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The case for public investment in affordable housing in London

This briefing makes the case that government should allocate public funds for affordable housing on the basis of housing need, the wider benefits to the economy and the public purse and the more immediate issue of housing numbers. On all three criteria, the case for investment London is compelling. There are now almost certainly more households than dwellings, as well as increasing numbers of potential households that cannot form because of housing pressures.

London has a disproportionate number of households living in overcrowded conditions, homeless or living in temporary accommodation compared to the rest of the country. Rents are much higher in London, but incomes at the lower end of the scale are similar.

Investment in affordable housing would bring savings in other areas; poor housing increases health and education costs. It will also support economic growth. In other words, housing and infrastructure should be concentrated where the economic and social payoff is greatest.

London is currently providing over 30 per cent of all social housing completions and without its capacity to deliver the Government pledge to provide 150,000 affordable homes within this parliament cannot be achieved.

This briefing

This briefing has been prepared by Christine Whitehead and is based on a report 'The Case for Investing in London's Affordable Housing' by Christine Whitehead with Tony Travers from LSE London for the G15 group of London housing associations. It was launched at an event in June 2011. The report is available at http://www2.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b_10-11%20-newlondonenv/affordableHousing/report.pdf

Policy implications

- The case for investment in affordable housing in London based on relative housing need is overwhelming. The case for including need as a core criterion for allocating capital grant for housing investment is equally strong.
- Without London's contribution, neither the national pledge of 150,000 affordable homes during this Parliament nor longer term housing objectives can be met.
- Rents can be raised to provide greater borrowing power, but there are major limits because of low wages in the capital, the effect on the benefits bill, the negative impact on work incentives, the increased risks of borrowing and the impact of the welfare cap especially on larger households.
- Affordable housing investment in London will be used more intensively than elsewhere and will have greater impact on reducing the need for public money by alleviating the social costs associated with poor housing.
- Investment in affordable housing in London helps to support the broader economy and the growth agenda by delivering more market housing, more employment and a stronger labour market in London with spillover benefits to the rest of the country.

London's need for investment in affordable housing

On the basis of housing need, value for money and housing supply shortages, the case for investment in affordable housing in London is compelling. The costs of providing affordable housing in London are higher but the returns in meeting social and economic needs are greater than if the investment is made elsewhere.

● London's housebuilding needs

London's housebuilding needs are clearly stated in Mayor Boris Johnson's replacement London plan. It suggests that 32,250 homes are required annually between 2011 and 2021 with 43 per cent in east London where capacity is greatest and regeneration is necessary to support economic growth. The GLA's analysis estimates that 13,200 of the homes, around 40 per cent, should be affordable - broken down into 60 per cent social rented and 40 per cent intermediate dwellings. These projections may be an underestimate because more recent figures suggest that London's population is set to grow more rapidly than other parts of the country. Latest DCLG figures project a 25 per cent increase in households between 2008 and 2031 (DCLG, 2010 and Holmans with Whitehead, 2011) but that a higher proportion will be in London than has been previously projected. This reflects indigenous growth and the concentration of immigration to London. The proportion of household groups that tend to need housing assistance is expected to grow disproportionately. Meeting these housing requirements will depend crucially on the availability of funding - and the government recognising London's particular requirements and the return from investment in social housing there - despite the increased costs.

● Balance between households and dwellings

London now almost certainly has more households than dwellings - according to the latest figures in 2008 there were only 0.1 per cent more homes than households - and since then housebuilding has declined whilst households numbers have continued to grow (see table). For the housing market to operate smoothly a surplus of around 3-4 per cent is required. The situation is almost certain to worsen as housebuilding levels are now running at less than two thirds of projected household formation rates.

Household/dwelling balance - 2008

Region	Households (000s)	Dwellings (000s)	Balance	%
London	3,244	3,248	+ 4,000	0.10%
England	21,731	22,398	+ 667,000	3.10%

Source: DCLG Live Tables 109 and 403

The recession and resulting changes in migration patterns have increased the demand for housing in London. ONS statistics show a dramatic increase in immigration from other parts of the country and a reduction in outmigration from 2007 onwards. In recent quarters, these trends have been partially reversed. Net inflows of international migrants have however also increased mainly because fewer people are leaving the country. As families grow and children go to school, their ability to move out of London will be limited so increasing the need for more family accommodation in the capital. (Gleeson, 2011) The space available to households in London is much less than in the country as a whole - UK households have more than two rooms per person - preliminary figures suggest that Londoners may have little more than half that.

● Housing affordability

Housing costs are high in London. Londoners are having to spend a higher proportion of their income on housing costs than elsewhere. Conventional guidelines suggest that households should not spend more than 25 per cent of their net income including benefits on their housing - across England social housing tenants are spending more than 30 per cent and in London the proportion is 37 per cent. Tenants in the private rented sector are also paying considerably more than elsewhere. Owner occupation is out of reach of the majority of younger households.

The high housing costs have a negative impact on the public purse through the Housing Benefit bill, on the competitiveness of the economy through the impact on work incentives and labour supply and on the general welfare of households because of their limited resources to pay for their basic living requirements.

- **Overcrowding**

London has a disproportionate number of households living in overcrowded conditions and the situation is set to get worse as new homes are tending to be smaller, and the slow turnover in social housing reduces the opportunities of transfers to larger homes. More than a third of all overcrowded households in England are in London – most of whom are in the social and private rented sectors. One in seven households in the social rented sector are overcrowded and one in ten in the private rented sector (English Housing Survey).

