The Case for Investing in London's Affordable Housing

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Executive summary

Objectives of the study

- The objective of this study, commissioned by the G15 group of housing associations, is to clarify the case for investment in affordable housing in London and the reasons why government funding remains core to success.

Criteria for allocation

- There are three main criteria by which government might allocate that subsidy: housing need; the wider benefits of affordable housing to the economy and the public purse; and the more immediate issue of housing numbers. On all three criteria the case for investment in London is compelling.

Housing Need

- The need for additional affordable housing in London is far stronger than in any other part of the country. There are now more households than dwellings in the capital as well as increasing numbers of potential households that cannot form because of the extent of housing pressure.
- Londoners on average have far less space than elsewhere in the country both in terms of the bedroom standard and rooms per person. This helps to explain why 40% of overcrowded households are in London.
- Housing is more expensive in London than elsewhere and even new social tenants are on average paying rents at above 35% of income including housing benefit, as compared to 31% for England overall. Private tenants pay far more. Owner-occupation is out of reach of the majority of younger households.
- Most importantly Londoners account for around 35% of all homeless households in the country and 75% of those who have to be accommodated in temporary accommodation, including more than 55,000 children.
- Pressure is almost certain to increase in both absolute and relative terms as the number of households grows more quickly than in the country as a whole.

Investment, value for money and rates of return to government

- The case for government investment in affordable housing must be based not just on need but also on the potential savings to the public purse and benefits to the wider economy. In other words housing and infrastructure should be concentrated where the economic and social payoff is greatest.
- Poor housing increases health and education costs; reduces employability and productivity; contributes to family breakdown; and is associated with crime and anti social behaviour. Homelessness, living in temporary accommodation and, to a lesser extent, overcrowding are the main sources of these social costs.
- The cost of addressing these problems in London is greater than in the rest of the country, in part because of the higher unit costs of service provision but also because of the negative impact on others in densely populated urban areas.
- Housing and land in London is used more intensively than elsewhere in the country. Development is denser and the necessary infrastructure is also more likely to be in place ahead of development. So costs per person assisted are lower than implied by simply looking at averages.
- Social investment in affordable housing in London is better than elsewhere at levering in additional private investment in market housing. This has been particularly true since the financial crisis.
- Over 70% of London's business community see the lack of affordable housing as one of the most important constraints on the labour market. Supporting low and middle income households to find affordable homes is essential to the competitiveness of the London economy.

- The capacity to provide low cost home ownership, which both helps employed households to gain the type of accommodation they are looking for and enables grant to be recycled more rapidly, is also greatest in London.

Affordable housing numbers

- London is currently providing over 30% of all social housing completions and an even higher proportion of starts. Without London's disproportionate capacity to deliver the Coalition's national pledge to provide 150,000 affordable homes within this Parliament cannot be achieved.
- The grant necessary to ensure this level of output is maintained is undoubtedly higher than in much of the rest of the country (although as a proportion of total scheme costs, average grant is actually lower than, for instance, in the North East).
- London has the greatest opportunity to increase revenues and therefore borrowing power as a substitute for grant under the Coalition's new affordable rents regime.
- Yet, there are limits to what is possible in terms of rent increases because affordability; the need to avoid unreasonably increases in housing benefit with its associated disincentive to work; the risks and costs of private finance as subsidy support declines; the slow turnover in the social sector which means fewer relets; and the particularly heavy impact of the welfare cap on social sector households in London.
- In many areas across the country rents are already relatively close to market levels suggesting a greater capacity for the private sector to provide the necessary housing.

Conclusions

- 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.
- The fact that 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 is also of central significance.
- In addition 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.

1. Introduction

This short study, funded by the G15 group of housing associations, sets out the case for increasing affordable housing provision in London and particularly the rationale for government support for that investment.

The aims of the study are (i) to provide an independent examination of the factors that might be expected to drive the subsidy allocation process by central government and its agencies, and (ii) to show where London stands in relation to the country as a whole in achieving the government's objectives to ensure adequate housing for all.

In this document we acknowledge that the process of allocation is inherently competitive, and particularly so given the very limited total subsidy available. The objective is to examine the potential benefits of providing that support to London, in the context not only of traditional needs based criteria, but also of the government's desire for an enhanced economic logic to determining priorities as well as their more immediate aim of providing 150,000 affordable homes during this Parliament.

The study on which this report is based included a review of available data, published research and policy documents together with interviews with major stakeholders and some primary data analysis. It took place in April and May 2011.

The starting point for any analysis of the case for investment must be the evidence base for the Replacement London Plan (GLA, 2009 and later revisions). The Plan suggests that an average of some 32,250 dwellings per annum should be provided in each year from 2011 and 2021. This takes account both of the need for additional dwellings and of capacity constraints. Within this total some 43% are planned to be located in the East sub-region – where capacity is highest and regeneration particularly necessary to support growth in the economy.

The Plan further suggests that 13,200 per annum – just over 40% of the total – should be affordable, including 60% social rented and 40% intermediate dwellings. These numbers are based on detailed analysis of the evidence on both current housing conditions and the potential for future provision (GLA, 2010; GLA 2011b). Implementation clearly depends heavily on the continued capacity to negotiate these proportions of affordable units with developers as well as on the availability of grant to support investment.

Since then there have been further changes particularly with respect to demographics and government policy. New household projections published in late 2010 suggest that the number of households in London will grow more rapidly than elsewhere in the country and that the proportion of household groups that tend to need housing assistance will grow disproportionately (DCLG, 2010; Holmans with Whitehead, 2011). In the context of government policy the most important change has been in the introduction of the affordable rents policy which is seen as a means of reducing the need for grant. This has particular importance for London because social rents are currently very much lower than private rents (particularly as compared to in the rest of the country), while affordability among social tenants is, if anything, more of a problem than elsewhere (Banks & Whitehead, 2010).

There are three main criteria that might be used in the allocation of subsidy for investment in additional affordable housing either separately or together:

- the relative extent of housing need in London as compared to the rest of the country – particularly with respect to the need for additional dwellings. This has been the traditional criterion used to inform the formula allocation system;

- the value for money to the public purse of additional affordable housing in terms of the cost effectiveness of each £ spent; savings on other services; and particularly the potential benefits to competitiveness – ie the economic case for additional affordable

- the extent to which London can achieve higher numbers of dwellings and thus help meet the government's national objective of 150,000 additional affordable homes during this Parliament.

2. Housing Need

It is clear that London has proportionately more need for additional housing as compared to the rest of the country on all the main criteria: the balance between households and dwellings; the expected rate of growth in demand and need; problems of affordability; and the impact of shortages on homelessness, the use of temporary accommodation and overcrowding all of which have both private and social costs.

2.1 The balance between households and dwellings

On the balance between requirements and available stock, London now almost certainly has more households than dwellings. The latest figures relate to 2008 when the number of dwellings exceeded the number of households by only 0.1% (table 1). Since then, new housebuilding has been running at only around two thirds of the level necessary to meet demographic requirements, so even that excess will have disappeared by now. Yet it is traditionally assumed that to enable the housing system to work smoothly, particularly with respect to mobility and improvement of the stock, there needs to be around 3 – 4% more dwellings than households. The current situation is comparable to that experienced in the 1960s when housing investment was still addressing post-war shortages. Moreover the situation is almost certain to worsen as output levels are now running at less than two thirds of projected household formation rates.

Table 1: Household/Dwelling Balance				
2008				
Region	**Households**	**Dwellings**	**Balance**	
London	3244	3248	+ 4,000	0.10%
England	21731	22398	+ 667,000	3.10%

Source: DCLG Live Tables 109 and 403

The space available to households is also very much less in London than in the country as a whole. Across the UK households have more than two rooms per person (Dol K & Haffner M, 2010). Very preliminary figures based on survey data available to the GLA suggest that Londoners may have little more than half that number. Similarly, bedroom standard statistics show that London has double the proportion of owner-occupier households at or below that standard; fifteen percent more in the private rented sector (where outside London only the Eastern region is above that average) and 10% more among social tenants (English Housing Survey, table FA1424). Londoners therefore not only have fewer homes per household but also much less space per person than in the country as a whole.

2.2 Housing affordability

On affordability those entering the social sector in London already face far higher affordability problems than tenants entering the social rented sector across the rest of the country. The conventional guideline for affordability has been generally agreed to be 25% of net income including benefits (NHF, 1999). Table 2 uses CORE data to calculate this average ratio for new tenants and shows that across the country social tenants are paying more than the 30% but that London has by far the worst ratio at 37%. Tenants in the private rented sector are also paying considerably more than elsewhere (72% of lower quartile ASHE earnings as compared to 58% for the country as a whole in 2008/09 – with only the South East, at 59%, also above the average). As importantly, 62% of new tenants in the social rented sector had residual incomes below 120% of the Income Support Standard (Banks & Whitehead, 2010). This suggests that lower income households in London are now poorer than households in other parts of the country on both the usual criteria of rent income ratio and residual income – ie the income they have left after housing costs to buy other necessities. These high housing costs have negative impacts 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 welfare of tenants with limited resources to pay for the necessities of life.

