

# CHANGES TO AFFORDABLE HOUSING IN LONDON AND IMPLICATIONS FOR DELIVERY

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Future of London

This paper gives an overview of the London housing market with a particular focus on affordability and the impact of recent policy reforms on affordable housing. It argues that a new, sustainable delivery model for London is needed if the capital is to meet its affordable housing challenge.

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## Background

London's housing market is distinct from the rest of the country. The demand for property, the mix of tenures and households, the difference in affordability of renting or buying, and the levels of acute housing need, all distinguish the London housing market from England as a whole, and have major implications for the delivery of housing that is affordable.

In order to provide further detail on the unique nature of the London housing market, and a greater understanding of the landscape against which practitioners are currently operating to deliver affordable housing, the **first section** of this paper summarises a number of relevant housing indicators. The **second section** then sets out the key housing policy reforms undertaken by the Coalition Government. The **third and final section** explores the implications of these for London practitioners.

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## Key points

- There is a significant lack of clarity over what 'affordable' and 'housing need' mean in a London context, and for whom new housing products are intended. The disparity between rental and income levels is rising, and demand outstrips supply.
- New freedoms for London boroughs and registered providers to increase rent levels and manage their housing stock more strategically provide the opportunity for local innovation.
- Boroughs are adopting bespoke approaches to the delivery and allocation of new homes. However, welfare reform, increasing rent levels, changing allocation criteria and tenancy reform all risk excluding lower-income households and those not deemed in acute need from accessing affordable housing.
- A new, sustainable delivery model for new housing in London is needed, underpinned by clear definitions of 'affordability' and 'housing need'. It is critical that London practitioners continue to seize the initiative and work together to develop this ahead of the next affordable housing programme in 2015.

# A review of the London housing market

## Rising demand and contracting supply

London's 8.2 million people<sup>1</sup> currently live in roughly 3.3 million households<sup>2</sup>. Over the next 20 years this population is expected to reach 10 million people<sup>3</sup> and 3.9 million households, with single occupancy households accounting for almost a third of this growth.<sup>4</sup>

New supply of housing in London has historically lagged behind household projections. Official projections for London suggest that household numbers will grow at an average of c. 36,000 per year to 2033.<sup>5</sup> New supply in London amounted to 24,870 homes in 2011-12, and has averaged 24,582 per year for the past five years.<sup>6</sup>

In 2011/12, there were 4,372 new affordable housing starts across the capital, contrasted with 16,176 completions. The previous higher level of affordable housing starts was the result of central Government fiscal stimulus monies and kick-start programmes.<sup>7</sup> The total number of new starts and completions over the past three years is illustrated in Figure 1 below.

**Figure 1: New affordable housing starts and completions 2009–2012**

<b>Time period</b>	<b>Total affordable housing starts</b>	<b>Total affordable housing completions</b>
1 April 2011 – 31 March 2012	4,372	16,176
1 April 2010 – 31 March 2011	16,331	12,870
1 April 2009 – 31 March 2010	15,691	12,792

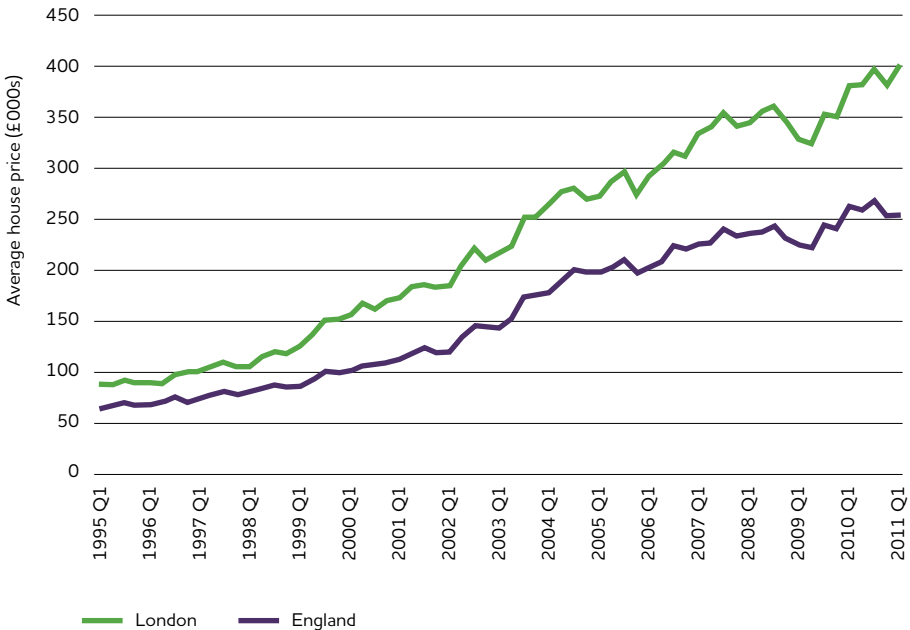
Source: Homes and Communities Agency (2012) 'National Housing Statistics June 2012'

## The cost of buying a residential property in London is continuing to increase

On average, house prices in London are 57 per cent higher than England as a whole, and continue to grow at a faster rate than the wider English housing market.<sup>8</sup>

The capital has experienced significantly higher house prices over the past 17 years than the country as a whole, despite seeing a sharper decline in values during the property market crash in 2007/8 (see Figure 2).

