of Build to Rent schemes

34. The councils recognise the importance of taking a positive approach to Build to Rent, and many of the benefits that such schemes can bring, including:

- a) Helping accelerate delivery on new sites, with Build to Rent not being subject to the same absorption constraints as housing for market sale;
- b) Helping generate economic growth. For example, it is estimated in a report from the British Property Foundation (Build to Rent: Unlocking the potential of an emerging sector) that for every 500 Build to Rent units approximately 15 jobs are created (including concierge, estate management, building management, cleaners, maintenance and gardeners);
- c) Providing more consistent quality of management than is available across the private rented sector as a whole;
- d) Offering longer tenancy agreements than generally available in the private rented sector;

- e) Providing more choice for house-sharers who seek alternative, high quality rented housing, which in turn may help to free up homes which could otherwise be made available to families;
- f) Providing the opportunity to deliver an element of affordable housing for rent at below market rents for people who would be unable to afford to buy or rent on the open market.

35. However, the councils are also mindful that Build to Rent has the potential to present some challenges, particularly in relation to place-shaping and ensuring the provision of mixed, balanced and sustainable communities. With Build to Rent being relatively new in the UK, there is limited understanding of its community and place-shaping impacts. Therefore it is important that any potential risks are mitigated from the outset.

36. These may include:

- a) A sharp increase in new residents over a short period of time. For example, at an early stage of a larger development where minimal infrastructure is in place, or where schemes are brought forward in areas which already have an established population;
- b) Large concentrations of rental accommodation, of similar size and type of property aimed at specific target groups, may make it difficult to create balanced and mixed communities;
- c) Higher turn-over of residents than in most other tenures, again in the context of large, high density schemes, may limit residents' long-term commitment to or integration with the wider community;
- d) The success of schemes being dependent on the quality and control of the management company, with potential negative impacts on the wider community; for example in relation to community safety and anti-social behaviour if management standards are not sufficiently high;

- e) The tension between providing high quality homes and management services and keeping rents at affordable levels. For example, in an article from JLL called [“Will tenants pay more rent for amenities?”](#) it is estimated that Build to Rent schemes in London are, on average, achieving a rental premium of 11% over their respective local markets;
- f) A tendency for most Build to Rent schemes to offer a lower proportion of affordable housing than in other types of development, and potentially less control for councils as to who is eligible for the affordable homes compared with schemes providing an element of social/affordable rent housing. This is of particular concern in an area where housing affordability is a significant issue for many;
- g) Impacts on the wider community that can arise from sub-letting of homes if permitted, including short-term weekend/holiday lets. Again, these may include anti-social behaviour and community safety issues;
- h) Risks around what happens to a development if it is later decommissioned as a Build to Rent scheme and the homes are no longer actively managed.

37. This policy aims to take a balanced view; on the one hand encouraging appropriate provision of Build to Rent schemes to meet local housing need, and on the other hand trying to ensure that any potential negative impacts are minimised.

Evidence of demand

38. The councils' Housing Strategy clearly identifies significant housing affordability issues in Greater Cambridge. There is high demand for private rented housing locally, as evidenced by high private rents and a lack of privately rented accommodation in the more rural areas. Research has been commissioned to get a better idea of the extent of this need to help inform the emerging joint Local Plan.

39. [Cambridge sub-region Housing Market Bulletin July 2020 data](#) shows there is a large private rental market in Cambridge, with a lower prevalence of private renting in the mainly rural area of South Cambridgeshire.
40. Median rents in South Cambridgeshire are shown in the [Cambridge sub-region Housing Market Bulletin July 2020 data](#) to be higher than in the rest of the Cambridge sub-region, and rents in Cambridge City are considerably higher than the national and local sub-regional average.
41. With a wide range of different types of homes available, the quality of existing private rented accommodation is inevitably mixed; and although the vast majority of private rented housing locally is well managed there is a small minority which is not. The councils are interested in widening the choice of good quality, well-managed homes available for the rental market. Supporting the local economy, and reducing reliance on private vehicle travel through good quality public transport and active travel links through well-located Build to Rent schemes are also very important.
42. Research commissioned by the councils through Savills uses the Experian Mosaic profiling model as an example of identifying the sorts of households with a high propensity to rent across Greater Cambridge. It identifies the main groups likely to make up the market, which mainly comprise of singles or couples without children on a range of incomes, including some sharer households.
43. However, there may also be other groups for whom Build to Rent may help to provide a housing solution. For example older people, in the context of an ageing population and a growing interest for some in that group in renting privately.
44. Whatever profiling model is used, a market report will be needed to demonstrate how a proposed scheme would meet local need and demand. The councils will consider this alongside other appropriate available evidence.
45. Research commissioned by the councils through Savills and Arc4 (referred to in paragraph 7 above) shows investors are already showing a keen interest in

bringing forward Build to Rent schemes in Greater Cambridge, and suggests a market for a good quality private rental product, including an element of Affordable Private Rent. This includes likely demand on at least three of the large strategic sites within Greater Cambridge: North East Cambridge, Waterbeach, Northstowe and Bourn Airfield.