Table 2: Social tenant rent income ratios including housing benefit (average ratio) by region (all new lettings CORE*)

Region	2002/03	2007/08	2008/09
East Midlands	0.30	0.29	0.29
Eastern	0.30	0.29	0.31
London	0.35	0.38	0.37
North East	0.30	0.29	0.28
North West	0.31	0.30	0.30
South East	0.31	0.32	0.32
South West	0.31	0.29	0.30
West Midlands	0.31	0.30	0.32
Yorkshire and the Humber	0.30	0.29	0.29
ENGLAND	**0.31**	**0.31**	**0.31**

Source: Banks and Whitehead, 2010
*CORE records the rents and incomes of all tenants accommodated in social sector lettings

2.3 Overcrowding

Around 40% of the 425,000 tenants who are overcrowded in England live in London and even in the owner-occupied sector nearly one in four of overcrowded households are in the capital. As a result more than a third of all overcrowded households are located in London. This proportion has remained fairly constant throughout the century while overall numbers overcrowded have grown, especially in the private rented sector (table 3). This reflects the general increase in housing pressure across the country. In London it implies that one in seven social tenant households and one in ten private tenants are overcrowded as compared to one in twenty and fewer than one in a hundred respectively in the rest of the country. This is particularly concerning because of the shift towards smaller dwellings within new build and slow turnover mean that there are more limited opportunities to offer transfers to reduce overcrowding (Crook et al, 2011).

Table 3: Overcrowding by tenure			
			(% overcrowded)
London	**2000/01**	**2007/08**	**2008/09**
Social renting	12	12.7	13.5
Private renting	6.6	9.8	10.1
Owner occupation	2.6	3	3.2
All tenures	5.7	6.6	7.2
Rest of England			
Social renting	3.9	4.2	5
Private renting	2.4	3.6	4.1
Owner occupation	1.2	1.2	1.4
All tenures	1.9	2	2.3
London as a % of all overcrowded			
Social renting	42	44	40
Private renting	39	44	41
Owner occupation	23	25	23
All tenures	34	37	34

Source: English Housing Survey

2.4 Homelessness and the use of temporary accommodation

London accounted for almost one in four of those households accepted as homeless at the end of 2010, reflecting both the extent of housing pressure in the capital and the lack of housing opportunities for poorer and more vulnerable households (Table 4). This proportion has remained roughly constant since 2000 as the numbers accepted across the country have fallen rapidly in response to new homeless prevention initiatives.

More importantly from the point of view of both the welfare of the households and the costs to the public purse, 75% of those housed in temporary accommodation are Londoners. Within these totals there are nearly 28,500 households with children for whom the problems of living in temporary accommodation are particularly severe. These figures clearly reflect the pressures on social housing in London and the particular difficulty that local authorities in London have in finding appropriate accommodation for those accepted as homeless in either the social or the private rented sectors.

Table 4: 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

2.5 Looking to the future

One important immediate issue is the extent to which the recession and resultant changes in migration patterns within the UK have increased the demand for housing in London both in general and for family sized dwellings in particular (Hollis, 2010). The ONS statistics show a dramatic increase in immigration from other parts of the country as well as a reduction in outmigration over a nine quarter period from 2007. These trends have been partially reversed, but net outmigration remains well below pre-recession levels (GLA, 2011b). Net inflows of international migrants have also increased – mainly because fewer people are leaving the country. The impact of these changing migration patterns is to put more pressure on London's housing stock than had been projected. This is particularly relevant in the context of households being unable to move out of London as families grow and children go to school. Some of these households will probably now stay in London for some years, increasing the need for family homes into the medium term.

Looking more to the longer term, the latest household projections, published in late 2010 suggest continued growth in household numbers across the country – of over 25% between 2008 and 2031 (Table 5). They also show that a higher proportion will be in London than has previously been projected. This reflects indigenous growth but also the extent to which net immigration continues to be concentrated in London (Gleeson, 2011).

Table 5: Household projections

	2008	20013	2033
London	3244	3,416	4,145
England	21731	22,868	27,536
London as % of England	14.9	14.9	15.1

Source: DCLG Live Tables 404

Within these totals, the numbers of households with dependent children is expected to continue to decline throughout the country – but at a much slower rate in London. In 2008 the proportions of households with children was very similar in London to that observed across England (Table 6), which is itself surprising given the more mobile nature of London's population. But by 2033 the proportion of those with children in London is expected to be considerably higher than in the rest of the country. This suggests that the problems of crowding and inadequate housing currently observed may well increase unless very significant investment can be undertaken.

Table 6: Households with dependent children (%)

	No	One	Two	Three +
London				
2008	73.2	11.7	9.7	5.4
2013	73.9	11.9	9.5	5.4
2033	74.5	11.9	8.4	5.1
England				
2008	72.8	11.6	10.6	5.3
2013	73.7	11.5	10	5.4
2033	75.8	10.9	7.7	4.5

Source: DCLG Table 419

In terms of affordable housing, probably the most important trend is the projected growth in the numbers of lone parent households because these households are disproportionately likely to need assistance if they are to be properly housed.

The new projections which, for the first time, concentrate on identifying households with dependent children show the numbers of lone parent households growing at twice the pace of total households throughout the country – but with the increase particularly concentrated in London. By 2033 nearly 19% of all lone parent households are expected to be in London. This is probably the clearest of all indicators that the need for affordable housing in London will continue to grow more rapidly than elsewhere in the country.

Table 7: Increasing importance of lone parents			
			Lone parents
	2008	**2033**	**% increase**
London	311	504	62
% all households in London	9.6	12.2	
England	1,688	2,687	
% all households	7.8	9.8	59
London as % England	18.4	18.8	

Source: DCLG Live Table 419

2.6 Housing need in London – conclusions

All these measures of housing need tell basically the same story. London is the most pressured region in England in terms of housing costs and availability. The position is almost certain to worsen as output cannot keep pace with household formation. Housing is much more expensive in London and incomes among lower income households are particularly inadequate to offset these costs. London has a much larger private rented sector than elsewhere in the country – but it is far more expensive and does not provide enough decent affordable homes. The scale of the social sector is inadequate to deal with the problems. Most importantly it is difficult to expand supply to meet the continued growth in requirements. London's future economic success depends at least in part on the reasonable availability of housing but that success also puts more pressure on those further down the income scale.

Evidence on the indicators of housing need provide the strongest basis for allocating housing investment grant which is inherently aimed at improving housing conditions for those who cannot pay for adequate housing for themselves. On all counts London's needs are proportionately higher than across the country as a whole.

3. Investment, value for money and rate of return to government

As we have clarified above, it is London where the need for additional units is by far the greatest. But these dwellings do cost more in terms of direct subsidy than elsewhere in the country. The case for investment in these homes should therefore be based on public investment criteria – that there are higher benefits to the public purse and the economy than these extra costs. In other words housing and infrastructure should be concentrated where the economic and social payoff is greatest.

There are three distinct elements where investment in London will have greater value to the public purse than investing in lower pressure areas:

- the relative extent to which such investment can reduce the social costs of poor housing;
- the greater intensity in the use of land and affordable housing – in terms of allocations and densities; and

- the extent to which affordable housing investment can help the wider economy through increasing both private housing investment and supporting the labour market.

3.1 The social costs of poor housing

There are large numbers of studies that help to clarify the extent that poor housing and increases the costs to the public purse with respect to health, education and, to a lesser extent, crime and offending. There are also higher housing management costs associated with housing pressure. One of the latest of these studies is that by Friedman (2010) which looks at the overall costs to the public purse rather than the costs per unit that can be saved as a result of an additional affordable unit. These measured costs are very large indeed – at £2.5 billion per annum in health costs; £200 m in crime prevention etc; and £14.8 billion from loss of productivity into the future from the effects on education. Other reports, notably Roys et al (2010), use formal modelling and narrowly based data on remediation costs to suggest a rather lower figure of £600m per annum for the health costs of poor housing and a total cost to society of £1.5 billion. Ormondy et al (2010) provides more detail on health using a similar methodology.

There are no equivalent figures specifically for London but more detailed studies of particular areas within London (e.g. Ambrose & Farrell, 2009) make it clear how London specific many of the issues are. Both the costs and the benefits are associated with poor housing conditions prevalent in London.

A wide range of studies over the years have shown clearly that the highest costs to both individuals and to the public purse are heavily concentrated among those who experience homelessness and temporary accommodation (Whitehead, 1998; Bridge et al, 2003). This is particularly true with respect to the direct use of the health service; the direct costs of ensuring education; and the longer term costs in terms of access to employment. Overcrowding is also seen to impact badly on educational attainment and therefore employability (Shelter, 2006). Similarly insecure accommodation is closely associated with youth offending (Youth Justice Board, 2008). The other most important source of additional costs relate to mobility and transience which significantly increase the costs of providing services – again a problem which is heavily concentrated in London (Travers et al, 2007).

