

Building our way out of the crisis?

Why the Mayor of London needs to consider housing solutions other than supply

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

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

Summary

There is no doubt that housing in London is far too expensive, whether you want to buy or rent. The Mayor says this is because we haven't built enough homes, and that building more is the single-most important thing we can do. But my evidence shows that we are unlikely to make housing affordable through supply in the next decade, meaning continued pressure on house prices and rents. Other solutions therefore have to be looked at.

Government figures suggest we should have built more than half a million homes in London since the GLA was set-up in 2000 in order to keep up with a growing population and rising demand. In fact we built half as many.

Combined with irresponsible lending, this sent prices rising two to three times as fast as incomes. Prices are now so high that:

- Half the population is unable to buy three quarters of the homes in London, with housing increasingly bought by investors rather than owner-occupiers.
- Minimum wage workers can't afford to rent the average room in a shared flat in any borough in London, and they struggle to get social housing as the stock has shrunk.

If supply were the main answer, the Mayor could push for two options:

- Flood the market with enough homes to make house prices fall by at least 40% overnight to affordable levels.
- Build enough to keep prices flat and wait up to 30 years for incomes to catch up with prices so that homes are affordable again.

Given our track record in the last decade, the current scarcity of mortgage finance, constraints on land supply and the shortage of people able to afford any newly built homes, it is unlikely that private developers will build enough homes in London to achieve either of those options. Even if we kept prices flat, we can't leave people stuck in overpriced and insecure private rented housing for 30 years while their incomes catch up.

For these reasons, I believe the Mayor needs to consider other solutions in addition to supply. Here are just a few other ideas that think tanks, academics and campaigners have put forward:

- Constrain demand by putting controls or extra taxes on overseas investors and second home owners, or even by putting a tax on all land values to dampen speculation and stop developers sitting on large, unused land banks;
- Give councils an incentive to release land for housing with community land auctions;
- Build more social housing that can stay affordable regardless of supply and demand in the market, which would require either a dramatic increase direct subsidy, redirecting the Bank of England's quantitative easing programme into housing, or freeing up councils to borrow at prudential levels.
- Give private tenants continental-style rent controls and protections to slow the rise in rents and give people more stability than the current minimum of 6 month contracts.

Some ideas, such as taxing and auctioning land, are long-term policies to restructure our housing market and improve the level of supply. Others, such as rent controls, could also help tenants struggling with high housing costs today while we wait for supply to catch up.

How affordable is home ownership?

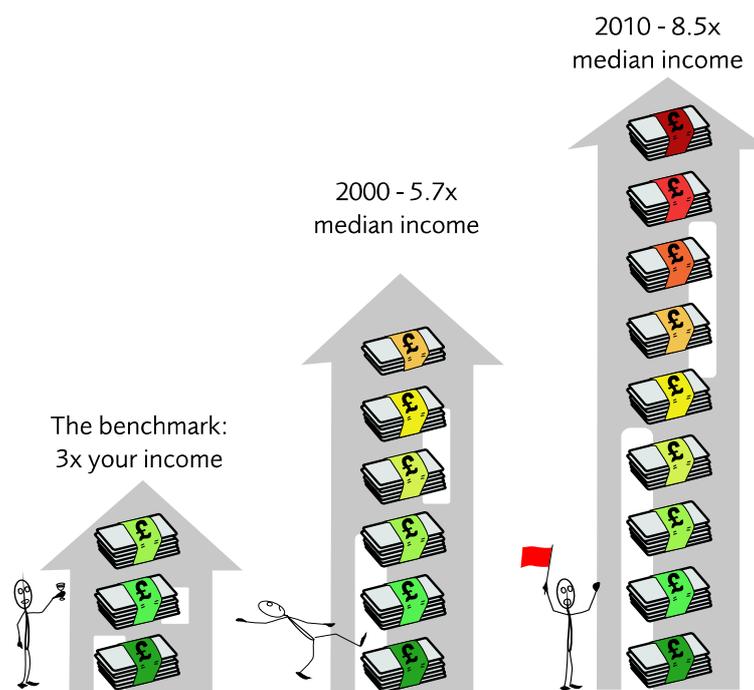
If we want to make home ownership affordable, it helps to understand just how unaffordable it is today, and why.