**Figure 2: Average London house prices compared to England**



Source: Communities and Local Government (2011) 'Table 504: Simple average house prices, by new/other dwellings, type of buyer and region, United Kingdom, from 1992 (quarterly)'

In 24 of the 33 London boroughs, house prices have risen over the past 12 months. Particularly strong rates of growth have been recorded in both Inner and Outer London, with annual rises of 23.7 per cent recorded in Kensington and Chelsea, and 19.32 per cent in the City of London, for example (see Figure 3).<sup>9</sup>

By contrast, average prices have fallen in nine London boroughs, with Merton and Greenwich experiencing a drop of more than 2.5 per cent (see Figure 4).<sup>10</sup>

**Figure 3: Top five increases in the average residential property price across London boroughs, 2011-12 (Q3-Q3)**

Rank	London borough	Average price (£)	Annual change (per cent)
1	Kensington & Chelsea	1,603,607	23.70
2	City of London	574,033	19.32
3	Hammersmith & Fulham	742,796	15.13
4	Brent	422,861	14.67
5	Camden	823,891	10.80

Source: Communities and Local Government (2012) 'Table 581: Mean house prices based on Land Registry data, by district, from 1996 (quarterly)':

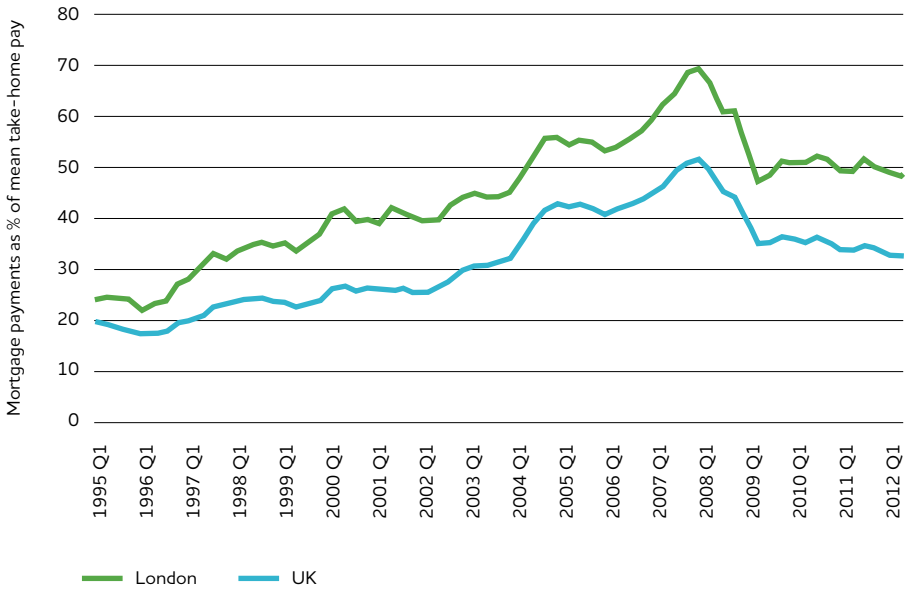
**Figure 4: Top five decreases in the average residential property price across London boroughs, 2011-12 (Q3-Q3)**

Rank	London borough	Average price (£)	Annual change (per cent)
1	Merton	449,790	-7.69%
2	Greenwich	298,590	-3.60%
3	Richmond upon Thames	590,093	-1.80%
4	Barking & Dagenham	181,765	-1.55%
5	Southwark	423,646	-1.04%

Source: Communities and Local Government (2012) 'Table 581: Mean house prices based on Land Registry data, by district, from 1996 (quarterly)':

Affordability in London continues to lag behind the rest of the UK, as the size of mortgage payments as a percentage of mean take-home pay is nearly 20 per cent higher in London than across the UK (see Figure 5).<sup>11</sup>

**Figure 5: Affordability of housing for first-time buyers in London compared to the UK**



Source: Nationwide Building Society (2012) 'First Time Buyer Affordability Measure'

As a result of these factors, there are an estimated 240,000 households living in overcrowded accommodation across all tenures in London. London has the most overcrowded households of any region. Overcrowding increased 50 per cent between 2000 and 2009-10.<sup>12</sup>

## The cost of renting a residential property in London is also increasing

The average rental asking price in London is the highest in the country: significantly higher than that of the South East of England, and nearly twice as much as other English regions including the East Midlands, Yorkshire and Humber and the North East (See Figure 6).<sup>13</sup>

**Figure 6: Average private monthly rents across England, October 2012**

	London	South East	South West	East of England	East Midlands	West Midlands	North East	Yorkshire & Humber	North West
Average rental asking price	£1,102	£781	£641	£760	£546	£563	£530	£540	£593
Average rental yield (%)	5.1	5.1	3.9	4.9	6.0	6.0	5.2	6.7	7.3
Annual rental change (%)	7.0	3.2	0.3	1.8	-1.5	2.2	2.7	1.6	2.6
Monthly rental change (%)	0.9	0.7	0.5	1.4	-1.8	-0.5	0.2	-0.3	-0.2

Source: LSL Property Service plc (2012) 'Buy-to-let index October 2012'

This differential is increasing rapidly, with London rents seeing an average annual increase of seven per cent from 2011, where in most other parts of the country, rents have experienced only a small increase.<sup>14</sup>

Despite this rise, rental yields remain only 5 per cent, a major challenge to attracting institutional investment to boost supply in the sector.<sup>15</sup>

In 19 of the 33 London boroughs, the median private sector rents are in excess of £1,000 per month; in 13 of the boroughs, average rents are between £800 and £999 per month; and in just one borough these rents are below £800 per month.<sup>16</sup>



Looking specifically at mean social rents in London, recent data shows that they are £89.17 a week for local authority housing, which is 23 per cent higher than in England as a whole.<sup>17</sup> In terms of housing provided by registered providers, mean social rents are 25 per cent higher than the English average, at £97.46 per week.<sup>18</sup>