Because homelessness, the use of temporary accommodation and overcrowding are all heavily concentrated in London, investment there has the greatest chance of reducing these costs. Moreover the provision of one more unit can, through effective transfer management, be expected to help additional households, especially in the context of overcrowding (London Assembly, 2011). This is reflected in the evidence on the previous tenure of those accommodated in social rented housing (tables A2.1 – A2.4 in Annex 2 and Crook et al, 2011) which show the increasing importance of allocations to those in insecure accommodation across the country and particularly in London.

3.2 The use of scarce housing resources

The evidence on allocations shows clearly that in London a far higher proportion of new lets are allocated to households with the planned maximum number of members. Elsewhere in the country up to 40% of new units go to households with fewer members. In London the proportion is around 10% (Crook et al, 2011). This clearly reduces the cost of the differential grant per person observed in table 8. Equally much higher proportions of the additional homes built in London are in the form of flats which are built at higher densities (Crook et al, annex 2). This uses scarce land resources and infrastructure more effectively and reduces the costs per unit of additional infrastructure investment. This is particularly true in London where the much of the necessary infrastructure (hard and soft) is already in place to support housing delivery.

Evidence on who obtains the additional dwellings provided is given in annex 2. Allocations in London are disproportionately going to those in greatest need, notably lone parents and families with children as well as those who are unemployed or outside the labour force. These allocation help to reduce the social costs of poor housing, identified above.

Table 8: Value of grant of new allocations, October to December 2010 (£000s)						
	Rent			LCHO		
	Grant per home	Grant per person	Grant as % of TSC (total scheme cost)	Grant per home	Grant per person	Grant as % of TSC (total scheme cost)
London	75.4	20.2	42.1	29.5	9.4	15.7
East Midlands	40.9	10.1	36.8	14.4	3.7	12.8
North East	58.7	13.4	47.5	29.2	6.6	24.9

Source: HCA Investment Statements

Overall the evidence on allocations shows that housing is going more to those in the greatest need in London than elsewhere and also that additional homes are being used to enable transfers that can reduce overcrowding among existing tenants and match household and dwelling size more effectively. It also shows clearly that the additional housing is more intensively used than elsewhere in the country – reducing the differential in grant costs. Thus if the relevant criterion is the number of people housed, rather than just the number of units built, the value for money of investing in London is substantially greater than appears from the raw figures.

3.3 Economic competitiveness and growth

It is extremely difficult to put monetary values on these broader economic benefits as can be seen from reviews of international experience (Berry in Bridge et al, 2003). But throughout the international discussion as well as in UK surveys and research the message is that the availability of adequate housing across all income groups is a core necessity in maintaining labour market competitiveness.

Additional investment in affordable housing in London has a number of distinct impacts on the London and national economy. The most direct effect relates to the extent to which investment in affordable housing levers in additional private investment – which both increases the overall housing stock and improves employment in the construction industry. This in turn helps the economy more generally. Indeed estimates for the 2010 Comprehensive Spending Review suggested that £1 of public investment in new housing generated £3.50 of economic output (Lindsey, 2010; NHF, 2010). In the wake of the financial crisis it also plays an important role in helping the residential development industry to survive – and in so doing ensures longer term capacity and lower costs of expanding output.

London has shown that, particularly since the financial crisis, it has been possible to maintain activity on existing projects and to bring forward new mixed tenure schemes which are financially viable – based on the inclusion of social rented, intermediate and market housing. Evidence from developers makes it clear that the social sector elements have been crucial in reducing the overall risks on schemes, and enabled them to raise private finance and to bring forward development. DCLG statistics on starts and schemes reinforces this view, as London has been able to weather the crisis rather better than the rest of the country. However, this has depended fundamentally on the availability of grant. As table 8 makes clear, while grant as a proportion of total scheme costs has not been out of line with the rest of the country, despite far higher resource costs per unit, across the country large scale grant has been necessary to ensure development of market as well as affordable units. The required scheme based grant will decline as the economy in general revives – and the evidence so far suggests that this trend is likely to be led by London.

London faces particularly complex issues in the context of levering in private investment because of the nature of the development. Affordable housing is often an integral part of each block as well as an important element in the overall mixed tenure development. If, therefore affordable housing does not go ahead it can be impossible to ensure that the market element can be built. Existing planning agreements can also be important constraints on ensuring financial viability in a difficult environment. The result of grant aid is therefore not only that more affordable housing is built but also more market housing, higher employment in the construction industry and greater capacity and confidence into the future.

Finally in this context, home ownership is much more difficult to achieve for young Londoners than in other parts of the country because of high entry costs and the current mortgage lending restrictions. Some of this demand inevitably leaks into the social rented sector, creating further shortages. Investment in shared ownership can achieve two positive outcomes, it enables purchasers to get on the first rung of the housing ladder, thereby avoiding any risk of competition for social rented homes and helping to secure a long term private sector solution; and the London housing market has the potential to enable the investment to be released and recycled more rapidly into additional homes as values increase and occupiers staircase to higher tranches. This is potentially a good time in the housing cycle to capture this potential growth and is unique to London at the moment.

The second major impact on growth and competitiveness relates directly to the need for affordable housing to support services, both public and private. The CBI has made it clear in its evidence on the London plan that over 70% of businesses see the lack of affordable housing as a major constraint for business (CBI, 2008 and other years). This generates a difficult trade-off between meeting immediate housing needs and helping to support lower income employed households to work in the capital where housing is particularly expensive. Over the last few years the proportion of employed households has increased even in general needs social rented housing but the biggest impact has come from the programme of low cost home ownership. This has positive impacts on local labour markets and potential employment for other households. Intermediate housing, where London leads in absolute and proportional terms, clearly has the most direct impact but there is also an increasing role for social rented housing, given the problems of affordability in the private sector for those with incomes just above Housing Benefit levels.

The government's affordable rents regime and the growing role of intermediate rental housing will help to reinforce this trend and thus better support the provision of homes intended to accommodate those in lower paid employment. If rents, especially on larger units, can be kept below HB levels for these groups (Table 9) this will further assist the labour market. The affordable housing programme in the context of the Olympics is seen as a particularly good example of the potential for shallow subsidy affordable housing to help people both to find homes in locations where they can access lower paid employment and to ensure that accommodation remains affordable once they are employed (Scanlon et al, 2010 DCLG).

3.4 The returns to government: conclusions

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.

Table 9: Affordable rents and low income employed households						
						Bromley
						35% net rent to net income ratio
1 Bed Flats – gross market rent = £143.87						
	@80%		**@70%**		**@60%**	
All households	**50,600**		**50,600**		**50,600**	
Working households that could not afford market rent	**8,000**		**8,000**		**8,100**	
- of which, could afford 'affordable' rent	4,000	50%	5,200	65%	6,300	78%
- of which, could not afford 'affordable' rent	4,000	50%	2,800	35%	1,800	22%
2 Bed Flats – gross market rent = £178.76						
	@80%		**@70%**		**@60%**	
All households	**27,600**		**27,600**		**27,600**	
Working households that could not afford market rent	**4,200**		**4,300**		**4,200**	
- of which, could afford 'affordable' rent	2,400	57%	3,000	70%	3,400	81%
- of which, could not afford 'affordable' rent	1,800	43%	1,300	30%	800	19%

Source: CCHPR report for Affinity Sutton

Investment in affordable housing in London levers in investment in market housing, increases scheme viability and supports both mixed communities and the labour market. Intermediate housing plays a particularly important role both in reducing the costs to the public purse and in helping lower income employed households achieve their aspirations. Moreover residential construction generates significant multiplier effects which benefit not only London but the national economy.

Overall a more holistic approach to measuring both the direct and indirect costs and benefits to alleviating housing need and particularly the contribution to the government's growth agenda strongly support investment in affordable housing in London.

4. Housing numbers

The government has pledged to provide 150,000 additional affordable housing units during this Parliament. The Mayor is looking to provide 13,200 per annum over the 4 year period – ie some one third of the overall total.

4. 1 Output levels and grant

Completions in the last year show that London has been delivering relatively effectively both in terms of the total number of dwellings and particularly in terms of social housing (table 10). Moreover, London accounted for nearly 32% of starts in the National Affordable Housing programme in 2009/10 and 37% in the first half of 2010/11 (HCA, 2011a). Within this total London accounted for 42% of intermediate housing starts in 2009/10 and 57% in the first half of 2010/11. These figures suggest that London is showing greater capacity to recover from recession and so contribute particularly effectively to meeting the government's objectives. Without these high output levels it is difficult to see how the projected national affordable housing pledge can be achieved.

Table 10: 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

A major reason for London's relative success is of course that London has received a large proportion of the available social housing grant based on evidence of need and effective delivery. In 2009/10 the social housing grant allocation to London for social rented units accounted for about 42% of the total for England. The proportion was very similar for low cost homeownership where London had a higher proportion of both starts and completions than for social rented units (HCA, 2011a).