High prices, not unfair mortgage lending rules, are the biggest barrier holding back first time buyers in London. Buying a house is generally considered to be affordable if it is between three and five times your income. The median house price in London in 2010 was £288,000¹. Without receiving a huge inheritance, you would need to earn between £43,500 and £72,500 to afford it. The median full time income in London in 2010 was £33,990. Taking three times income as the benchmark, well over half of working individuals and households in London don't earn enough to buy the lower quartile home, leaving them to compete for just a quarter of homes.

Households earning up to £74,000 can actually qualify for subsidised "low cost home ownership" options, £74,000 would put you in the richest 15% of households in London.

A decade of damage to undo

How has this picture changed in the past decade in London? The median home in 2000 when the GLA was created was 5.7 times the median income, already hard for most to afford, but by 2010 that had shot up to 8.5, completely out of reach. While incomes during the boom rose at an average of 3% a year, house prices rose by an amazing 8% a year².



It has been even worse in the cheaper part of the market, where prices actually rose three times as fast as incomes. The lower quartile home rose from 5.5 times the lower quartile income in 2000 to 8.9 in 2010.

Housing, and land, is massively overpriced

For buying a home to become genuinely affordable to the average Londoner overnight, they would need to drop in value by at least 40% (to return to five times the median full time income) or an astonishing 65% (to return to three times incomes).

High prices also make it hard to build new homes, because high house prices mean high land prices. A home's value is made up of two things: the cost of rebuilding the home (which you get buildings insurance on) plus the cost of buying the land. Homes haven't become much more expensive to build; it is really land that is massively overpriced in London.

How much affordable housing do we have?

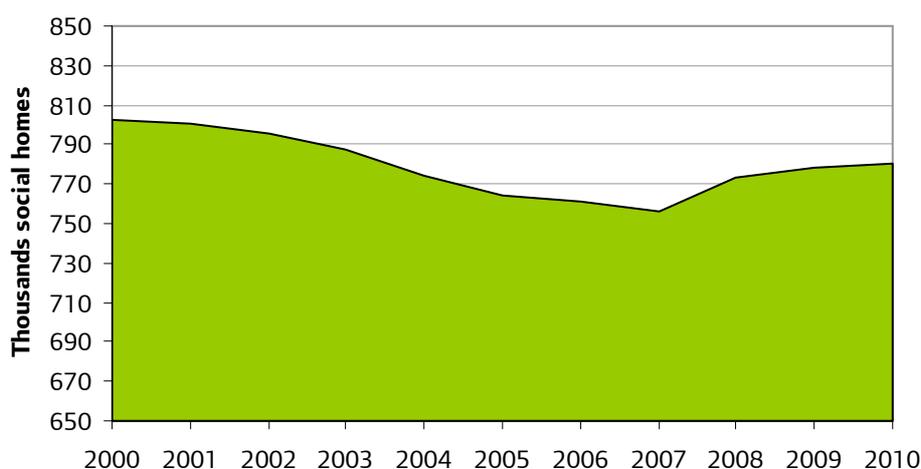
At the other end of the income scale, social housing provides an affordable rent and a secure tenancy for people unable to afford to buy or rent on the open market. Both Ken Livingstone and Boris Johnson have put great store by their achievements in building new social housing.

But after ten years of building social housing we actually ended up with less than in 2000 when the GLA was set-up.

The main reason was Right to Buy, which saw more homes sold off than were built³.



This came on top of demolitions and other sales, leading to a net loss of social housing during a decade when a growing population meant a rapidly growing need.



By 2008, tighter constraints on Right to Buy coupled with a much increased budget for new social housing negotiated by the previous Mayor saw a reversal in fortunes, as the stock began to rise again⁴. But with the present Government launching a new drive for Right to Buy sales, and cuts to the affordable housing budget, there is a danger that we could see a fall in social housing again when the population is still growing.

This loss of social housing explains why the waiting list almost doubled, so that one in ten households in London are now waiting for suitable social housing.

