



The Case for Investing in London's Affordable Housing

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June 2011

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.

The starting point is the Replacement London Plan, which looks to provide some 13,000 affordable homes each year – a figure which reflects estimates of both the growth in housing requirements and capacity constraints. To achieve this requires not just commitment by developers, financial institutions and local authorities but also central government support through capital grant.

Rationale for subsidy

The provision of affordable homes at below market prices and rents must inherently involve some element of subsidy. The amount required from government can be reduced by using other sources of support – including cheap land, s106 agreements with developers and transfers from other tenants through more general rent increases. Even so, to maintain and increase affordable housing investment must still require central government support.

There are three main criteria by which government might allocate that subsidy: housing need; the wider benefits of affordable housing to the health and buoyancy of 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 particularly 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. This is a situation that has not been seen for over forty years when the capital was still recovering from wartime housing shortages.

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 25% 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. This is a particularly heavy cost to the public purse in terms of direct housing payments but also because of the well documented costs of disruption to schooling and the additional pressures on health and social services.

These problems are not going to go away. Indeed pressure is almost certain to increase in both absolute and relative terms as more households, particularly family households, stay in London and 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. 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.

Homelessness, living in temporary accommodation and, to a lesser extent, overcrowding are the main sources of these costs to government and society. Providing additional affordable housing is the best way of reducing these costs – particularly in London where there is the greatest housing shortage

Housing and land in London is used more effectively than elsewhere in the country. Development is denser and the necessary infrastructure is also more likely to be in place ahead of development.

New homes in London are also more intensively used than elsewhere in the country, with a much higher proportion of households allocated to homes that just meet their occupancy standards. So costs per person assisted are lower than implied by simply looking at averages.

Social investment in affordable housing is also more effective in London than elsewhere because it is better at leveraging in additional private investment in market housing and so increasing overall housing supply. This has been particularly true since the financial crisis.

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.

London is the centre of the UK's largest agglomeration of private employment. Yet 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.

***Affordable
housing
numbers***

The only argument against concentrating investment in London is that it buys fewer units than elsewhere in the country - because for a given level of grant, the number of affordable homes achieved is lower. But if you follow this logic all the dwellings provided should be bedsits in the cheapest part of the country – which is clearly economic nonsense.

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 in current conditions 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. Rents can undoubtedly be increased, allowing more private funding to be levered in – and therefore more affordable and market dwellings to be built.

However there are limits to what is possible in terms of rent increases. These limits include problems of affordability among London's lower income employed households; the need to avoid unreasonably increasing the housing benefit bill 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 values so cannot be so readily increased to reduce the need for subsidy to increase supply. But equally the fact that rents are comparable to market levels suggests that the private sector could in many cases provide the necessary housing as effectively.

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 core 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.

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