One reason that London has been relatively effective is that the subsidy made available for shared ownership can lever in more individual equity than elsewhere in the country – even in periods of mortgage rationing (Whitehead, 2010). As a result a larger proportion of affordable provision has come forward in the form of shared ownership. This has helped to reduce the subsidy costs per affordable housing unit. Under the Coalition's affordable rents policy some of the benefits of lower grant can similarly be realised for rented housing although without the benefits that come from a further injection of equity.

Even so, no one doubts that affordable housing in London is more expensive to provide than in the country as a whole – both in terms of grant and overall cost. Table 8 gives some indication of regional differences – which significantly reflect the relative importance of regeneration. So for instance grant in the North East is higher as a proportion of the total scheme costs than in London, even though the grant per home is significantly lower. Grant rates and costs are lower in areas from which commuting might be possible, such as the East Midlands where a larger proportion of development is on large, less contaminated and greenfield sites.

If the total grant available is fixed and grant determines the numbers of affordable homes built, the easiest means of achieving the maximum number of units is to allocate that grant to the cheapest types of dwelling and the cheapest locations. However, these are locations where demand and need are also lower, so that the additional units make a smaller contribution to addressing the need for affordable homes. In particular, the case for supply subsidy is difficult to maintain where social rents are close to market level as this implies that that the market could provide equally well.

A related question is whether there is what the Treasury calls deadweight loss associated with grant allocation: in other words if grant were reduced would the affordable homes still be built. This depends on a range of factors including, in particular, whether rents would be similar with and without grant (as when they are close to market levels) and whether there are differential costs to the developer as a result of reducing the proportion of affordable homes on the site, including more specific issues such as to how the affordable housing is integrated into the overall development.

This issue of 'deadweight loss' is particularly important in the context of the government's policy of increasing rents to up to 80% of market levels. In some other parts of the country, which currently receive large scale subsidy per dwelling (table 9) social rents are already near or even above 80% of market levels. The case for providing subsidy to add to supply in those areas where the market can and is providing, is unclear unless there are large scale benefits to housing and the environment from renewal and regeneration.

4.2 Rent increases and the capacity to lever in private funding

The greatest potential for increased rents is in London, because social rents are so far below market levels at the present time. In the light of the government's new affordable housing policy there has been a wide range of estimates of the potential to increase rents in London while ensuring affordability, a full range of dwelling sizes and the efficient mix of capital and revenue grant. While these estimates differ they suggest that in the immediate future average rents on new development may well only be increased to an average of around 60% of market rents because of the agreed pipeline, the affordability problems faced by lower income employed households; the impact of service charges; and concerns about the overall benefits cap especially for larger households. In this last context it is worth noting that the Department of Work and Pensions has estimated that 70% of those affected by the benefit cap will be social tenants (DWP, 2001).This is particularly concerning given the clear imperative to provide larger social housing units to address the problems of overcrowding.

In this context, Table 9 gives an example of rental affordability, calculated for Affinity Sutton based on their portfolio in Bromley (Fenton et al, 2010). This models the impact of increasing rents on potential allocations, while keeping them below Housing Benefit for low income employed households in the locality. The assumed maximum of rents equal to 35% of income is rather higher than that usually regarded as acceptable by RSLs, especially as this ratio takes no account of service changes which can increase average payments by £10 per week and in some cases far more. The assumption made in this calculation is that allocations should be concentrated among those who could not afford market rents on similar properties – otherwise there is little reason not simply to rely on the market. At rents at an average of 60% of market, some 80% of the target group in Bromley could afford the RSL rent on these rather stringent criteria, without having to rely on Housing Benefit. But at 80% that figure drops to around 1 in 2 potential tenants. In central London a far smaller proportion would be able to pay the rent themselves as market rents are much higher but incomes are little affected by location within London at the bottom end of the market. In addition the evidence shows that almost all households eligible for local housing allowance in the private rented sector who require three or more bedrooms would be affected by the welfare cap as currently defined – which implies that to meet the needs of larger family households rents must be kept down well below private sector levels (Lister et al 2010; Beard, 2010).

Raising rents will undoubtedly increase borrowing capacity – but the impact is more limited than might appear because terms and conditions for that borrowing are likely to be tougher than on existing borrowing. Particular issues raised by stakeholders in this context included:

- in the current environment additional borrowing is likely to be expensive not just because of the direct costs of that borrowing but because it may also result in

- grants have provided a ‘safety net’ so lower grant levels will be seen as significantly increasing financial risks as will the uncertainties associated with large numbers of policy changes.

Both RSLs’ willingness to borrow and the market’s preparedness to lend, and on what terms, are likely to be affected both directly by these increases in perceived risk and indirectly via their effect on interest rates and the availability of funding. This will in turn reduce the incentive to maintain investment in affordable homes. These issues apply across the country but are most important in London because of the scale of the rent increases envisaged.

A further issue is that there are fewer relets in London (where rents can also increase to intermediate levels) as compared to the rest of the country because of the much lower turnover observed in the capital (figure 1). Moreover, higher proportions of new lets go to existing social and local authority tenants in London than elsewhere in the country because of the need to manage available stock (tables A2.1 – 2.2). Together these factors will further constrain rent increases and the capacity to borrow into the medium term.

Figure 1: Turnover rates of general needs housing in London and England, 1990–2009

Sources: Regulatory Statistical Return 1989/90–2008/09 and HA CORE GN 1989/90–2008/09

A final issue in the context of the number of social units to be built is the relative costs of capital grant for social housing as compared to the benefit costs if tenants are housed in the private rented sector. Such a comparison is fraught with difficulty and requires many assumptions. A first estimate using simple assumptions and based on the Treasury discount rate and HCA data on build costs is given in annex 1.

It suggests that for instance in Hackney the discounted value of grant costs is lower than the private sector LHA cost for a household with an income that enables them to pay a social rent of 80% of market. If the calculation is done for rents at 60% of market and thus relating to private tenants on lower incomes capital grant becomes much the cheaper option. (At the same time social rental income would be lower restricting the capacity to invest in the future). While these figures are very preliminary they do suggest that in many circumstances the public purse benefits from building affordable housing rather than relying on benefits.

4.3 Housing numbers: conclusions

Overall, London is absolutely core to the successful achievement of the numbers of affordable homes that the Coalition has pledged to provide during this Parliament. But this cannot be done without government grant support.

London is undoubtedly in a position to contribute disproportionately to meeting the government's pledge to provide 150,000 affordable homes – and indeed to meet longer term goals as they are developed. Rents will be raised to support new development and the additional borrowing required to achieve additional investment. But the extent to which this can occur is limited by the impact of increased risks on borrowing rates, the negative effect on work incentives and by the effect on the public purse of the increased benefits bill. Continued grant support, based on rate of return for the public purse, is an important building block to that success.

5. Conclusions

In times of widespread housing shortage an additional dwelling anywhere in the country is desirable – and the case for locating housing in the cheapest locations makes economic and social sense. This is not the case at the present time. London clearly faces far greater pressures than most of the rest of the country and an additional unit in the capital can help a chain of households to achieve adequate accommodation more effectively than in locations where housing is more readily available.

Overall the affordable housing programme in London, even with significant grant, is highly effective in terms of value to the public purse. Affordable homes go to those who suffer the most from poor housing so that public sector costs on health, education and other services are reduced. These homes are used more intensively in London than elsewhere in the country.

Investment in affordable homes – including public investment in the form of grant, levers in more market housing and therefore generates additional employment as well as contributing to overall housing supply. Affordable homes, notably intermediate tenures, can provide shallow subsidy assistance to lower income employed households increasing the incentive to work and lowering benefit bills. Thus every pound of government funding not only helps those in particular need to be better housed but also improves economic growth and social welfare.

Finally, with respect to the three potential criteria for grant allocation listed in the introduction:

- 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;

- 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. In addition 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;

- without London's contribution, neither the national pledge of 150,000 affordable homes during this Parliament nor longer term housing objectives can be met.

Subsidy remains a necessary part of the successful delivery of the housing investment programme. Affordable housing needs subsidy and London has the greatest need for that subsidised housing.

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Annex 1: Costing demand versus supply subsidy for housing in London

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A1.1 Method

A comparison is sought between the public costs of providing affordable housing in London by subsidy to construction of dwelling and by subsidy to rent in the private sector. Four example households are considered, all low-waged households with an adult in employment, but with varying composition: a single person, a childless couple, a lone parent with one dependent child, and a couple with two older dependent children requiring separate bedrooms. Two example boroughs are considered: Hackney and Croydon.

To calculate the cost of the supply-side subsidy, figures provided by the GLA on the subsidy per person of newly provided social rented dwellings in London is used; it is slightly over £20,000. A figure by dwelling unit by bedrooms would be preferable, but is not available.

The eligible rent on this dwelling is assumed to be under the new 'affordable' rents regime being introduced by the HCA. It is fixed at 80% of lower-quartile gross market rents (published by the GLA, derived from VOA data) less average RSL service charges in that borough in 2010 (published by the TSA). Lower quartile market rents are used to reflect the typically lower-value dwelling characteristics and location of the social rented dwelling stock. Note that the 'affordable' rents derived in this way are very considerably higher than actual current social rents. Using higher 'affordable' rents reduces the calculated cost of demand-side subsidy in the PRS, as explained below.

