



CAPITAL FAILURE

UNDERSTANDING THE ROOTS OF LONDON'S HOUSING CRISIS



Interim report of the
London Housing Commission

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LONDON'S HOUSING CRISIS

INTRODUCTION

London's housing market is in a state of crisis like never before. Collectively we are failing to deliver enough homes for the current population, let alone for the future population.

This failure has driven unprecedented affordability problems. Through rampant house price inflation and long-running undersupply, the difference between the affordability of a home in London and the rest of the UK has reached record levels. London's housing problems are not limited to house-prices - rents are rising faster than earnings; overcrowding in the social and private rental markets is growing quickly; homelessness is increasing sharply, and there are around 80,000 children living in temporary accommodation.

These are deep problems that require urgent resolution. As the London Housing Commission heard in the many responses to our recent call for evidence, businesses are being detrimentally affected, as current and potential employees are priced out of taking work in the capital; public services are struggling to recruit, and low-income households are being forced out of the city by rising rents and frozen entitlements. In short, the social and economic fabric of the city is being damaged by our dysfunctional housing market.

The Government has made housing a priority and set out a number of new measures to promote home ownership. However the real test of these new measures in London is whether they result in genuinely additional new homes of all types and tenures.

The Commission will present its own recommendations for addressing London's housing crisis in Spring 2016, but before it does, it is worth reflecting upon how London got into this mess. In this short pamphlet we focus on the key areas holding back housing delivery in the capital. These issues cut across the four main elements of housebuilding: land, planning consent, investment, and housebuilders.

These issues are not insurmountable; they can be fixed. But there is no silver bullet, no single initiative, that will do it. If they are serious about solving the crisis, the next mayor of London and the Westminster government will need to develop a comprehensive strategy to confront all four of these elements head-on. What is clear is that, left alone, the market will not deliver the homes the capital needs, and the capital and the UK will be worse off as a result.

LONDON IS GROWING QUICKLY...

London is growing quickly, and the lack of suitable housing for this growing population is driving many of London's housing market problems.

While we are struggling to deliver enough homes for the current population, without concerted action this problem will only get worse.

Population

In the next 15 years, projections show that:

- births will exceed deaths by 1.3 million
- 6.25 million people will move to London from other parts of the UK and abroad, balanced by 6.1 million Londoners moving out of the city¹
- as a result, London's population will reach 10 million by 2030.

This means we will need to house **1.5 million** more people than we do now.

Households

While high housing costs slow the birthrate and the formation of new households, the capital is still expected to grow by **50,000–60,000** households per year.²

¹ GLA 2015

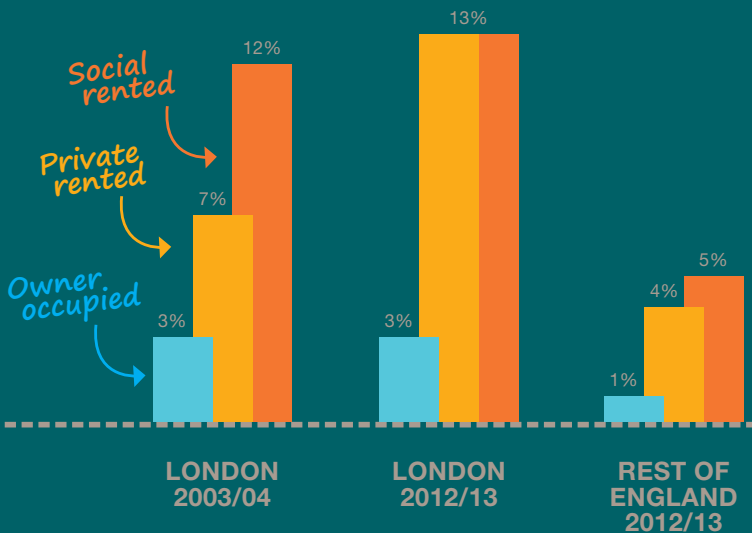
² GLA 2013

Overcrowding

London's use of housing is the most efficient in the UK. But overcrowding is a critical and growing problem, especially in the private rented and social sectors.