## **London has a distinct mix of tenures and households compared to the rest of the country**

Proportionately fewer individuals in London own their own home, with more living in social rented accommodation than across England – 50.7 per cent of Londoners own their own home, compared with 66 per cent of households across England, while 23.9 per cent of Londoners live in social rented accommodation, compared to 17.5 per cent across England. The private rented sector now accounts for 25.4 per cent of London households, up from 21.5 per cent in 2008-09.<sup>19</sup>

Nearly half of London's households live in flats, compared to 20 per cent in the rest of England.<sup>20</sup>

Furthermore, levels of home-ownership have been falling in London, from 59.6 per cent in 2000, to 50.7 per cent in 2010/11.<sup>21</sup> This reflects a national trend. Home-ownership levels have fallen across England in recent years – from a high of 70.9 per cent of households in 2003, home-ownership levels have since declined to 66 per cent of households in 2010-11<sup>22</sup>.

These factors in turn have an impact on levels of churn within the London housing market. Around 10 per cent of households in London have moved within the last 12 months, with approximately two thirds of these being among those in the private rented sector (PRS).<sup>23</sup> This affects on the provision of public services across the capital – a London School of Economics study in 2007 estimated that high population mobility cost London councils more than £100 million per year.<sup>24</sup>

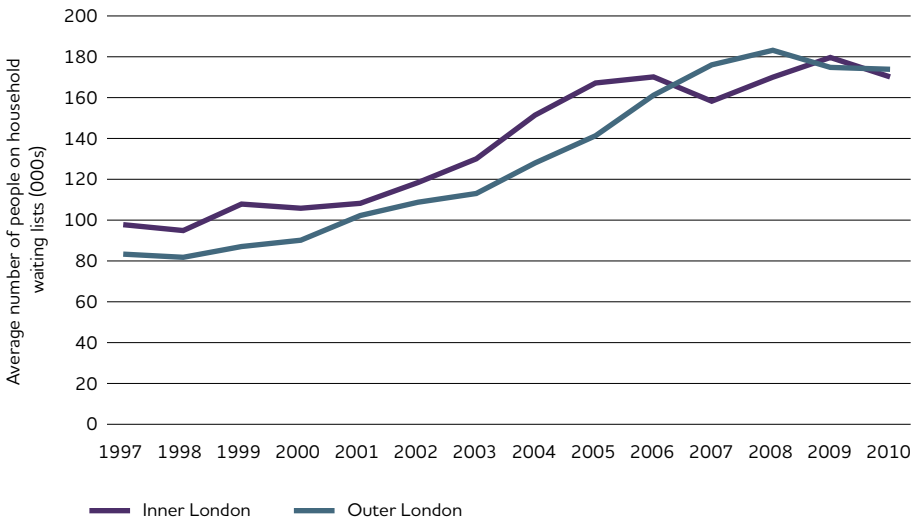
## Acute housing need remains a significant challenge

After declining for more than two decades, homelessness in London is again on the rise, with 3,350 households accepted by local authorities as homeless. This is an annual increase of 27 per cent in 2011-12.<sup>25</sup>

London accounts for the majority (72 per cent) of temporary accommodation cases in England.<sup>26</sup>

Household waiting lists have continued to rise across the capital in recent years, although the rate of the increase has recently slowed (see Figure 7). Across London, there were 366,613 households on waiting lists in 2011, an increase of 1.2 per cent from 2010, and up 73 per cent from 2001.<sup>27</sup>

**Figure 7: Average number of people on household waiting lists 1997–2010**



Source: Communities and Local Government (2011) 'Table 600: Number of households on local authorities' housing waiting lists, by district, England 1997-2011'

The absolute and relative size of housing waiting lists varies widely across boroughs (see Figure 8). Waiting lists for social housing in Newham especially are far larger than any other borough, with 32,045 households on their list, representing 34.9 per cent of households in the borough. On average across London, 11 per cent of households are on local borough housing waiting lists.<sup>28</sup> The large number of households on these lists indicates huge unmet demand for social housing.<sup>29</sup>

**Figure 8: Top 10 London borough housing waiting lists 2000–2011**

Rank	London borough	Year			Per cent of households on housing waiting list in 2011
		2000	2005	2011	
1	Newham	9,901	25,317	32,045	34.9
2	Tower Hamlets	6,751	21,183	23,128	23.6
3	Haringey	9,510	19,930	18,940	19
4	Lambeth	16,220	10,648	23,894	18.4
5	Barking and Dagenham	1,925	2,321	12,223	17.6
6	Waltham Forest	7,476	8,837	16,153	17.6
7	City of London	787	1,204	1,219	16.3
8	Camden	5,884	16,532	17,052	15.9
9	Brent	12,603	17,351	14,443	14.8
10	Hackney	7,011	7,744	13,423	14.6

Source: Communities and Local Government (2011) 'Table 600: Number of households on local authorities' housing waiting lists, by district, England: 1997-2011'

## Conclusions: London’s unique housing market

This review of the London housing market highlights a number of key factors in relation to the provision of affordable housing:

- Demand continues to outstrip supply. London’s population is growing, as is the number of single occupancy households, both of which drive demand. Supply

has failed to keep up, even with years of Government subsidy. This subsidy has been cut significantly, and it is expected that minimal levels will be the norm for the foreseeable future.