The demand-side subsidy cost is derived by first working out the minimum income that the household would require to afford the subsidised social rented dwelling without any Housing Benefit. Housing Benefit is paid on the whole eligible rent, less 65% of the amount by which the household's net income exceeds its personal allowance (the “Applicable Amount”) in 2010/11 (£67.50 per week for a single person aged over 25, and so on).

The household earning this amount is then assumed to be renting in the private rented sector at the maximum HB (Local Housing Allowance in the PRS) payable in that borough (since April 2011, the 30th percentile of local rents). The maximum is used as there is evidence [can look up the parliamentary question where this came from] that a large proportion of LHA claimants rented at or above the maximum LHA, even when it was set at the median of local rents.

The weekly LHA amount that the household can then be worked out, as described above, given the higher rents in the PRS. This is multiplied to give an annual figure, which is then summed over 30 years applying a discount rate of 4% or 3.5% per annum. It is an open question whether there will be long-term real rent inflation relative to general price inflation which would further increase the cost of demand-side subsidy.

A1.2 Results

Hackney/Inner East London BRMA

Affordable Rents @ 80% of Market; Discount Rate 4%				
Household	**Single person aged 25+**	**Couple aged 18+**	**Lone parent and one dependent child**	**Couple with two older opposite sex children**
Cost of build subsidy	£20,200	£40,400	£40,400	£80,800
Cost of HB rent in PRS	£67,144	£67,144	£69,304	£82,995

Affordable Rents @ 60% of Market; Discount Rate 3.5%				
Household	**Single person aged 25+**	**Couple aged 18+**	**Lone parent and one dependent child**	**Couple with two older opposite sex children**
Cost of build subsidy	£20,200	£40,400	£40,400	£80,800
Cost of HB rent in PRS	£112,646	£112,646	£126,811	£151,201

Croydon/Outer South London BRMA

Affordable Rents @ 80% of Market; Discount Rate 4%				
Household	**Single person aged 25+**	**Couple aged 18+**	**Lone parent and one dependent child**	**Couple with two older opposite sex children**
Cost of build subsidy	£20,200	£40,400	£40,400	£80,800
Cost of HB rent in PRS	£37,631	£37,631	£48,927	£56,595

Affordable Rents @ 60% of Market; Discount Rate 3.5%				
Household	**Single person aged 25+**	**Couple aged 18+**	**Lone parent and one dependent child**	**Couple with two older opposite sex children**
Cost of build subsidy	£20,200	£40,400	£40,400	£80,800
Cost of HB rent in PRS	£69,528	£69,528	£88,414	£103,262

Annex 2: Trends in Allocations England and London Compared

The figures in this annex provide a range of indicators of the relative effectiveness of new lettings in London as compared to England as a whole.

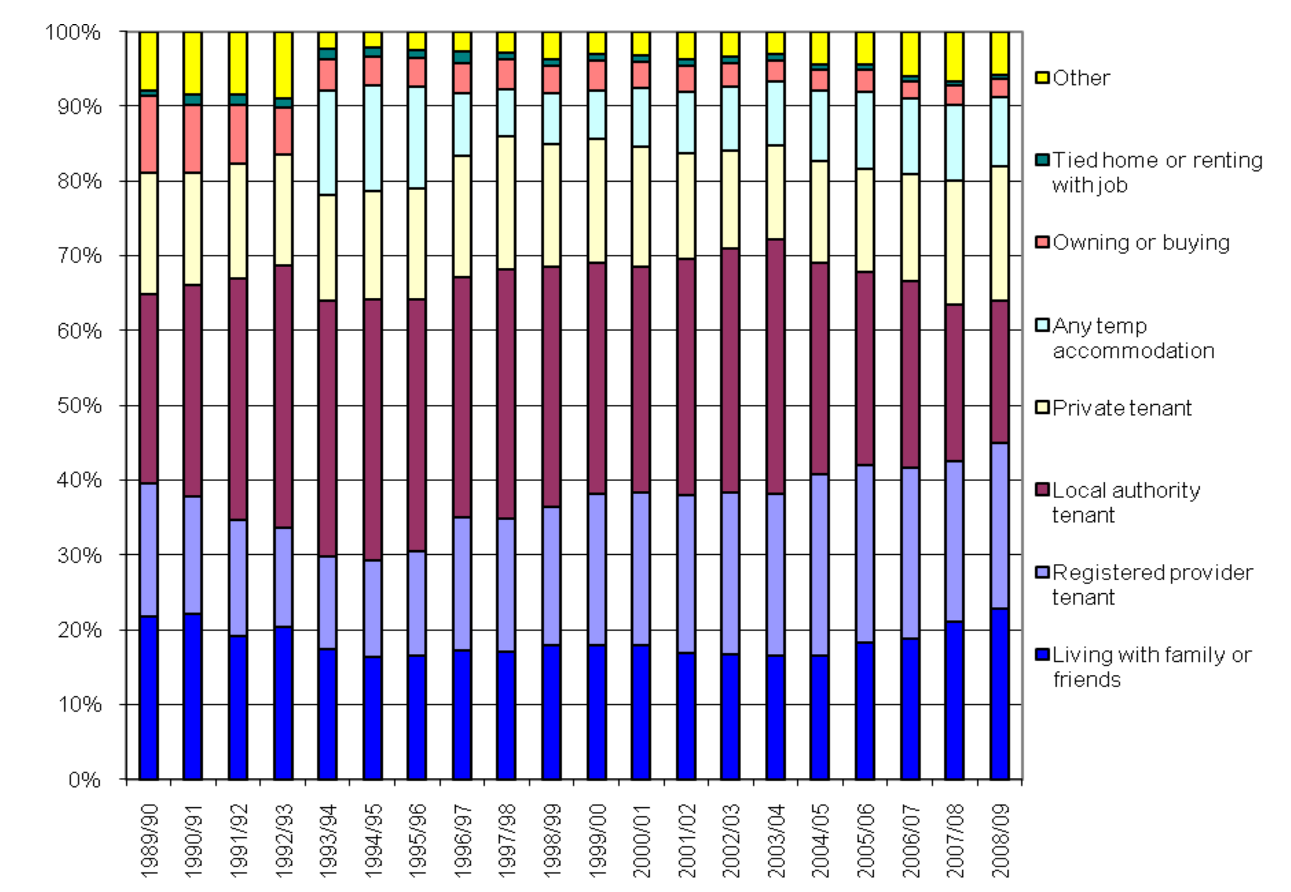
Figures A2.1 to A2.4 show the previous tenure of those accessing new lets and relets in London and England. They show that new lets tend to go first to existing tenants with relatively small proportions going to those from temporary accommodation. However, well over 30% of relets in London go to households from temporary accommodation as compared to only just over 10% in the country as a whole. Overall new affordable housing clearly houses proportionately more households from insecure accommodation.

Figures A2.5 and A2.6 show the economic status of those obtaining new lets in the social sector. There are relatively similar proportions of those in work or training between London and England but more of those who are out of the labour force. Overall therefore London houses a higher proportion of working aged households but concentrates on the most vulnerable.

Figures A2.7 and A2.8 show the relative importance of one parent households and more generally households with children in London as compared to the rest of the country. Again this reflects the extent to which allocations concentrate on need.