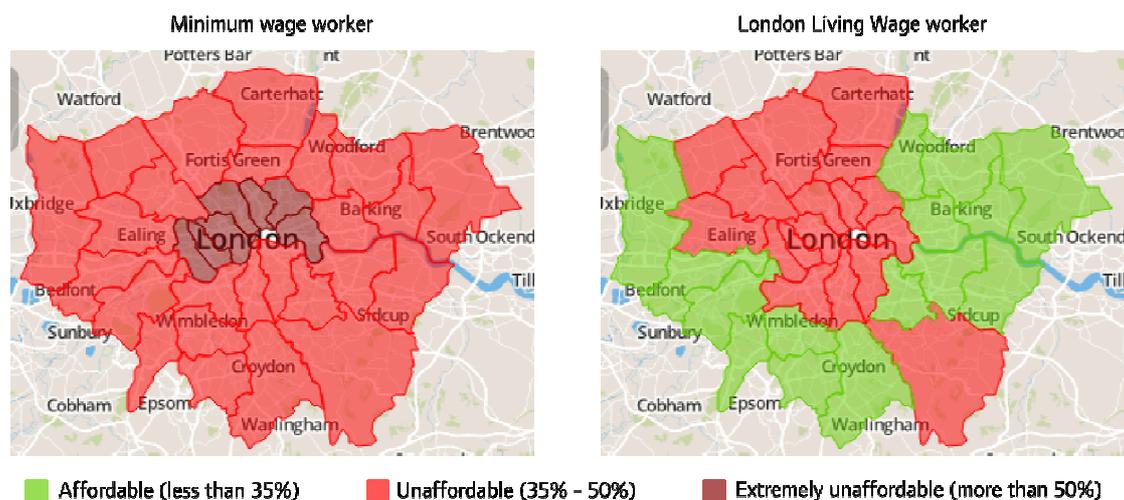
It also helps to explain why the housing benefit bill has risen so much in recent years, because so many people that would qualify for social housing have to rent privately. If we could move every private tenant on housing benefit across the UK into council housing overnight, the lower rents alone would save the Exchequer £2.7bn in housing benefit payments⁵.

How affordable is private renting?

All those people unable to buy and unable to rent social housing have been left renting privately in one of the most weakly regulated sectors in Europe.

The Mayor and the Government suggest that rents are considered affordable if they take up no more than 35% of your take-home pay. That leaves enough money for low income households to pay the council tax, energy costs, food and other basic household bills.

Using that definition, a worker earning the National Minimum Wage (£6.08/hour) couldn't afford a room in a shared flat in the cheaper part of the market in a single borough in London⁶. If the worker receives the London Living Wage of £8.30/hour instead, their chance of finding an affordable flat share dramatically improves:

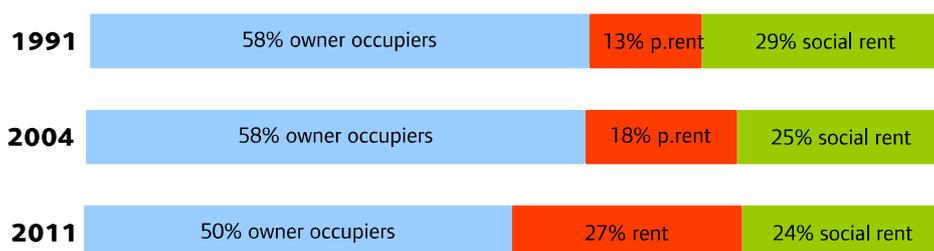


Across London, rents have been rising faster than incomes for several years. Even the Mayor of London, earning £143,911 a year, would find renting a three bed family home in Kensington & Chelsea unaffordable! You can explore the affordability of renting privately in London using an interactive map I have published online: www.londonrents.org.uk

Is the Mayor right that rent controls would be a disaster?

The Mayor's key argument against rent controls is that they would harm supply, which is his main solution. The way he describes the past twenty years, the deregulation of private rented housing in 1988 led to a big increase in supply. People saw it as "the first choice" when moving to London⁷ and later as a tenure they were happy sticking with⁸.

But the really big increase in private renting came long after deregulation. It was largely a consequence of people being unable to buy or access social housing, not a deregulated rental market. These three bar charts show the slight growth of private renting after the 1988 deregulation was really a result of the declining social housing stock. Renting privately only really took off in the last eight years as people were priced out of ownership.