- House prices in London are higher than the rest of the country. There has been growth in 24 of 33 London boroughs in the last 12 months, with significant changes seen in both inner and outer London boroughs.
- Levels of affordable housing provision look set to decline, leading to higher levels of homelessness, temporary accommodation and overcrowding.
- As levels of home-ownership fall, and boroughs struggle to meet demand for social housing, the PRS is occupying an increasing role in London's housing market.

## **A review of the Coalition Government's housing reforms**

Having reviewed the fundamentals underpinning the current state of the London housing market, it is also important to consider the shifting policy landscape that is shaping the delivery of affordable housing in the capital.

Against a backdrop of severely constrained public finances and macroeconomic uncertainty, the Coalition Government has embarked upon wholesale reform of housing policy since assuming office in 2010, in an attempt to boost the supply of new housing nationally, and devolve significant new powers to a local level. These reforms have particularly significant implications for affordable housing provision in London, given its unique development context. However, given the scale of cuts to affordable housing subsidies that have been implemented alongside reform, it is doubtful that, even when taken together, these measures will facilitate a return to previous levels of affordable housing delivery, let alone an increase.

## **Cuts to affordable housing subsidies and a new affordable rent model**

The 2010 Comprehensive Spending Review announced that the Department for Communities and Local Government (CLG) would take a 51 per cent cut in their budget to the end of the current spending round. This has affected council grants heavily, with 28 per cent of the cuts predicted to come from planning budgets.<sup>30</sup> It also led to a drastic reduction in the national housing budget to £4.5bn for the duration of the funding round (housing spending in 2010-11 alone was £10bn).<sup>31</sup>

This has significant implications for London practitioners, particularly given that, under the previous system, there is strong evidence to suggest that boroughs have been failing to meet their affordable housing targets. For example, 13 boroughs did not reach 50 per cent of their target for new-build social housing between 2008 and 2010.<sup>32</sup>

Developer contributions have historically been vital to funding new affordable homes, but they are being stretched more thinly across different priorities and funding requirements. The Mayoral Community Infrastructure Levy (CIL) alone charges between £20 and £50 a square metre. In addition, with boroughs now setting their own CIL to support development, there is concern in the private sector that councils will prioritise infrastructure over affordable housing, and expect developers to foot the additional housing costs, which could ultimately render development unviable.

With this in mind, a new model of affordable housing provision, less reliant on public subsidy, was required. The Affordable Rent Model (ARM) was established to meet this need. It consists of a delivery model that allows for a higher proportion of delivery costs to be met by borrowing on future rental receipts and existing assets, supported by a rental model that collects higher amounts than conventional affordable housing by charging up to 80 per cent of market rent.<sup>33</sup>

The programme has enabled CLG to pledge the delivery of 20,000 more new affordable homes nationwide than the initial Comprehensive Spending Review (CSR) target of 150,000. In London, this will mean the delivery of 16,130 affordable homes to rent, with a further 5,726 affordable homes to own. This represents the largest proportion of homes being delivered under the ARM programme compared to other parts of the country.<sup>34</sup>

London boroughs and their registered provider partners have taken different approaches to delivery under the new programme, meaning specific rent levels and prices for these properties vary across the capital. In the majority of cases, a blended rental rate is being applied, with some units being rented at 80 per cent of market rate, while others remain at, or close to, previous target rent levels for social housing. The impact of these rates on affordability depends on the particular development economics and property values of different parts of London, with sharp differences often existing between boroughs.

As a result, it remains too early to accurately predict in any detail the impact that the new regime will have on local housing markets across the capital. Indeed, this continuing uncertainty is causing concern for many in the sector, who feel that more progress should have been made now that we are almost halfway through a four-year programme.

## New attempts to boost supply

On 6 September 2012, the British Government announced a package of proposals designed to complement its Housing Strategy and kick-start homebuilding.

This series of measures includes:

- the removal of restrictions stalling 75,000 homes that are currently designated as commercially unviable;
- delivering up to 15,000 affordable homes, building an additional 5,000 homes for rent at market rates, and bringing 5,000 empty homes back on to the market;
- a £280m extension of the FirstBuy scheme to help 16,500 first-time home buyers; and
- the temporary removal of planning restrictions that hamper improvements to home-owners' and business properties, along with options to fast track planning decisions.

Altogether, this housing and planning package is stated to help deliver up to 70,000 new homes, 140,000 jobs, £40 billion for major infrastructure projects, and a further £10 billion for new homes.<sup>35</sup>

## Social housing tenancies and welfare reform

The Coalition has also made radical alterations to the current social housing system, believing that the previous housing benefit and tenure allocation regimes were both unfair and provided a barrier to social mobility – providing some benefit claimants with comparable or higher incomes than some individuals in employment, and therefore no incentive for unemployed social housing tenants to re-join the labour market.

Furthermore, lifetime tenancies for socially rented homes make it very difficult to rebalance the housing stock over time and allocate due to real need should individual tenants experience a change of circumstance, such as, for example, progression in the workplace, or their children leaving home.

In an attempt to remedy this situation, the Government has sought to replace lifetime tenancies with flexible tenancies for new occupants of social housing. These flexible tenancies will be a minimum of two years, and no maximum length of term, meaning an individual or family's situation can be reviewed, and tenancy not extended if they are no longer deemed to be in housing need.

This will facilitate housing being reallocated to those considered in the most need, according to local definitions. While those people with existing lifetime tenancy contracts will not be affected, all new affordable homes, and a proportion of existing stock, will be allocated in this way.

There has also been reform to social housing allocations. Previously, there was a national standard, which technically allowed anyone that met it to apply for social housing should they wish to. However, the Localism Act announced that councils would decide allocations locally. While these changes do not affect existing tenants, they are likely to have huge implications for London neighbourhoods with social housing. These implications will depend on the approaches taken by London boroughs, a number of which are already in the process of reviewing their allocations policies to prioritise certain groups depending on local political and development priorities.