Design and Distribution of Build to Rent schemes

46. The councils recognise that the more units in a scheme the more potential there will be for investors to make a return on their investment. However, creating successful places and promoting mixed and balanced communities are high priorities for both councils, so any planning applications must evidence how the scheme will support the place-shaping agenda.
47. Any decision by the relevant council to limit the size of a scheme or the proportion of homes on a new development to be provided as Build to Rent would be made in the context of issues such as housing need, potential community impacts, and to ensure an appropriate balance with other tenures within an overall development and the surrounding area. This will also help to maximise the overall amount of affordable housing on a site in the context of the 40% affordable housing requirement in the councils' Local Plans.
48. The requirement to avoid large mono-tenure clusters of Build to Rent homes is similar to the approach being taken in the councils' draft Clustering and Distribution of Affordable Housing policy
49. Quality of schemes and management is important to the councils, including meeting Local Plan space and accessibility standards, and in contributing towards the councils' environmental sustainability and place-shaping objectives.
50. Providing appropriate internal and/or external communal space and/or in-house amenities which are available to all residents is also important; and design of communal areas needs to take into account likely frequent movement of furniture and belongings.

51. As with other forms of affordable housing, the councils will want to ensure that the Affordable Private Rent homes are constructed and managed to the same high-quality standards as the market rent homes. This includes being tenure-blind and physically indistinguishable from the market homes in terms of design, quality, size and location on the site.

Size of homes required

52. Research evidence referred to above suggests a current potential demand mainly for 1 and 2 bed homes, but also some larger homes (such as to cater for sharers or family households), although this could change over time.

53. Houses in Multiple Occupation (HMOs) as part of a Build to Rent scheme may be appropriate in some circumstances as part of a wider mix if they help to create a more balanced community, although this may depend on the existing provision of HMOs in the area and the extent to which other larger homes on a development might be reasonably expected to become HMOs at a later date. Any HMOs will be required to meet minimum space and accessibility standards. Sufficient private space must be incorporated into the design.

Provision of affordable housing (Affordable Private Rent)

54. The Greater Cambridge area clearly faces significant housing affordability issues. The provision of Affordable Private Rental options in new developments at below market rent levels can help to address these issues and create a balanced community.

55. National guidance states that 20% is generally a suitable benchmark for the level of Affordable Private Rent homes to be provided in any build to rent scheme; although there is the potential for this to be varied. Affordable Private Rent is required under the National Planning Policy Framework to be provided as community benefit in perpetuity.

56. Our Greater Cambridge Housing Strategy identifies a gap in provision for housing for those unable to access social or affordable rent housing, but who would also find it difficult to afford the existing private rental market. It is important that rent levels take account of local incomes, with 35% of net income considered reasonable to be spent on housing costs in line with our current Strategy.
57. There is a risk that if Build to Rent schemes are unable to provide 40% affordable housing, this may compromise the councils' Local Plan commitments to providing 40% affordable housing on larger sites. Therefore, where Build to Rent is part of a larger mixed tenure site, 40% affordable housing will be required across the whole site. Whatever the percentage of Affordable Private Rent provided within the Build to Rent Scheme, this will be expected to contribute towards the overall requirement with a split between social/affordable rent and intermediate tenures in line with Housing Strategy requirements.
58. Switching of tenure of individual units may be appropriate once an individual's tenancy comes to an end, provided the agreed overall balance of market and Affordable Private Rent is broadly maintained across the scheme, and the Affordable Private Rent units remain appropriately distributed across the scheme.

Affordable Private Rent eligibility and rent setting

59. The National Planning Policy Framework and guidance require Affordable Private Rent levels to be set at least 20% below local market rents, including any service charges, for the same or equivalent property. Eligibility for Affordable Private Rent should be determined with regard to local household income levels, related to local rent levels.
60. As stated above, based on current evidence the councils will expect developers to demonstrate that Affordable Private Rent homes will be affordable and available to households with a range of incomes who would struggle to rent or buy locally on the open market. To achieve this, some properties (such as larger ones) may require a higher percentage discount than others.

