

Crumbs for Londoners

Why the Mayor of London's housing strategy will do little for ordinary Londoners

A report by Darren Johnson Green Party member of the London Assembly

Sept 2013

(This response sets out my individual views as an Assembly member and not the agreed views of the full Assembly)

Summary

When you see a new block of "luxury apartments" going up, do you imagine you could buy one? The Mayor thinks they are the solution to the high cost of housing in London, and wants you to be comforted by all those cranes on our skyline.

But many Londoners on low or average incomes feel left behind by the regeneration policies the Mayor is pursuing. His policies seem to benefit wealthy investor landlords more than people looking for a home.

The Mayor actively encourages investor landlords buying new homes, whether they are overseas buyers or buy-to-let landlords from the UK. He has good reasons for this – they help get the homes built.

In this report, I will explain why the Mayor is wedded to this approach. But I will also argue that the model has five flaws with five fateful consequences:

1. investors, rather than occupiers, buy the homes, leaving most Londoners with little choice but a lifetime of insecure renting
2. housing wealth trickles into a smaller number of hands, including people who don't even live in the homes they buy
3. homes are unnecessarily demolished, pushing low income Londoners out
4. residents are trampled on, rather than being empowered as the Mayor says he wants
5. very little affordable housing is built, leading to a severe social housing shortage

If the majority of Londoners are to enjoy more than crumbs from the developers' feast, the Mayor really must change his recipe.



Context – what is affordable?

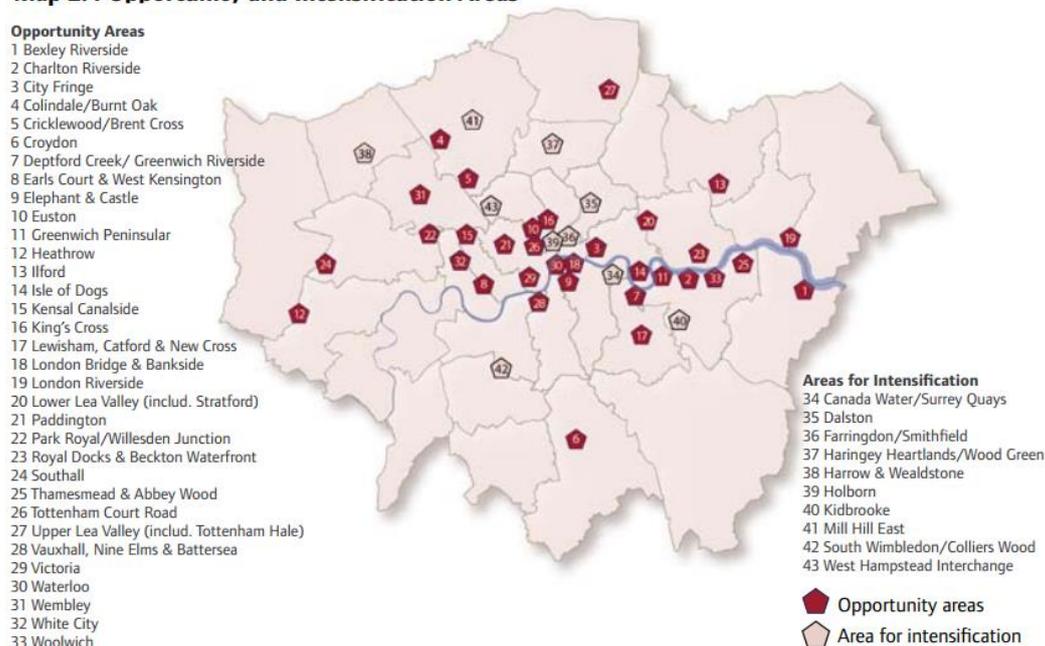
It's easy to forget what ordinary Londoners can actually afford. When you read the papers, do you cheer the sight of the latest peak in house prices, or private rents rising faster than incomes yet again? If you do, you're unlikely to be on an average income.

Using the definitions normally used by the Government and Mayor, we can say that to be affordable for the average household, house prices shouldn't be higher than £140,000 for a single earner and £170,000 for a couple. Rents for somebody on the minimum wage shouldn't be higher than £73 per week, or £147 per week for a couple.

The Mayor's argument

The Mayor has told me in the past that he believes building more homes is “the single-most important thing that we can do”¹. The Mayor told me that he expects 80 per cent of the new housing to be built in a set of 33 major regeneration projects around the capital:

Map 2.4 Opportunity and Intensification Areas



Source: GLA 2009 © Crown copyright. All rights reserved. Greater London Authority 100032379 (2009)

It is much easier for the big developers behind these projects to get the finance from banks if they can sell lots of housing off-plan (before it is built). Investor landlords are quite happy to buy off-plan and have little difficulty in securing the cash or mortgage. By putting the money in upfront they have, in the Mayor's words, “helped bring forward housing development”.