In addition, the Government is pursuing major reforms to housing welfare, first announced in the Emergency Budget during 2010. The main reform is a cap on housing benefit of £250–£400 depending on the size of dwelling. The cap is set nationally, and does not account for differing regional rental values across the country. Therefore, it is clear that the reform stands to significantly affect a higher proportion of individuals receiving housing benefit in London than elsewhere, due to its average rent levels.

The Department for Work and Pensions (DWP) estimates that affected households will on average be £1,144 per year worse off in London<sup>36</sup>, while the Greater London Authority has estimated that up to 9,000 households may have to move when the caps are introduced.<sup>37</sup>

However, while there is a lack of reliable data to demonstrate whether these estimates are being played out across the capital, it is worth noting that in the recent interim report from the DWP on the implications of the Local Housing Allowance, relatively few respondents indicated financial reasons as the motivating factor behind their last move. Indeed, only three per cent of interviewed Housing Benefit claimants in London cited wanting to pay a lower rent as the reason for moving into their current accommodation. Of claimants that had looked for accommodation in London while claiming housing benefit, nine per cent indicated that housing was unaffordable due to low or lower Housing Benefit payments (DWP, 2012).

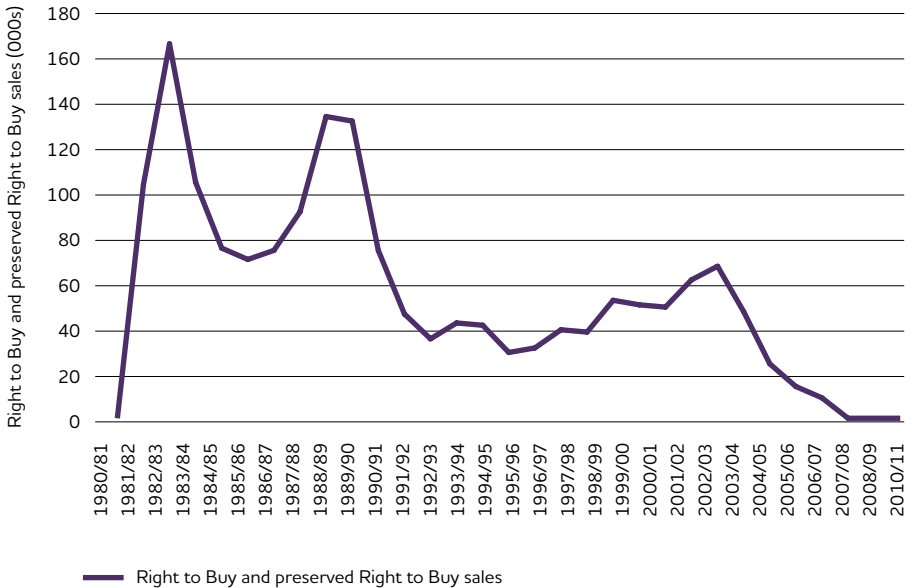
## Revived Right to Buy

The Coalition's National Housing Strategy reintroduced the concept of 'Right to Buy', originally conceived to incentivise council tenants into buying their own homes by offering them at a discounted rate, depending on the length of tenancy. Though experiencing peaks and troughs of popularity over the years, its trajectory has essentially been downhill since its first year, and evidence suggests it has had very little use since 2008/09 (see Figure 9). The area-based discount caps that Labour introduced to combat council housing shortages upon assuming office in 1997 had a severe impact on London's Right to Buy market. Unsurprisingly, it faced the highest cap of 16 per cent.

As of 2 April 2012, the discount cap has been increased to 75 per cent nationwide, in order to incentivise the maximum number of tenants to buy their properties. This is surprising, as in the Housing Strategy it was recognised that a balance must be struck between offering tenants a substantial discount, and having sufficient funds for building more stock. If the Government is to fulfil its ambition of building a new affordable home for every one that is sold through Right to Buy, it will be even more difficult to construct them in London with such large discounts applied, due to high land values.



**Figure 9: Right to Buy and preserved Right to Buy sales 1980/81 to 2010/11**



Communities and Local Government (2011) Table 670: Local authority stock sold through the right-to-buy scheme, by region (FINAL VERSION). Available at: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales>

## Local incentives to deliver more homes

Additional measures designed to encourage proactive local attitudes towards new development have also been introduced, including the New Homes Bonus (NHB) and the Community Infrastructure Levy (CIL). The NHB mechanism is intended to increase incentives within the local government finance system for local areas to embrace growth. To do this, the NHB allocates local match funding to the additional council tax raised through the provision of new homes and properties brought back into use, with an additional amount for affordable homes, for the following six years.

There is a significant divergence between boroughs in terms of the amount that they stand to generate from the New Homes Bonus, based on the allocations for

year one and two of the scheme. Tower Hamlets stands to collect just over £10m from the scheme – a significant sum to invest in local priorities – but is very much the exception, with over half of London boroughs receiving under £4m, and many receiving less than £2m over the first two years of the scheme.<sup>38</sup>

CIL, which was introduced by the previous Government and retained by the Coalition, came into force in April 2010. CIL formalises developer contributions previously charged through Section 106 negotiations into standardised charges. Many London boroughs are still deciding how to set their CIL, reflecting the difficult balancing act all face in prioritising infrastructure investment, the delivery of affordable homes and development viability.

