

## **London Partnership Board**

Date of meeting:	<b>17 October 2023</b>
Title of paper:	<b>Making the economic case for housing investment in London</b>
To be presented by:	<b>Fiona Fletcher-Smith, Chair, G15 and Chief Executive, L&amp;Q Group</b>
Classification:	<b>Public</b>

### **1 Summary**

- 1.1 The availability and affordability of housing is consistently identified as one of Londoners' top priorities. The main structural cause, the imbalance between housing supply and London's growing population, has been compounded by below-inflation increases to housing benefits, the cost of living crisis and contracting private rented sector supply. The Board agreed that housing should be one of its areas of focus for 2023-24. To avoid duplication with other work being led by the Mayor's Homes for Londoners Board, it was agreed that this Board should focus on demonstrating the economic consequences of London's housing crisis and making the case that new investment would bring significant economic and social benefits for both the capital and the UK more widely.
- 1.2 This paper sets out how we may develop a more compelling case for housing investment and the research areas where the Board may support the commissioning of analysis to incorporate into a public campaign.
- 1.3 Board members will be split into breakout groups to share their own views of the impacts of the housing crisis, discuss the recommendations and identify case studies, research and any other contributions they could offer to help make the case for more investment in housing in London.

### **2 Recommendations**

- 2.1 That the Board:
  - a) notes the paper and comments on the proposed research priorities listed a section 5
  - b) endorses the proposed engagement with policymakers with a view to securing housing investment, including the Levelling Up Advisory Council (LUAC)
  - c) endorses the commissioning of related activity prior to the Board's March 2024 meeting, in consultation with and with input from Board members.

### **3 Introduction and background**

- 3.1 Although there has been a mismatch between housing supply and demand in London for some time, there is widespread agreement amongst stakeholders that London's housing crisis is currently at its worst state in recent memory. We

continue to make the case to central government, but discussions about solutions have thus far sidestepped several key issues, including persistent underinvestment. Only major interventions have addressed previous housing shortages in London and the south east, such as the garden city movement, the expansion of the suburbs in the 1920-30s and the post-war new towns. With no consensus on interventions of this scale, the current housing crisis is likely to get worse.

- 3.2 Over the past six months Tom Copley, GLA Deputy Mayor for Housing and Residential Development and Cllr Darren Rodwell, London Councils' Executive Member for Housing, Regeneration and Planning have Co-Chaired a Housing Delivery Taskforce, comprised of leaders from across London's housebuilding sector, to identify the interventions needed to deliver homes in London. Its report was submitted to government in September 2023, with a list of specific examples of stalled housing sites.
- 3.3 Given the current state of public finances, it is understandable that both the government and opposition are reluctant to make significant new spending commitments. Therefore, in order to enhance the chances of unlocking more funding, it will be imperative to demonstrate that spending on housing in London constitutes an investment that offers a return to the Exchequer, either by generating growth or reducing public spending.

#### **4 Scale of the challenge**

- 4.1 Since 2007, London's affordability (as measured by comparing average house prices and rental costs to average annual earnings) has "pulled away" from other regions. According to 2022 Office for National Statistics (ONS) data, 18 of the 20 least affordable local authorities in England were located in or around London. In the 2022 Survey of Londoners that Ipsos Mori conducted for London Councils, both housing affordability and housing supply were included in respondents top five issues facing Londoners.
- 4.2 Housing supply has fallen short of the demand for new homes in London for many years and home building is currently facing unprecedented economic headwinds. Alongside persistent challenges such as levels of government investment, funding and policy uncertainty and funding rigidity, market conditions over the past year have been extremely challenging. Interest rates remain high and while the cost of construction materials has stabilised, they are at very high levels. This means that the cost of development (including debt servicing) is more expensive. Higher rates of contractor insolvencies, in part because of these conditions, are also making development more expensive and uncertain<sup>1</sup>.
- 4.3 For social housing landlords, the combined effects of government policy to cap rent rises and mounting demand to tackle damp and mould, fire safety and energy efficiency are taking housing and development budgets to the point of being unsustainable. London's social housing stock has a lower level of decency than other parts of the country, driven by an older stock profile, a higher proportion of high-rise units, higher density development, and higher levels of overcrowding.