61. In line with government guidance, discount from market rent is expected to be calculated at the point at which a home is rented out, or when the tenancy is renewed. Discounted rents are expected to be reviewed on the same basis as rent increases for market homes.
62. The councils may wish for some priority to be given to applicants for other reasons in addition to income levels. For example: awarding some priority to people working in the local area; or to people already living in the area or who have local family connections.
63. They may also wish to seek a proportion of the Affordable Private Rent homes to be tethered to local employment/ apprenticeship schemes where appropriate, or to meet other local needs, based on local circumstances.
64. Our Strategy identifies homelessness as a serious problem for both councils, with homelessness prevention a key priority. Ensuring that neither applicants nor existing tenants are excluded from being eligible or from remaining a tenant on the basis that they are in receipt of state benefits, and that support is available for tenants who fall into financial difficulties, will go some way to help prevent homelessness amongst applicants and residents.
65. The councils will work with developers on a bespoke agreement covering issues such as eligibility, setting and reviewing of rents, and how the Affordable Private Rent homes are to be marketed, having regard to national planning guidance.

Tenancies (market and affordable homes)

66. Tenancies in the private rented sector tend to be for 6-months, although many will be renewed after that period. Evidence suggests that although some residents may only want short tenancies, there may also be demand for longer ones. The [English Housing Survey 2017-2018](#) reported that nationally private renters had lived in their current accommodation an average of 4.1 years. Around a quarter had lived there for less than one year, but with a similar proportion having lived there over 5 years.

67. Minimum 3-year tenancies for all new tenants who want one, together with tenant-only break clauses, and the opportunity to renew the tenancy at the end of the tenancy period, should allow tenants choice and a sense of security around how long they can remain.

Scheme management

68. Quality of management by a single management company or operator is key to minimising any community risks that might arise from Build to Rent schemes, and ensuring that schemes are well-integrated into the community.

69. An appropriate level of daily management, including an on-site presence should help ensure prompt resolution of any issues or complaints that may arise.

70. Providers will also be expected to demonstrate how they will prevent or at least mitigate any risks surrounding short-term sub-letting. The need for introduction packs for all tenants, and the process for managing and monitoring the Affordable Private Rent units will need to be covered by the s106 agreement; with an agreed management plan in place before any of the homes are let.

Future decommissioning of schemes

71. The council recognises that Build to Rent investors will most likely want to retain schemes for the long term in order to get a good long-term return on their investment. However, there always remains the risk of schemes being decommissioned as rental schemes, – for example if demand reduces or if an investor decides to pull out of the market.

72. The councils also recognise that unreasonably onerous exit clauses, giving insufficient flexibility to respond to market conditions, may prevent Build to Rent schemes from coming forward. Our research has identified that planning consents typically include a covenant period in the s106 which may be as short as 7 years, is typically 10-15 years, but may be longer.

73. Policy requirements around covenant periods and the need for an exit plan reflect the high priority that both councils give to the issue of community sustainability and place-shaping. Covenants of longer than 15 years may be appropriate to address potential long-term implications; such as where a scheme is coming forward in the earlier stages of a much wider development which may take a number of years to build out.

74. One for one swaps of units between market and affordable would be acceptable, provided the Affordable Private Rent units remain appropriately distributed across the scheme and are replaced within a reasonable period of time.

Decommissioning of Affordable Private Rent

75. The councils recognise the necessity of Affordable Private Rent homes being provided as a community benefit in perpetuity. The policy aims to ensure that appropriate clawback arrangements are in place should some or all of the dwellings cease to be provided as Affordable Private Rent; with the clawback to be reinvested in further provision of affordable housing in the area.

Monitoring of Affordable Private Rent

76. The councils will want to monitor the arrangements put in place for the Affordable Private Rent homes. This is likely to cover issues such as: how lettings have met eligibility requirements; rent levels and affordability; occupancy levels; location of the homes across the development; marketing arrangements; and how the scheme is meeting the overall affordable housing level required in the planning permission. National guidance suggests this should be required by the s106 agreement in the form of an annual statement to authorities.

Viability

77. Valuation guidance for Build to Rent is set out by RICS in 'Valuing residential property purpose built for renting (1st edition 2018).

78. It is recognised that the viability challenges for Build to Rent schemes may be different compared with bringing forward homes for market sale. However, it is

also important that the councils meet the objectives laid down in the policy. Therefore any potential trade-offs between different elements of the policy on viability grounds will require clear evidence of why the full requirements cannot be met.

79. The requirement for Build to Rent viability assessments on larger sites to form part of the wider site or area assessment stems from the councils' commitments to achieving 40% affordable housing wherever possible on new developments together with the necessary infrastructure required to support successful communities.

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