Of those that have announced their CIL rates, a number of approaches can already be identified. For example, Redbridge is prioritising simplicity and transparency by charging a flat rate of £70 per square metre, regardless of the type of development.<sup>39</sup> On the other hand, Lewisham is proposing a variable rate that reflects different development economics within the borough, with residential charges of £100 per square metre along the northern fringe of the borough, and £70 per square metre in the remainder.

Alongside these measures, the Coalition has devolved significant new powers to local government as part of its broader localism agenda. Most notable amongst these has been the devolution of the Housing Revenue Account to a local level. This move has been heralded as the biggest change in social housing since the Right to Buy, and has huge implications for the 29 London boroughs with social housing stock. On 1 April 2012, £7.2bn of housing debt was passed to boroughs. The debt is by no means spread evenly, with some boroughs seeing a reduction in their overall debt, others an increase. In either case, the management of this debt, and the assets connected to it, requires boroughs to be more proactive and strategic with their housing stock, entering into long-term partnerships with registered providers, underpinned by borrowing against future income streams to boost supply. This should have a positive effect on the number of housing starts across London, although much will depend on the individual circumstances facing boroughs in terms of their housing stock, and the attitudes towards risk and debt management that they decide to adopt.

## A strengthened role for the Mayor

Through these reforms, the Government has attempted to create a more decentralised and incentive-driven national housing policy framework. In London, however, the picture is more complex. While across the country, Regional Development Agencies and centralised targets for new house-building were abolished in 2010, the Mayor of London has gained further strategic control of housing across London over the past two years.

The Mayor's London Housing Strategy<sup>40</sup> sets out a clear vision for the future development of the capital, while London's spatial development strategy, the London Plan, details how this vision can be executed. It combines an assessment of the housing market, land availability and demographics to produce targets of provision for each borough, including numbers of new affordable homes. Boroughs are expected to meet (and preferably exceed) these targets in their Local Development Frameworks, and they are a means of monitoring boroughs' performance.

The Localism Act has also further strengthened the Mayor's authority over housing investment. Since April 2012, the Mayor's office has established a new Housing and Land directorate, transferring the responsibilities of the London area Homes and Communities Agency, as well as the now abolished London Development Authority.

This sees the Mayor, and the Deputy Mayor for Housing, Richard Blakeway, responsible for an additional 530 hectares of public land that previously resided across the two bodies.<sup>41</sup> A number of bodies have cited this consolidation of public assets as a key means through which additional affordable homes can be delivered over the coming years.

## New 'Kickstart' funding pots

On a national level, Government is providing a number of small pots of money to aid local development. These include the Get Britain Building fund, £570m of investment announced in the Housing Strategy for England. Like the previous Kickstart Stimulus programme, the funds will be targeted at stalled housing projects that already have planning permission by providing development funds to building firms.

Of the 105 projects shortlisted, 12 are in London boroughs, which in principle should support the construction of an estimated 1,380 new affordable homes. Subject to due diligence procedures, all schemes will be on site by March 2013 and all homes completed by March 2015.<sup>42</sup>

Similarly, the £500m Growing Places Fund is aimed at enabling local infrastructure for areas with planned high levels of housing growth. The funds are administered to local enterprise partnerships, who are encouraged to demonstrate in their applications that they will use them as revolving infrastructure funds to maximise their effect.<sup>43</sup>

London has had £69m allocated for the period 2012/13, but no details are yet available as to the kind of projects these funds will be used to support.

## **Conclusions: Coalition housing reforms**

The Coalition Government has embarked upon a programme of wholesale reform of housing policy over the past two years, with the broad objectives of encouraging new development at the same time as localising decision-making, eradicating a number of perceived iniquities in the housing benefit and welfare system, and reducing the cost of affordable housing provision to the state.

And so Government subsidy for affordable housing provision has been slashed; the cap on affordable rents has been lifted at the same time as a cap on housing benefit has been introduced; regional control of housing policy in London has been strengthened, while greater discretion has been afforded local government for allocations policies and the management of local assets; and the Right to Buy has re-emerged along with a number of other new local incentive schemes to encourage development.

Each of these reforms is significant in its own right, and could be expected to have far-reaching consequences. Taken together, they represent a hugely complex wave of change, the precise impact of which is impossible to accurately predict. However, it is clear that there remains a big challenge for London boroughs to make sense of these measures, and do more to support local delivery of affordable housing in their area.

## Implications for London practitioners and policy-makers

The characteristics of the London housing market, together with the range of recent policy changes outlined in this paper, clearly present a number of significant challenges for practitioners attempting to deliver affordable housing in the capital.

In particular, there is an urgent need for policy-makers to arrive at a clear definition of housing need. The discourse surrounding housing need in London has been broadened significantly in recent months, with big implications for local housing policy. There is also an imperative for London boroughs to explore the potential to deliver additional affordable housing outside of the Affordable Rent Model, which will deliver some housing at target rent levels, but significantly less than the previous regime. And finally, there is a need for practitioners to consider what happens in two years' time, when the Affordable Rent Model concludes: what will a new, sustainable model for funding affordable housing provision beyond 2015 look like?

### Reaching a new definition of housing need: Who is affordable housing for?

The definition of housing need in London is currently in flux. Previously it has referred specifically to people in the most urgent need, but new mechanisms and the policy framework underpinning them have led to a broadening of the definition in policy debates to include those who are looking to buy their first home but cannot afford it, as well as other groups currently failing to access home-ownership. In this sense, viewing London's affordable housing challenge just through the prism of boosting housing supply numbers and targets is to miss a crucial part of the equation: it is not just a case of needing to build many more 'affordable homes', but also to reach a clear view of who these properties are for.