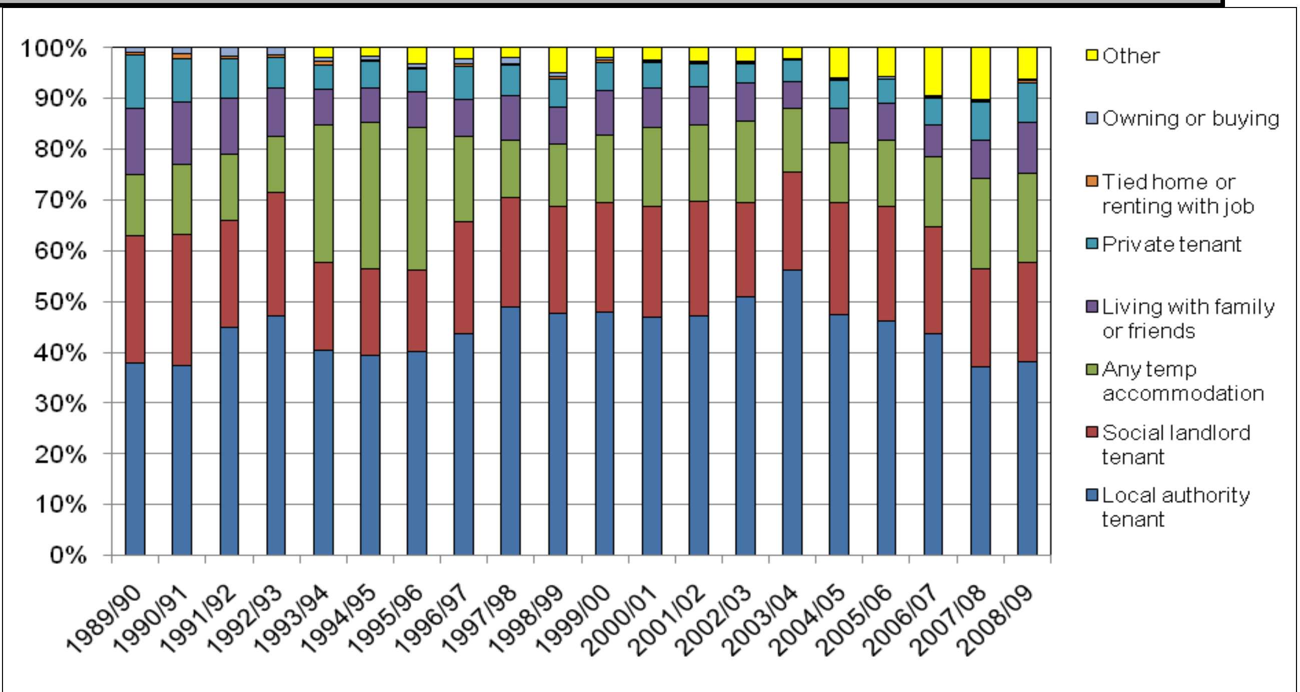
Figures A2.9 and A2.10 compare who is buying affordable housing in London and England. A far higher proportion of private tenants in London are getting the opportunity to buy as compared to the rest of the country. On the other hand far fewer social tenants are able to buy because of affordability problems.