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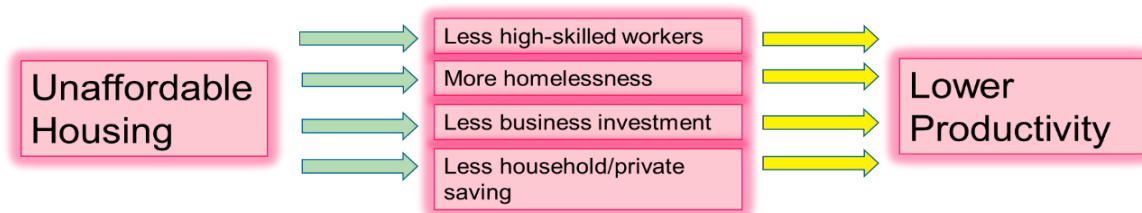
<sup>1</sup> 1,350 London-based construction sector businesses became insolvent between 2019 and 2022, representing about 1 in 8 London companies that became insolvent during that period.

- 4.4 Lack of new supply coupled with the decline in the rental market is having significant implications for homelessness and temporary accommodation (TA). London is the epicentre of the national homelessness crisis, with more than half of all TA placements in the country made by a London borough. London Councils' own research has found that we have the equivalent of the population of Oxford living in TA, which amounts to one in 50 Londoners and includes one in 23 children. Appendix 1 sets out an overview of key data about housing in London.

## 5 Proposals for making the economic case for investment in housing

- 5.1 It is unlikely that significant public spending decisions will be taken ahead of the next Comprehensive Spending Review (CSR), expected after the general election. Therefore, rather than commissioning a single product, we propose to mobilise a campaign that keeps up a steady drumbeat of messages leading up to the next CSR. The suggested key themes for the campaign, illustrated through the release of research, case studies and data over the next 12-18 months, would be along the following lines:
- London's housing emergency is costly to the whole country.
  - building more homes in London would generate economic growth.
  - tackling London's housing crisis would reduce other spending pressures.

### **How unaffordable housing could undermine productivity**



- 5.2 As there is increasing consensus on the need to increase the UK's productivity, it is suggested that making the link between housing affordability and productivity will be crucial to get traction with central government. Even though productivity is significantly higher in London than it is in other parts of the UK, its year-on-year growth in the capital has slowed down over the past several years. A number of themes could help frame the productivity argument for housing investment, including:

### **A lack of affordable housing is hurting our businesses as they are struggling to recruit and retain staff.**

- 5.3 One project underway is the Business1000 survey jointly commissioned by London Councils and the London Chamber of Commerce and Industry (LCCI). The survey includes questions to test the impacts that housing affordability issues have had on employers. It would be useful to be able to draw on similar analysis or polling for other types of organisations, including the NHS, universities, and charities.

### **London's loss would not necessarily be the UK's gain.**

- 5.4 There is a risk that central government could take the view that London's high housing costs benefits the levelling up agenda by encouraging skilled labour to move to more affordable parts of the UK. It would be useful to secure case studies or analysis that demonstrate that, in high value sectors, workers or businesses are more likely to relocate to the UK's global competitors rather than move to other cities within the UK. There is existing research we could draw on, including a 2023 Centre for Cities report noting that London's high costs reduced the city's ability to attract global skilled talent.
- 5.5 Analysis in a 2019 report by the Resolution Foundation concluded that high housing costs deterred people from moving to the capital since the benefit as measured by pay after housing costs does not make such a move worthwhile. Workers who cannot afford or do not want to pay high housing prices in a higher productivity region like London may choose to remain in lower productivity places, which may benefit them as an individual household but does not necessarily improve the UK's productivity overall.