This broadening of the definition of housing need has happened in response to the perception that there are a growing number of individuals who do not qualify for housing support from the state, but who nevertheless cannot afford to live in London. Proponents of this position argue that a cliff edge exists between those in socially rented tenure and those who do not receive any state support in London, particularly in relation to those looking to live in central London, or the more affluent parts of outer London.

The impact of the changes outlined in the previous section, including the introduction of the new Affordable Rent Model, with rents increasing to up to 80 per cent of market rates, has led many to question for whom we are building affordable housing. Indeed there is a broad consensus across London practitioners that we have moved from a situation where the framework underpinning affordable housing was broadly understood by practitioners, providers and citizens, to one where nobody has a clear picture of who products are being targeted at, or what the consequences of these changes will be in the years ahead.

In particular, changes to the benefit regime mean that families and individuals across London are facing new housing pressures, leading to a rising need for additional temporary and permanent solutions, and an increased use of bed and breakfast accommodation across a number of boroughs in the meantime. As highlighted in the previous section, the tensions that this can cause have risen to the surface in recent months, with a number of London boroughs choosing to attempt to move tenants out of London to other parts of the country.<sup>44</sup>

Reaching a clear local view of housing need is an urgent task for all London boroughs, but there are tensions here, and in reaching a clear definition, difficult decisions regarding the allocation of limited housing stock will be required. Many boroughs are currently revising their allocations policies to reflect their local circumstances and political priorities, in order to bring clarity to what is recognised as housing need within their area. Many will continue to focus their energies on housing those in the most urgent need of accommodation at rent levels as close to target rate levels as possible. However, the new policy landscape will likely require at least a recognition of different categories of need within the majority of boroughs, with the aim being to develop a suite of affordable housing products over time that are capable of meeting them.

## **Additional measures to boost supply: exploring new means of subsidising affordable housing**

The provision of affordable housing ultimately relies on subsidising construction to make housing cheaper for the end user. In the past this has primarily involved central government grant supporting the delivery of affordable housing. Reflecting the significant reduction of available central government grant, a number of London boroughs are exploring other ways to subsidise the

construction of additional numbers of affordable homes, alongside or outside of the Affordable Rent Model.

Barking and Dagenham, for example, have recently announced a scheme that involves the construction of 477 privately funded affordable homes in Barking town centre, underpinned by a 60-year rental guarantee from the borough, whereby the borough is responsible for the renting and maintenance of the properties once they have been constructed.<sup>45</sup>

The arrangement does not require any central government grant, but the borough has invested the land for development for free. For 20 per cent of the new homes built, rents are being charged close to target rent level, with the remainder subject to a range of up to 80 per cent of market rates, mirroring the affordable rent model. However, given median market rents in Barking and Dagenham, even the top end of this range aligns to a social rent product across many other parts of London. The borough has taken advantage of Government reforms to set strict access criteria on these units. In order to apply to rent one of the properties being let above target rent levels, tenants must have a net household income such that the rent represents no more than 35 per cent of their net income.

### **Southwark's new approach to funding affordable housing**

In inner London, Southwark is proposing to build 1,000 new homes by 2020 using a newly formed funding pot, the Affordable Housing Fund (AHF). The initial funding will be pooled from 'in lieu' payments generated from development activity in the borough, predominantly from major developments with exceptional circumstances, including: King's Reach, Potters Field, Union Street and Neo Bankside. The council has estimated that the agreements in place could generate £44,500,000 for the fund. It is envisaged that the money will be used to deliver new affordable and specialist affordable housing directly, or help to keep the costs down on schemes, in order to make some units truly 'affordable'. Some sites for new housing have already been identified, and Southwark's Cabinet agreed phase 1 of a direct delivery programme in October 2012.

Clearly there are risks and challenges associated with this kind of model, including the length of time for which rents have been guaranteed, and whether there are realistically enough people living locally who can meet the allocation criteria and can afford to pay this rent. Nevertheless, it represents a clear example of a borough being proactive in pursuing innovative models to deliver additional affordable housing, despite changes to housing policy and the difficult development environment.

Meanwhile, in Hackney, the council is seeking to take advantage of rising land values and infrastructure investments in the borough, together with the reforms to the Housing Revenue Account and key changes in capital finance for regeneration outlined in the previous section, in order to embark upon one of the biggest and most ambitious local authority housing regeneration programmes in the country.<sup>46</sup>

Over the next 12 years, the borough will develop a total of 2,300 homes for social renting at target rents, shared ownership and private sale on 15 separate sites. Although there will be a minimal input of Government grant through the 2011/15 affordable homes programme of just over £4million, the large majority of the programme, requiring around £400m total investment over the 12 years, will be funded through three main income streams:

- Land receipts: all new proposed schemes will be designed by architects for the council and residents. Land areas earmarked for private sale homes will either be offered directly to the market with detailed planning permission, or with a developer combined within a land sale/construction partnership.
- Rental income: with the new freedoms given to local authorities under Housing Revenue Account reforms and the Localism Act, target rents on social rented homes and rent on the un-purchased equity element of shared ownership will enable Hackney to borrow against these net incomes. In addition, with the reallocation of debt amongst authorities, Hackney now has extra initial borrowing capacity.
- Shared ownership: in addition to the rental stream, the council will raise funds from the initial sale percentage purchased by the buyer. Council shared-ownership products offer a range of opportunities, including new approaches to affordability and access for what remains in Hackney a sizeable deposit.