A 2.1: Previous tenure of General Needs new lets in England, 1998/90–2008/09



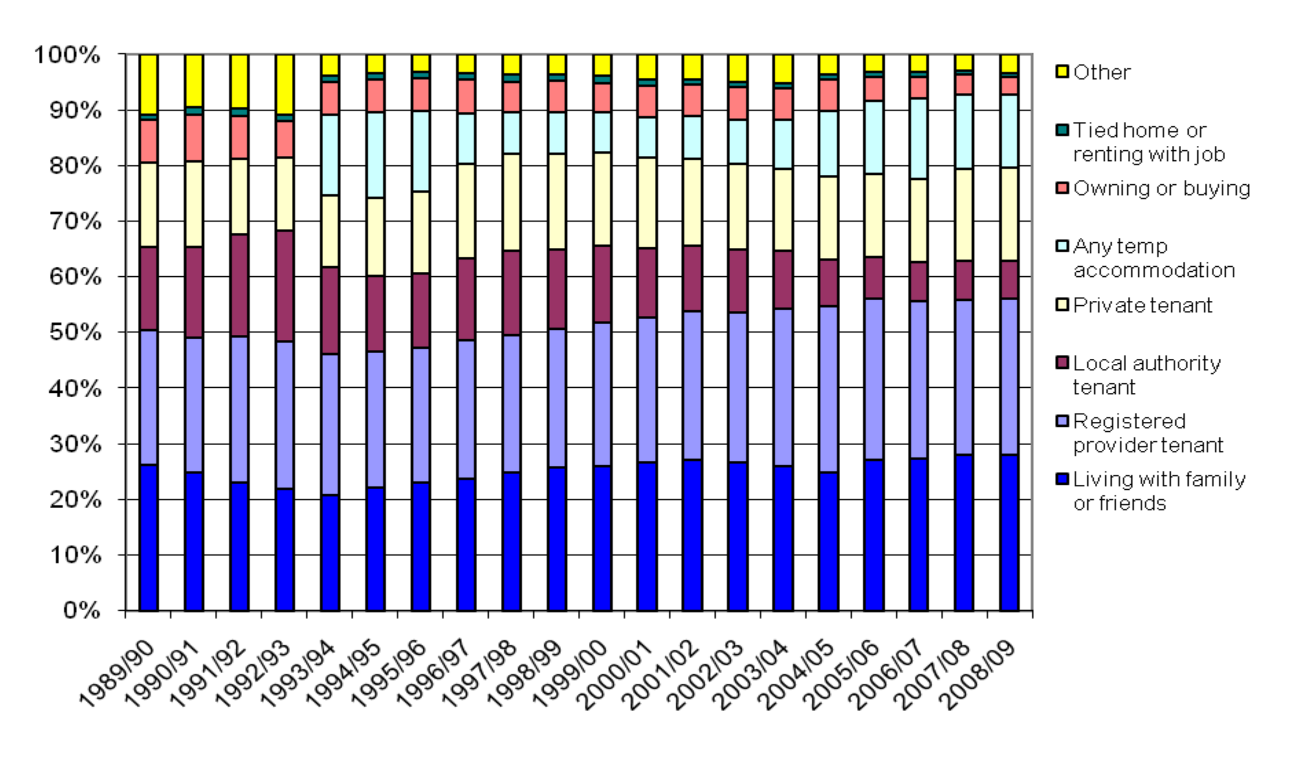
Sources: CORE HA GN 1998/90–2008/09

A 2.2: Previous tenure of General Needs new lets in London, 1998/90–2008/09



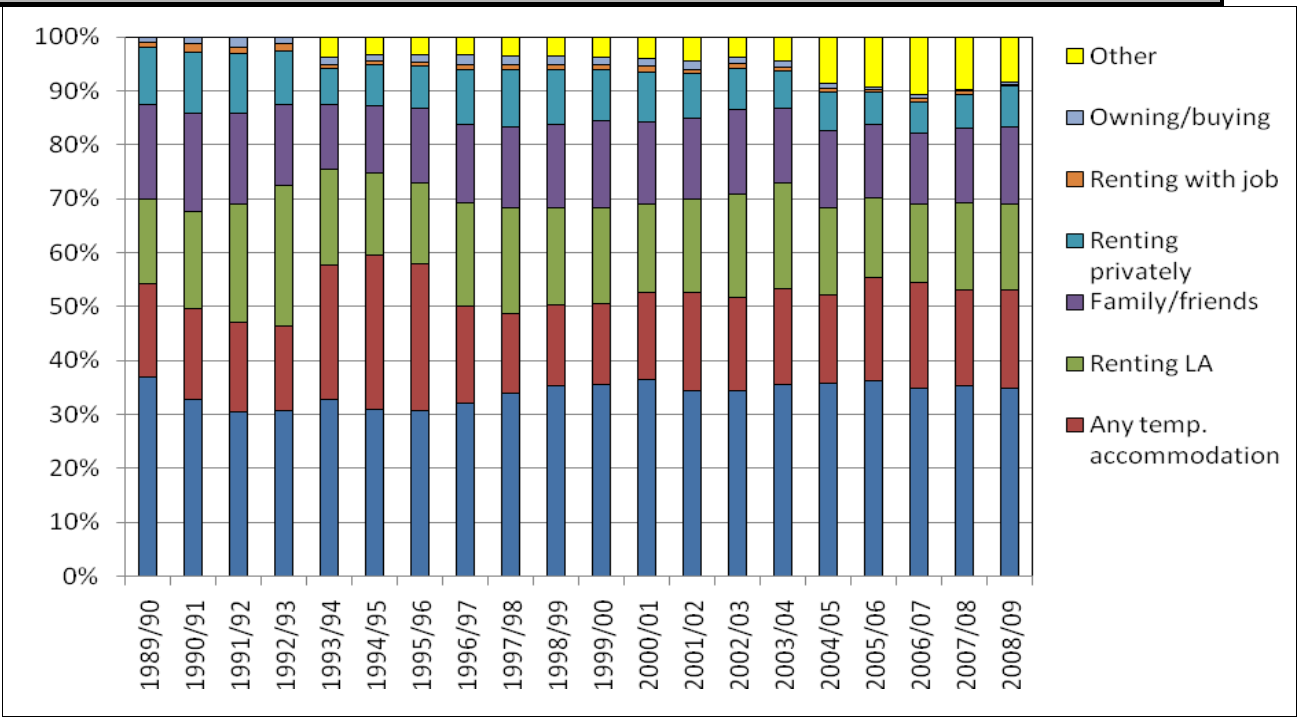
Sources: CORE HA GN 1998/90–2008/09

A 2.3: Previous tenure of General Needs relets in England, 1998/90–2008/09



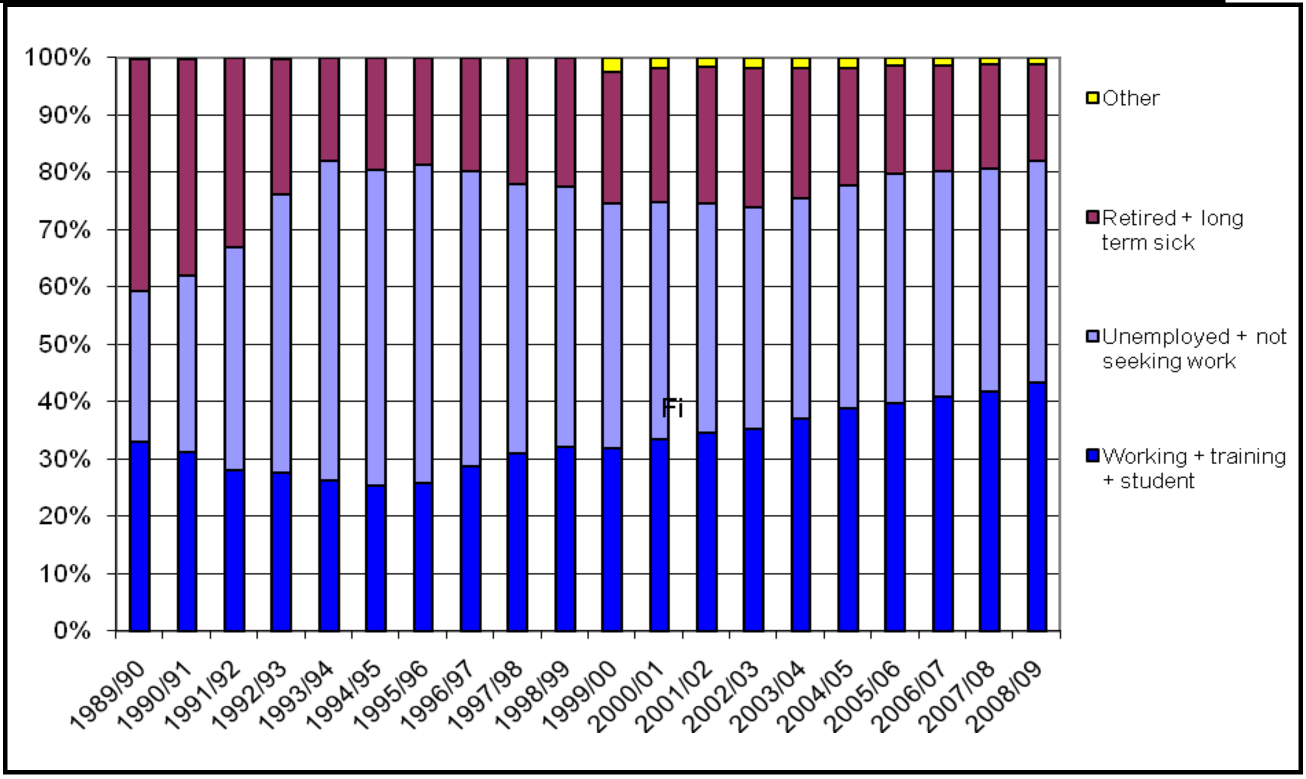
Sources: CORE HA GN 1998/90–2008/09

A 2.4: Previous tenure of General Needs relets in London, 1998/90–2008/09



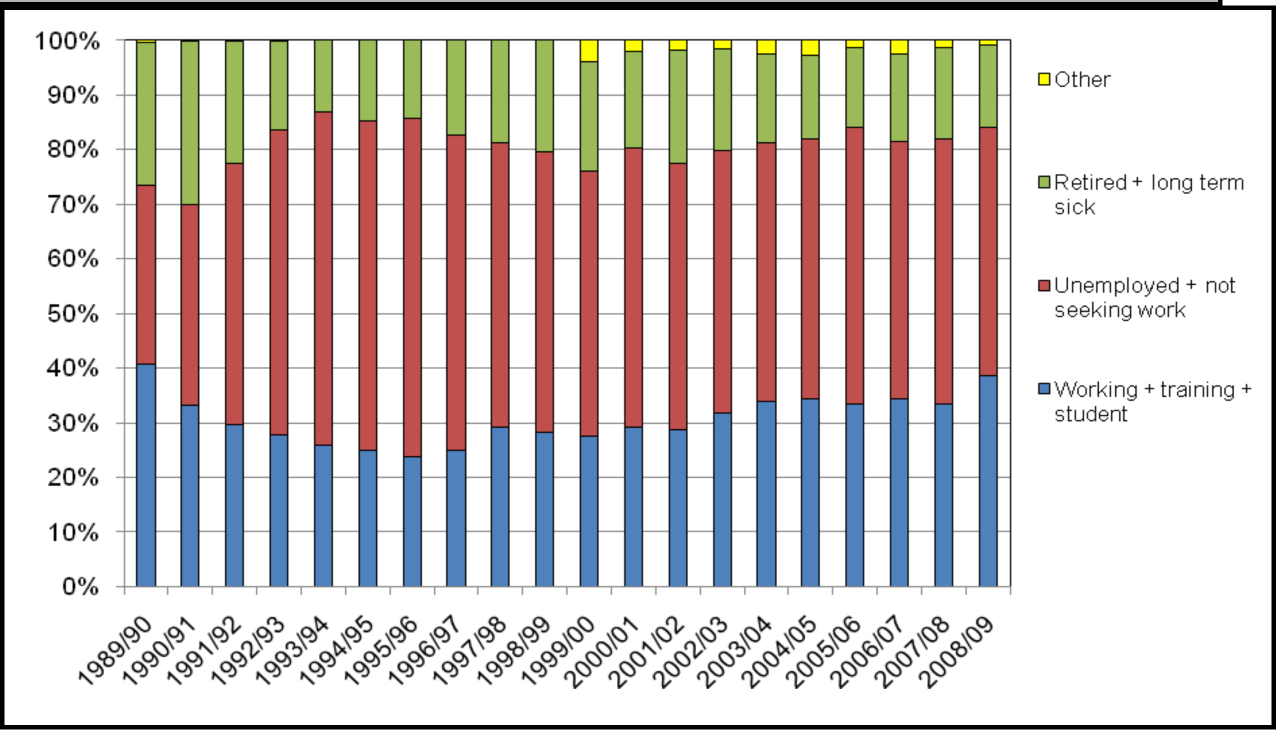
Sources: CORE HA GN 1998/90–2008/09

A 2.5: Economic status of person 1 in General Needs new lets in England, 1989/90–2008/09



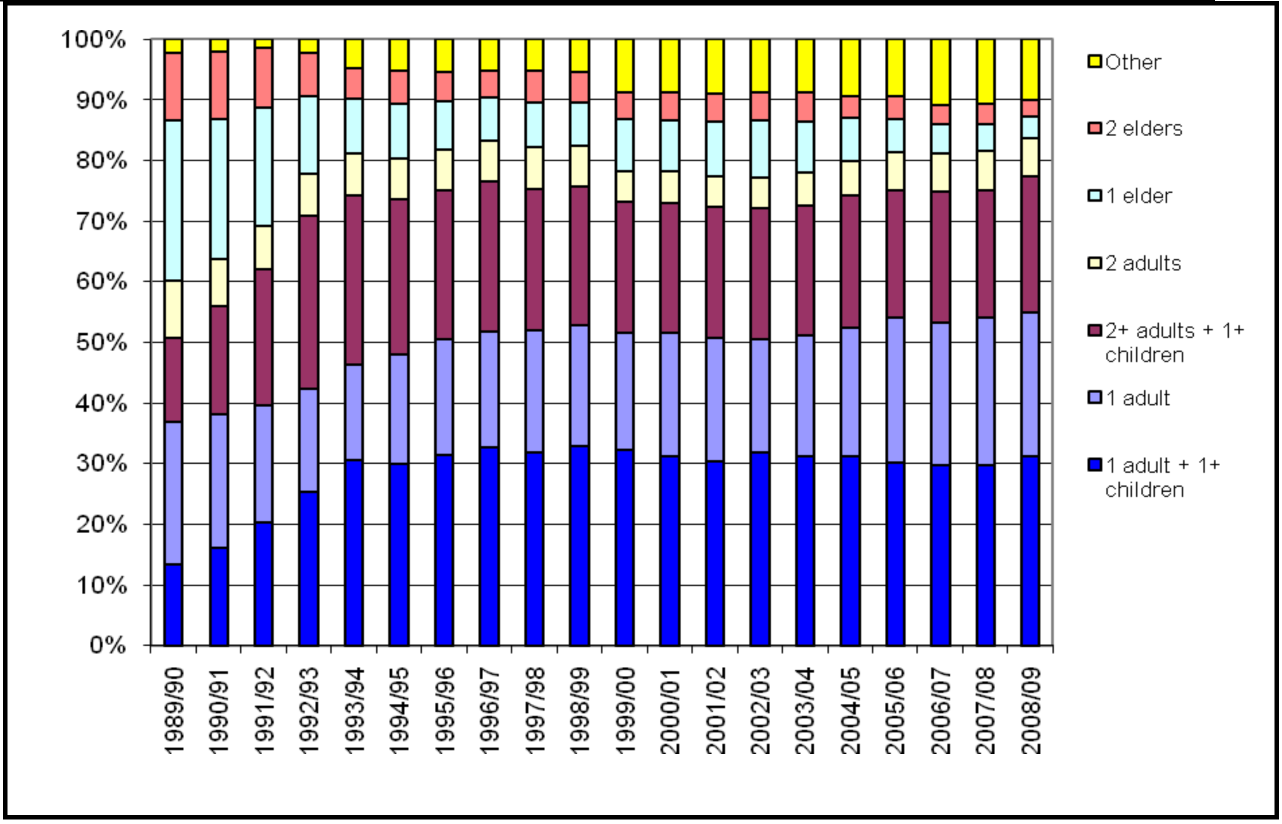
Source: HA CORE GN 1989/90–2008/09.