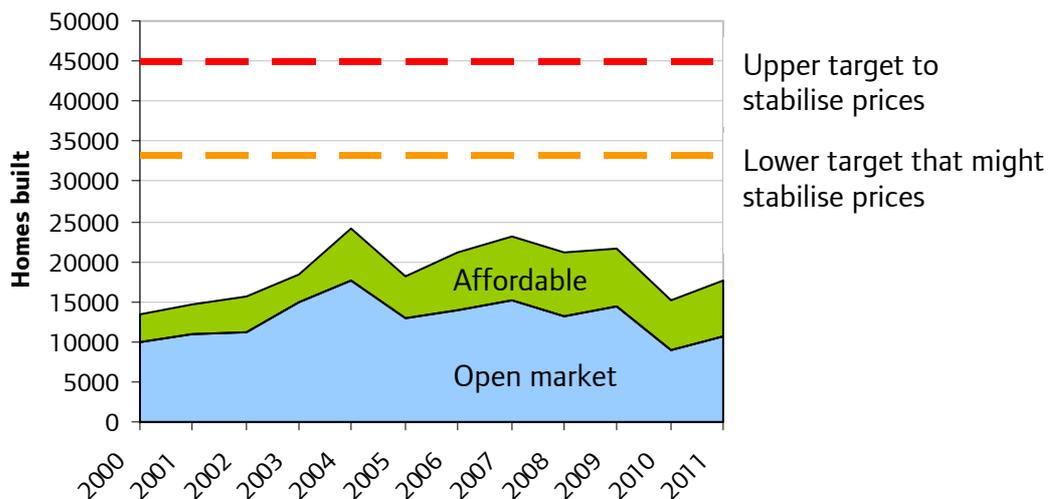
The countries with really big rental sectors all have much stronger regulations than the UK.

Is the Mayor's solution – supply – likely to work in the long term?

When I challenged the Mayor on London's many housing scandals, he told me that building more homes was "the single-most important thing that we can do"⁹. Both the current and the previous Mayor have aimed to solve these problems with more supply.

The Government's housing advisors, abolished in 2010, suggested that we would need to build between 33,100 and 44,700 homes in London every year to house everyone on the waiting lists, deal with overcrowding and stabilise prices¹⁰. Stable prices could let incomes catch up with prices without the wave of repossessions that would accompany a large fall in prices.

But we haven't built nearly that many in the past decade. If the Mayor and Government want to solve the housing crisis by building more homes they need to build between two and three times as many in London as were built before and after the house price bubble:



Where will the homes go?

The Mayor's assessment of land available for housing development put the capacity of London's brown field and under-developed sites at 32,210 homes per year. To build between 33,100 and 44,700 homes per year would therefore need new capacity to be opened up, and none of the options are easy.

The Mayor has ruled out any relaxation of the protection of London's greenbelt, which I support. We don't need more low-density suburban sprawl over land that could be valuable farmland. He could rebuild the outer London suburbs at a higher density, which would support more public transport and help to reduce car usage. Or he could push for new garden cities outside the greenbelt with billions of pounds for the new transport infrastructure required.

Can the environment sustain that growth?

Another problem for the Mayor is that building homes has a significant environmental impact. Construction consumes raw materials and uses a lot of energy-intensive processes that lead to greenhouse gas emissions.

The London Sustainable Development Commission, which advises the Mayor, suggested that we might need to cap housing supply at 2008 rates (21,090 homes) and then reduce it after 2025 to stay within climate change targets. This would be achieved by reducing demand by "changing demographics and greater refurbishment of existing buildings"¹¹. Doubling the supply would therefore need some dramatic and difficult additional savings from elsewhere.

Other solutions are needed

For these reasons, the Mayor must consider other long-term solutions in addition to supply.

Will supply make housing affordable in the short term?

Even if we managed to build 44,700 homes per year, resolving those problems to keep house prices flat, and even if average incomes rose by 3% every year, as it did through the noughties boom, it would still take 14 years to get back to the ratio of house prices to incomes that we had in 2000. It would take 30 years to get back to genuinely affordable house prices that were three times the average full time income.