### **High housing costs can crowd out other more productive forms of investment.**

- 5.6 In advanced economies such as the UK's, housing typically absorbs 20% to 25% of household incomes, although that percentage could be higher for working-age families. The Trust for London has estimated that poor households in the capital spend, on average, 54% of their total net income on housing costs. It would be useful to gather analysis that demonstrates how that inhibits households' ability to pay for training to access better jobs or access childcare that could enable them to work more hours or to upskill. Also, money spent on rent is money not spent in the local economy.
- 5.7 Housing has also become the largest component of household debt. Other things being equal, households with high debt levels are less likely to save, reducing aggregate private-sector savings and reducing investment, productivity, and growth over time. Various agencies such as the ONS and the Bank of England have warned about the long-term impact of low household savings ratios on long-run national economic growth.

### **Housebuilding generates jobs and creates demand across a wider supply chain, generating Gross Value Added (GVA) growth for the Exchequer.**

- 5.8 The GLA commissioned independent research showing that London requires an additional £4.4bn annually to deliver the affordable homes needed. We do not yet have a figure to demonstrate the financial return that could accrue to the Exchequer from making that investment. In 2020, the Local Government Association commissioned research that estimated that building 100,000 new social rent tenure homes every year could provide a £15 billion boost to the economy. It could be useful to undertake some version of that analysis for London. The research should also draw out the imbalance between spending on variable quality provision by private landlords and the investment in new affordable homes.

## **Unaffordable housing leads to more homelessness and precarious housing, which has costs for the public purse.**

- 5.9 Unaffordable housing means more people are likely to either reside in TA or to become homeless. Individuals with precarious housing situations are less likely to find or sustain employment, which in turn reduces both labour supply and growth, while the education of children and young people may also be disrupted. Moreover, there are well-evidenced links between housing instability and demand for public services, including healthcare services, mental health support, substance misuse treatment, recidivism and other interactions with the criminal justice system.

## **6 Equality comments**

- 6.1 Tackling inequality is at the heart of this workstream. London's worsening affordability crisis is deepening structural inequalities that we have repeatedly seen leave our communities even more exposed at times of national crisis. For example, our high levels of overcrowding made it easier for COVID-19 to spread during the pandemic and more difficult for individuals to self-isolate. Our high levels of fuel poverty have left households even more vulnerable to spikes in energy bills, and the poor quality of much of our existing stock can be linked to health issues such as respiratory conditions. We know that low income and Black, Asian and minority ethnic households are among the worst affected by London's housing crisis.
- 6.2 This proposal has been presented to the Mayor's Equality, Diversity and Inclusion Advisory Group. The impacts of inadequate housing arrangements and high housing prices on groups such as the disabled and the elderly was also considered. The research (where possible) will consider the disproportion impacts of unaffordable housing on London's various communities, in particular those with protected characteristics.

## **7 Key risks and issues**

- 7.1 With mayoral and general elections on the horizon, it is important that the sensitivities of housing as a politically salient issue are acknowledged and that the Board speaks as a cross-sectoral, cross-party group, drawing on the partnerships expertise and experience thus maximising our ability to influence decision-makers in a way that commands attention.
- 7.2 Commissioning significant new research and analysis could become costly and time consuming. It is recommended that we first seek to maximise what could be secured through existing work programmes and capabilities across all partners. It is suggested that any work that could require investment of new additional resources be focused on specific pieces of work that could tell the most compelling story to inform future public spending decisions, e.g. modelling to demonstrate the GVA gain from every new affordable housing unit built in London or the costs to the public purse of homelessness in the UK.

## **8 Financial / resourcing comments**

- 8.1 Although there is no specific budget attached to this workstream, both the GLA and London Councils may be able to make limited contributions from each of their

research and commissioning budgets towards specific projects, in addition to staff time. It would be helpful if Board partners could identify any financial or in-kind resources that they could also offer, over the next 12 months.

## **9 Next steps**

- 9.1 The project team supporting this workstream will follow up on the breakout discussion to develop a more detailed activity plan, to be brought to the Board's first meeting in 2024.
- 9.2 As the Levelling Up Advisory Council (LUAC) will have a strong focus on housing as part of its London workstream, the Board is requested to endorse that some activity may be commissioned ahead of the next Board meeting in March 2024, so that it can inform the LUAC's deliberations from the outset. This will be subject to consultation with those Board members who sit on the LUAC's London steering group.

### **Appendices:**

None