The Mayor estimates that one third of all buyers of new homes are from overseas, and that two thirds of all new homes are sold to investors².

Whether it is a Londoner looking for a buy-to-let investment, a pension fund investing in new private rented housing, or an overseas investor exploiting the exchange rates, the Mayor is a champion of anything that gets housing built. But he has made no efforts to track the sales prices of the homes that are being built on his regeneration projects³.

But this approach isn't working

In theory, if this led to something like 44,500 homes being built a year then prices might stabilise. But in my previous report *Building our way out of the crisis*⁴ I explained that we haven't built anywhere near that target with this approach. Supply is still too low. I believe, and Shelter has also argued⁵, that these big developers alone are unlikely to change that.

Meanwhile, all these investors have stoked up demand. London's dysfunctional market suffers from the worst of both worlds – inadequate supply and high demand.

Flaw 1 - investors, rather than occupiers, buy the new homes

The Mayor commissioned research which suggested that “two thirds of new homes sold in London are sold to investors many of whom are cash rich”⁶. This helps homes get built, but it doesn’t help Londoners buy their own home.

Case study: Battersea Power Station

The new development at Battersea Power Station was put on sale in January 2013. In four days more than 600 homes had been sold, ranging in price from £343,000 to £6 million.

A quick reminder – the average London couple can afford £170,000.

The developers took the remaining 200 homes on an overseas roadshow to sell to investors, starting in Singapore⁷.

A Doctor from Kent told the Evening Standard: “I won’t live in it, this is just an investment.”

A student from Singapore was given money by his parents to buy a two-bedroom flat to live in and as an investment⁸.

The consequence: a lifetime of insecure private renting

Many young people are unable to compete with these investor-buyers, so they are left renting from investor landlords.

If you think this is your fate, you’ll be one of millions of private tenants stuck with some of the weakest tenancy protections in Europe⁹, the worst housing conditions of any tenure in London, and no protection against big rent hikes.

Flaw 2 – wealth trickles up into fewer hands

Home ownership has been declining in London for years, as relatively wealthy people buy up second and third homes for their own use, to let out, or even to leave empty as an investment. There isn’t much robust evidence on the phenomenon known as “buy to leave”, where an investor buys a home and then leaves it empty. Research commissioned by the Government a few years ago found this mainly happened in northern cities, and at a very small scale¹⁰. But there has been growing public concern in London, fuelled by examples like this:

Case study: Belzier building

In this recently built development near Old Street, an Evening Standard investigation found that only a third of the properties had residents on the electoral roll and paying council tax, with 20 per cent of the flats registered to companies¹¹. The council strongly criticised the developers, who denied there was a problem.

The consequence: wealth inequality

London is already the most unequal city in the developed world, with the wealthiest tenth of the population amassing 273 times the wealth owned by the bottom tenth¹². Most wealth at the top lies in pension funds, investments and property¹³.

Wealthy individuals buying homes just as investments, not even to let them out, is the pinnacle of a system that is putting our city into the hands of a shrinking elite.

Your chance of owning your own home depends more and more on who your parents are.

Flaw 3 – homes unnecessarily demolished

Many of the Mayor's regeneration projects are on sites with existing housing, particularly council housing.

Too often, council homes that could be refurbished are cleared away to build luxury flats. This is because there is too little money to build on what we already have, so councils start again with developers.

Case study: the Heygate Estate

The Heygate Estate regeneration is one of a number of massive buildings projects in the Elephant & Castle area. Southwark Council looked at different options for this estate in 1998. The surveyors found that the buildings were structurally sound and suggested that the best option for many was refurbishment. They also found that four in five residents didn't want to move off the estate, and that the crime rate was half the average for Southwark¹⁴.

Despite this, the council decided to demolish the 1,200 homes.

Data obtained by campaigners found that existing residents were dispersed all over London and as far as Slough, St Albans and Maidstone¹⁵. One leaseholder was offered £225,000 for his three-bed ground-floor maisonette. If he were to buy an equivalent home in the new development it would cost about £1 million¹⁶.

The developers will build 2,469 homes of which only 309 may be let at "affordable" rents¹⁷. The first homes are in a development called Trafalgar Place, where only 26 of the 235 homes (11 per cent) will be at "affordable rents"¹⁸.



Darren visiting the estate in May 2011

The developers appointed an agent to market the flats to overseas buyers, "with a particular focus on the Asian markets". The homes were marketed in China¹⁹, Singapore²⁰, Malaysia²¹ and Hong Kong²².

The prices started at £310,000 for a one bedroom flat²³. One marketing brochure promoted the expected rental returns for investors, suggesting three bed flats could fetch up to £950pw. If they were still council flats they would cost just £127pw²⁴.