The Mayor therefore must do more to help people in the meantime. The Mayor has talked about building more homes for five years, and all the while housing has become less affordable. By opposing measures such as rent controls, he is letting down hundreds of thousands of Londoners who are likely to see their housing costs continue to rise.

Why don't we build far more social housing?

Social housing is affordable for low income households from the day it is built, regardless of supply levels. But the Mayor's current target of 7,920 social homes per year is a little over half the 14,560 per year that his evidence base says we need to build.

In fact we will build almost no social housing in London over the next few years as the Government cut all funding for social rent, moving instead to a new type of housing called "affordable rent". The rents for those homes in London will be between 35% and 80% of the local market rent, with some housing associations charging £440 per week for homes that are supposed to be aimed at low income households¹². Charging higher rents helps housing associations borrow more to pay for the construction, and tenants can still pay the rents by receiving more in housing benefits than they would in social rented homes.

The reason the target is lower and the rents are higher is that the Government hasn't stumped up enough money. As his London Plan puts it, the low target is "based on the funding that was available and the record of delivery of affordable homes over recent years"¹³. In the last spending review London's affordable housing budget was actually cut by 66%, which the mayor hailed as a "really good deal"¹⁴.

What else?

Building homes is unlikely to satisfy the demands of landlords with their buy-to-let subsidies, overseas investors looking for a safe haven in central London, and a growing population that is increasingly overcrowded. Failing to build enough social housing to keep up with the growing population of low income households, and ignoring the needs of people renting privately, aren't acceptable choices. The Mayor needs to consider other solutions to radically reshape the housing market in the long term, and help people struggling in the short term.

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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References

¹ From the Department of Communities and Local Government live table 586 based on Land Registry data. All other figures on prices taken from this or similar live tables: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housingmarket/livetables/housepricetables/localhousepricetables/>

² Based on DCLG figures for house prices (see footnote 1) and the Annual Survey of Hours and Earnings from the Office for National Statistics.

³ From DCLG figures in Table 670 : Local authority stock sold through the right-to-buy scheme, by region, <http://www.communities.gov.uk/documents/housing/xls/1319866.xls>, Table 675 : Registered provider stock sold through the right-to-buy scheme, by region, <http://www.communities.gov.uk/documents/housing/xls/1319878.xls> and Table 217: Permanent dwellings started and completed by tenure and region (quarterly), <http://www.communities.gov.uk/documents/housing/xls/2145739.xls>

⁴ From DCLG figures in Table 109: By tenure and region, from 1991, <http://www.communities.gov.uk/documents/housing/xls/table-109.xls>

⁵ Based on DWP national figures for the number of private tenants claiming housing benefit and the average weekly payments to private and council tenants, <http://statistics.dwp.gov.uk/asd/index.php?page=hbctb>

⁶ Based on official Private Rental Market Statistics issued by the Valuation Office Agency, which are also the basis of the maps.

⁷ GLA web site, <http://www.london.gov.uk/priorities/housing/affordable-housing/private-rented-housing>

⁸ HM Government (November 2011), *Laying the Foundations: A Housing Strategy for England*, <http://www.communities.gov.uk/documents/housing/pdf/2033676.pdf>, p.2

⁹ Mayor's Question Time, 13th June 2012, <http://mqt.london.gov.uk/mqt/public/question.do?id=41415>

¹⁰ NHPAU (July 2009), *More homes for more people: advice to Ministers on housing levels to be considered in regional plans*, <http://www.communities.gov.uk/documents/507390/pdf/1299593.pdf>

¹¹ LSDC (2009), *Capital consumption: the transition to sustainable consumption and production in London*, <http://www.londonsdc.org/documents/research/Capital%20Consumption.pdf>

¹² Red Brick (27 Sept 2012), 'Affordable Rent'? Of course says Boris. How about £440 a week?, <http://redbrickblog.wordpress.com/2012/09/27/affordable-rent-of-course-how-about-440-a-week/>

¹³ GLA (2011), *The London Plan*, p.97, http://www.london.gov.uk/sites/default/files/The%20London%20Plan%202011_0.pdf

¹⁴ The budget for 2011-15 was £1.7bn, compared to a budget for 2008-11 of £3.7bn. The Mayor announced the package on the 14th July 2011: <http://tiny.cc/q5t0lw>