Islington has stepped outside of the Affordable Rent model altogether. Instead the council plans to grant land to housing associations and provide £1 million of its £3.7 million New Homes Bonus for them to develop social rented homes.<sup>47</sup>

It is worth noting that these examples depend on the presence of developable, council-owned land that can be invested at nil cost to subsidise development, or for some cross-subsidisation between developments, and not all London boroughs will be in a position to pursue these types of measures.

However, the Greater London Authority (GLA) housing land review of 2009<sup>48</sup> estimated that in total London has capacity for the construction of 360,062 new homes between 2011 and 2021. According to the study, four boroughs – Barnet, Newham, Tower Hamlets and Greenwich – have capacity for 22,300–30,000.

The same GLA study also stresses the potential of London's 99,918 small sites of less than 0.25 hectares, which in principle could provide a total of 33,000 new homes over the coming decade. So, while not all of this capacity will be used for new affordable homes, and question marks remain over whether land assets are located in areas with the greatest strategic need for new housing, there is clearly scope for many London boroughs and the GLA to deploy, and in some cases invest, land assets more proactively to pursue these kinds of arrangements.

## **Conclusion: towards a new model for affordable housing delivery**

This paper has provided an overview of the London housing market with a particular focus on affordability, and the impact of recent policy reforms on affordable housing.

The key messages arising from this analysis are:

- **Delivering affordable housing in London is a long-term challenge that requires an urgent policy response.** Prices and rents have been higher, and have risen faster, than in the rest of the country throughout the previous decade. Demand for housing has consistently outstripped supply, and even between 2008 and 2010, when there was significant subsidy supporting affordable housing delivery, 13 boroughs did not reach 50 per cent of their target for new-build social housing.

- **The affordable housing policy landscape is being transformed.** In response to these factors, as well as pressure on public finances, the framework underpinning affordable housing delivery has undergone significant reform in recent years. This reform has been characterised by a significant reduction in the level of Government subsidy for new affordable homes, and new freedoms for London boroughs and registered providers to increase rent levels and manage their housing stock more strategically.
- **It is not yet possible to fully understand the cumulative impact of these changes for the capital.** As with any wide-ranging package of reforms, it will be some years until we can accurately gauge the impact of these changes. This is exacerbated by the fact that the application of the new Affordable Rent Model varies across London, while boroughs are adopting bespoke approaches to the delivery and allocation of new homes. Meanwhile, other reforms, such as those to Housing Benefit, will also have far-reaching consequences for the affordable housing sector in London.
- **There remains a lack of clarity over what terms like ‘affordable’ and ‘housing need’ mean in a London context, and who new housing tenures are intended for.** Increasing rent levels, changing allocation criteria and reforming tenancies all risk excluding certain parts of the population from accessing affordable housing.

What does this mean for the future of affordable housing delivery in London? Despite the potential for boroughs to deliver more affordable homes through innovative use of their assets or revenue streams, it must be recognised that over the coming period, the majority of new affordable housing in London will be delivered through the Affordable Rent Model, which covers the period up to 2015.

Given the state of public finances, we are very unlikely to see a return to the previous regime of affordable homes subsidy from central Government when the current round of the Affordable Rent Model concludes. At the same time, the kinds of models being pursued across London that depend upon the public sector investing land at zero cost – or that use revenue raised by private sector property sales to subsidise the construction of affordable homes – are unlikely to be replicable across the capital, or able to be scaled up significantly over the long term, although they are useful in the short term or for particular organisations.

It seems clear then, that any sustainable solution to the challenge of providing affordable housing will build on recent reforms, and necessitate a further shift

away from grant-dominated models, towards a greater focus on ‘investment’ in more flexible affordable housing as a means of alleviating welfare dependency, and progressing social mobility.

## What might this mean in practice?

It is likely to require further changes in the incentives that underpin the existing allocation of affordable housing delivery. If it is not possible to build greater numbers of affordable homes, then the ones we have will need to be used more efficiently. Clearer requirements could be introduced for all tenants to endeavour to move themselves towards the labour market, or alternatively further up it, while they occupy affordable housing. This would likely require clear time limits on tenancies, together with a more gradual raising of rent levels over that time period, that both provides tenants with the time that they need to improve their own economic position, as well as removing the cliff edges that currently exist between different tenures in London.

Such a system would, in theory, allow funding dedicated to the provision of affordable housing, together with the physical assets themselves, to be recycled and provided to those most in need, with properties potentially moving across tenures over a longer time period.

However, there would also be enormous challenges associated with this kind of shift. Any such model would need to ensure that the framework underpinning affordable housing in London can drive greater aspiration amongst tenants, without engendering a lack of security or clarity in the system. An overly fragmented system, while allowing greater flexibility, could also create greater complications and have implications for investors and tenants seeking certainty and stability. In addition, greater supply across tenures would still be required, if those moving out of affordable housing were to successfully relocate.

In addition, the success of such a model would depend entirely upon significant resources being dedicated to helping people in affordable housing to improve their life chances. This would necessitate the involvement of a whole range of council services, all of which are currently facing unprecedented pressure to reduce their budgets. Given the difficulties associated with alleviating entrenched economic deprivation, the task of moving affordable housing tenants up the socio-economic ladder must not be underestimated.

Nevertheless, a new, sustainable delivery model for London is needed if the capital is to meet its affordable housing challenge. It is therefore critical that London practitioners continue to seize the initiative and work together to achieve consensus on the key elements that will underpin this model ahead of the next Comprehensive Spending Review in 2015.

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## About Future of London

Future of London is an independent not for profit organisation focused on developing skills and capacity across the urban regeneration sector in London, through the provision of training, policy briefings and new analysis: [www.futureoflondon.org.uk](http://www.futureoflondon.org.uk)

## Notes

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