Consequence: ordinary people priced out
Analysis by a local campaign group found that the proportion of housing let at social rents in this and other redevelopments in the Elephant & Castle area will only be 8 per cent²⁵, compared to the general population in the area which is 70 per cent social tenants.

The Mayor would argue this is good, that it is creating "mixed and balanced communities".

But in a city where far too little new social housing is being built, demolishing the remaining stock will really just mean that there will be even less housing for people on low to average incomes in central locations like Elephant & Castle.

Flaw 4 - residents trampled on

One of the core aims in the Mayor's draft housing strategy is to "empower people with greater opportunities for community involvement"²⁶. But big developments are usually dictated by big developers, only giving the community a fairly insignificant role in consultations.

Case study: Earl's Court & West Kensington

This project will see the demolition of the world-famous Earl's Court exhibition centre, an engineering depot belonging to TfL, and two council estates owned by the Royal Borough of Kensington & Chelsea.

This development will involve the loss of 589 social rented homes (and a further 171 leasehold bought under Right to Buy), which are in reasonable condition. They will be replaced by 7,600 homes of which only 760 (10 per cent) will be let at social or affordable rents²⁷.

The residents of the two estates have been campaigning to stop this redevelopment. They conducted a poll that found 80 per cent of residents opposed it.

They want to take ownership of their homes, running them as a co-operative. This would be similar to Walthamstow & Egin Homes, a co-op of residents that took ownership of their council estate. But the Mayor has failed to support this option and signed off on the demolition of their homes

Consequence: disempowered Londoners

It is difficult to see how the Mayor hopes to really involve local people in shaping these massive developments, especially when local residents oppose them. Once built, how much "community involvement" can tenants have in a site shaped by developers and investors?

Flaw 5 – little affordable housing

With many housing developments stalled in the capital, some have argued that demands on developers to fund affordable housing are a luxury we should relax²⁸.

Case study: IYLO, Croydon

The IYLO development is a 20 storey tower in Croydon that was granted planning permission in 2007, with 183 homes but no affordable housing in the building. The council accepted a £2.9 million contribution towards affordable housing elsewhere in the borough, but the development stalled and sat half-built for four years.

In 2011 a London businessman bought the site via a company registered in the tax haven of Jersey. In April 2013 he started marketing flats for sale in Hong Kong, apparently highlighting their tax avoidance potential for investors²⁹. The council accepted a reduced contribution of only £2 million in May 2013 to get the development built³⁰.

Consequence: social housing shortage

The Cambridge Centre for Housing & Planning Research estimates that there will be a shortfall of 186,333 social rented homes for low income Londoners by 2021 on the Mayor's current plans³¹.

This is unsurprising when we consider examples like the IYLO. The Mayor expects to get 80 per cent of new homes to be built in these major regeneration projects. So you would expect a huge social housing programme to be included. But the Mayor set the requirement for social housing too low in his planning policy, and then lets developers lower the bar further. He couldn't even tell me how much social housing he expects to be delivered on the regeneration projects³².

My conclusion – the radical change Londoners need

National government policy has put local councillors, planning officers and residents in a difficult spot. They are constrained by a free market dogma that says we just need developers to build more homes, and that ignores the potential for other approaches.

The law of supply and demand works with things we consume. If the price of TVs is high, produce more TVs to meet demand and prices will fall. But private developers are very unlikely to meet the demand for housing. If the supply of TVs doesn't increase and prices stay high then demand should fall off. But when house prices rise, people see an opportunity to make money so demand can keep rising, especially if investors from around the world join the feast.

The Government is encouraging buy-to-let mortgages with tax breaks; helping people take out unaffordable mortgages with Help to Buy; encouraging overseas investors to buy new homes off plan. The Mayor supports these policies because he says they increase supply³³, but of course they are also increasing demand.

In fact, they are probably more successful at increasing demand than they are at increasing supply, so they are actually making the problem worse.

Councils and residents can't do very much about this. But the Mayor of London is in a unique position to advocate bold changes to housing policy. He has recently argued that stamp duty revenue in London should be devolved to City Hall, giving him a large budget for affordable housing. He could go further and call for a housing policy that:

- constrains demand by putting controls or extra taxes on overseas investors and second home owners, or by putting a tax on all land values to dampen speculation and stop developers sitting on large, unused land banks
- gives councils, housing associations and co-operatives the money and powers to build affordable homes that stay affordable forever whatever the market is doing, instead of expecting the private market to build them
- puts ordinary people in a better position to weather the crisis while it is tackled, for example with continental-style stabilising rent controls and protections for private tenants, ideas backed by the majority of the Assembly in its own reviews of housing³⁴ and its majority support for the Let Down campaign³⁵

What do you think?

If you have any thoughts on this report or on solving London's housing problems, get in touch.

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