A 2.6: Economic status of person 1 in General Needs new lets in London, 1989/90–2008/09



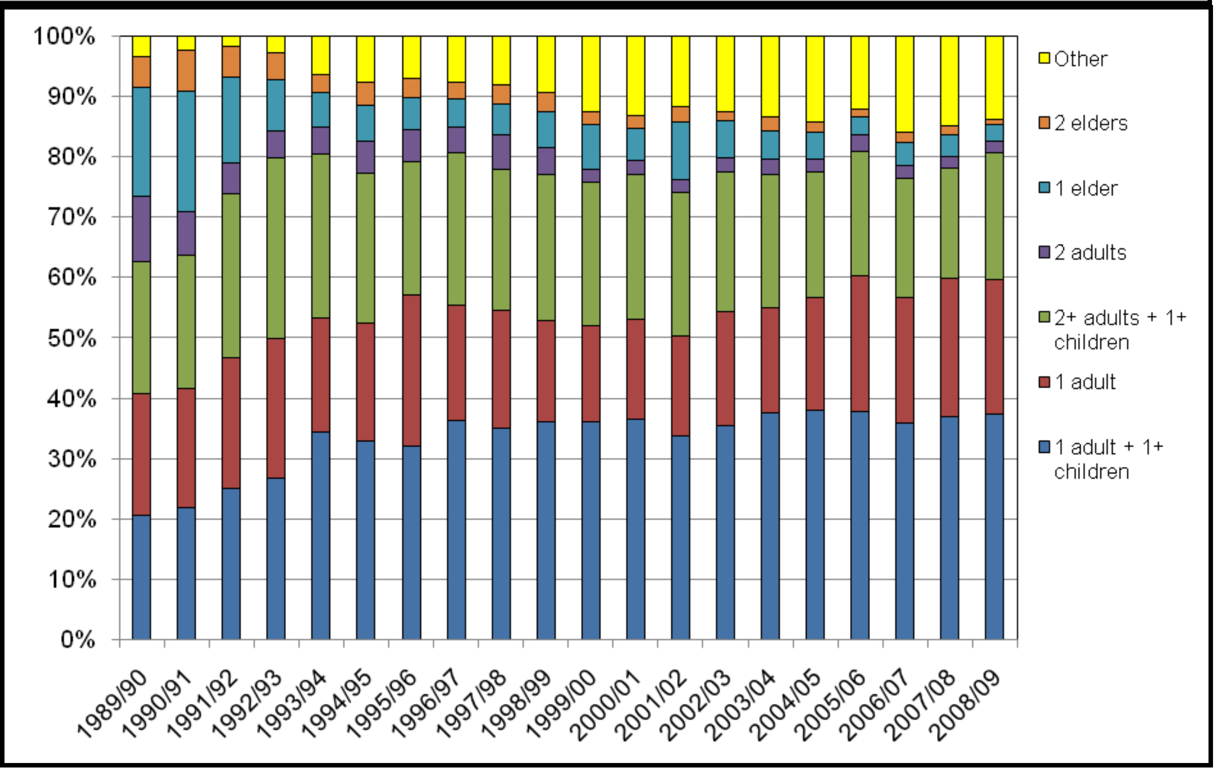
Source: HA CORE GN 1989/90–2008/09.

A 2.7: Household type in General Needs new lets in England, 1989/90–2008/09



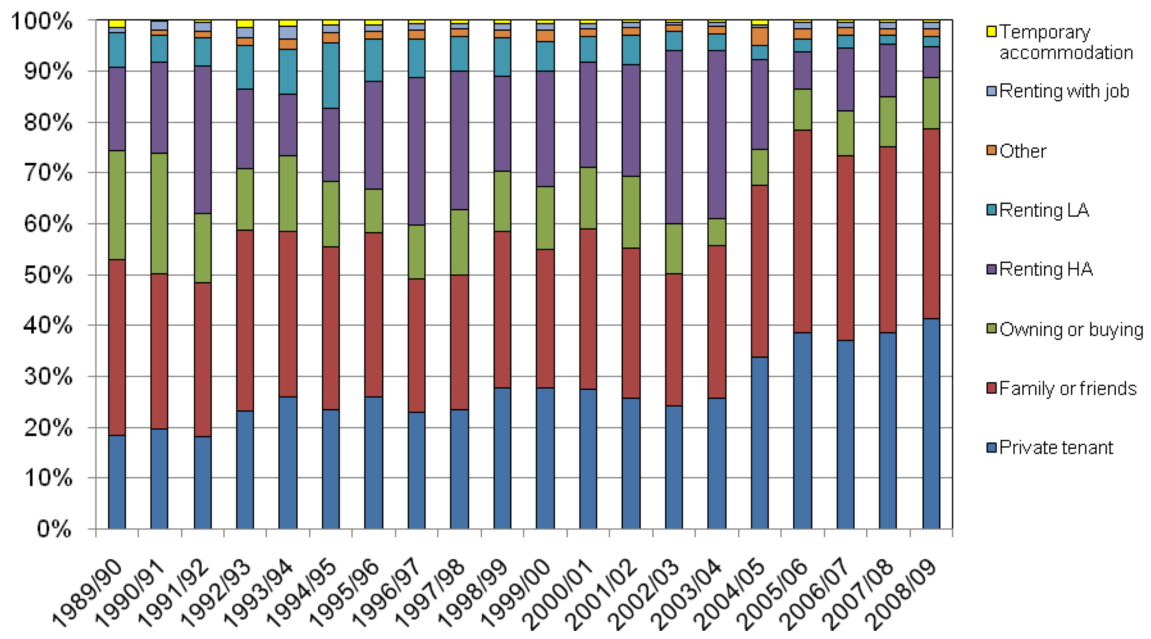
Source: HA CORE GN 1989/90–2008/09.

A 2.8: Household type in General Needs new lets in London, 1989/90–2008/09



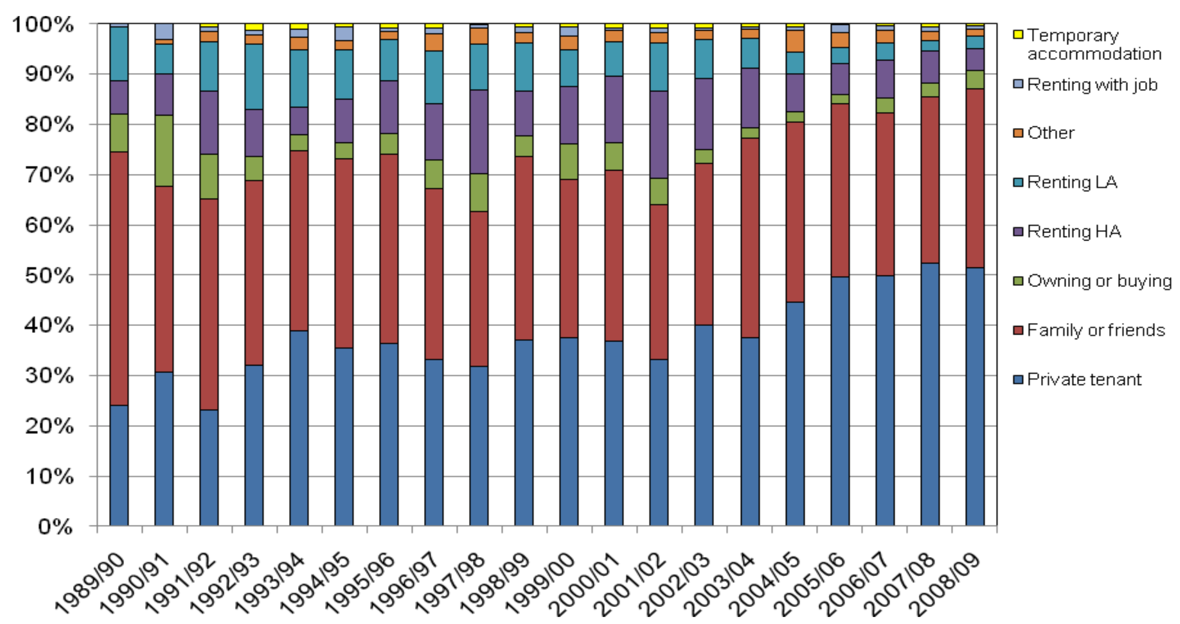
Source: HA CORE GN 1989/90–2008/09.

A 2.9: Previous tenure of purchasers of new/purpose built units in England, 1998/90–2008/09



Source: CORE new sales 1998/90–2008/09

A 2.10: Previous tenure of purchasers of new/purpose built units in London, 1998/90–2008/09



Source: CORE new sales 1998/90–2008/09

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