- **Homelessness**

The extent of housing pressures and the lack of housing for poorer more vulnerable households have meant that one in four of households accepted as homeless are in London. However, more importantly in terms of the welfare of the households and the costs to the public purse, 75 per cent of those housed in temporary accommodation are Londoners - see table.

Households accepted as homeless and households in temporary accommodation (2010)

	London	England	London/England
Homeless			
Numbers	9,700	42,390	
Rate per thousand	3.0	2.0	23%
Households in temporary accommodation			
Numbers	36,020	48,010	75%
Rate per thousand	11.1	2.2	

Source: DCLG Live tables 772 and 783

- **Emerging needs: households with dependent children and lone parent households**

Across England, the number of households with dependent children is expected to decline over the next decades, but at a much slower rate in London. In 2008 the proportion of households with children in London was very similar to England as a whole, but by 2033 the proportion is expected to be considerably higher with about 25 per cent of households having at least one child compared to about 23 per cent in England as a whole.

New projections also show that the proportion of lone parent households is growing at twice the rate of total households in England with a particular concentration in London. By 2033, 19 per cent of all lone parent households are expected to be in London. Most will need help with their housing.

- **Investment and value for money**

London has the greatest housing need, but the costs of providing the homes in terms of direct subsidy are also far higher than in most of the rest of the country. The case for investment is based on the greater benefits to the public purse and the economy as a whole.

- **The social costs of poor housing**

There is considerable evidence that poor housing increases the costs to the public purse with respect to health, education and to a lesser extent crime and offending. The costs to individuals and the state are concentrated among those who experience homelessness and temporary accommodation – particularly in the use of the health service, the direct costs of accessing education and the longer terms costs of accessing employment. Overcrowding impacts on educational attainment, and insecure accommodation is associated with youth offending. Because housing needs are all heavily concentrated in London, investment in social housing there has the greatest chance of reducing these costs.

- **The use of scarce housing resources**

The provision of social housing in London might be more expensive than in other areas, but the allocations are disproportionately going to those in greatest need, which help to reduce the social costs of poor housing.

The additional homes are being used to enable transfers that can reduce overcrowding. The homes are more intensively used – reducing the differential in grant costs (Crook et al, 2011).

- **Economic competitiveness and growth**

Putting a monetary value on the broader economic benefits is difficult but surveys and research have shown that availability of adequate housing is a core necessity in maintaining labour market competitiveness. Investment in housing levers in additional private investment and improves employment in the construction industry. Estimates for the 2010 Comprehensive Spending Review suggest that £1 of public investment in new housing generated £3.50 of economic output (Lindsey, 2010 and NHF, 2010). The last couple of years have shown that the subsidy towards affordable housing as part of a mixed tenure scheme can enable the development to go ahead.

The CBI and other business organizations have made it clear that over 70 per cent of businesses see the lack of affordable housing as a major constraint for business (CBI, 2010).

- **Housing delivery**

The Government is committed to providing 150,000 additional affordable homes during this parliament and the Mayor is looking to secure 13,200 a year over the next four years. London is in a position to contribute disproportionately to the national target. In terms of social housing, London has been delivering quite effectively accounting for nearly 32 per cent of starts in the National Housing Affordable Housing programme in 2009/2010 and 37 per cent in the first half of 2010/2011 (HCAa, 2011). London accounted for 42 per cent of intermediate homes in 2009/2010 and 57 per cent in 2010/11. London received a large proportion of the grants available. The subsidy for shared ownership has also levered in more individual equity than elsewhere so reducing the subsidy costs per affordable housing unit.

New housebuilding completions 2009/10

	Total	Social Landlords	Social/Total %
London	19,470	6,940	35.6
England	113,670	25,740	22.0
London/ England %	17.1	27.7	

Source: DCLG live table no 217

It is undoubtedly more expensive to provide affordable homes in London than elsewhere. If the total grant available is fixed and grant levels determine

the number of affordable homes built, the easiest way to maximize the number of homes built would be to allocate grant to the cheapest types of dwelling in the cheapest locations. But demand in these locations and need are likely to be lower. The case for supply-side subsidy is difficult to maintain where social rents are close to market levels unless there are large scale benefits to housing supply and the environment.

- **Rent increases and the capacity to lever in private funding**

With social housing rents so far below market levels in London, there is great potential to raise them – particularly with the Government’s Affordable Housing Policy that new rents could be up to 80 per cent of market levels. However on new developments, they are only likely to rise to about 60 per cent in the immediate future because of affordability problems faced by low income employed households, the impact of service charges and concerns about the overall benefits caps especially for larger households. Raising rents may increase the borrowing capacity of RSLs but the increase will be limited because of the tougher terms and conditions likely to be applied by lenders because of the perceived greater risks.

The actual opportunity to raise the rents and so increase borrowings may also be limited because of the low levels of relets in London compared to the rest of the country and a higher proportion of new lets going to existing social and local authority tenants.

● Conclusion

To some extent the relative importance of London has been recognised by the Government in the grant allocations to 2015 (HCA, 2011b). After that funds are expected to be even tighter – but the case for investing in London’s housing will probably be even stronger as London remains the engine of national growth. While grant costs are generally higher in London, costs per person assisted are far lower because the land and housing stock are more heavily utilised and more directly address priority housing needs. The returns to government of investing in affordable housing do not come solely from reducing housing need but also from wider benefits to health, education, crime reduction and other public services. The social costs of poor housing are well evidenced and, like housing need, are clearly concentrated in London.

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