FIGURE 1

A growing proportion of London renters live in overcrowded households³



³ NPI 2015

...BUT HOUSING SUPPLY IS NOT

We need to build 500,000 houses over the next 10 years.

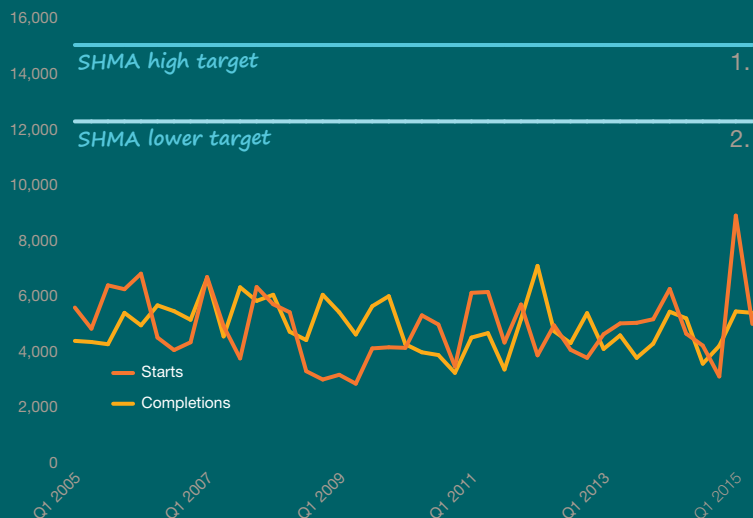
But in the last decade, ***we built just 194,000 new homes.***⁴

The blame does not lie with any one part of the industry: housebuilding is short of this target across all sectors, private and social.

Even now that the housebuilding market is growing again, we are building only half the number we need; housebuilding needs to double to meet demand.

FIGURE 2

Building starts and completions are falling short, whichever target you choose
Quarterly data, Q1 2005 – Q2 2015



1. High scenario of the London strategic housing market assessment (SHMA), which accounts for population growth and repairing the historical shortfall; 2. Lower scenario of the SHMA, which only accounts for future population growth.

The supply gap

Last year, London managed to produce more than 25,000 homes – but even with new buildings as well as conversions, it's still not enough.

FIGURE 3

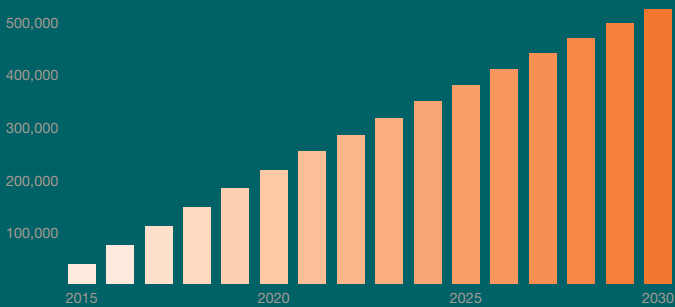
Gains and losses: a summary of London's housebuilding accounts
Supply components, 2014/15, versus SHMA lower scenario⁵

New build	24,110
Conversions (net)	1,110
Change of use (net)	3,360
Demolitions	(2,000)
New homes (net)	26,840
<i>Shortfall versus SHMA target</i>	<i>(22,031)</i>

At this rate, the gap between what we need and what we have built will grow by 500,000 by 2030.

FIGURE 4

By 2030, the supply gap will be 500,000 greater than it is now



“CBI members regard the shortage of housing in London as a major threat to the competitiveness of their businesses and the wellbeing of their employees. It diminishes productivity, worsens employment, and constrains economic growth.” CBI SUBMISSION

LAND ELEMENT 1

At a minimum, London needs enough land to build half a million homes over the next decade. But the mayor's London Plan has only identified enough land for around 420,000.⁶

So we need to find at least 20% more land, or build 20% more homes on land identified in the current plan.

London has the potential to deliver more homes:

- Only 28% of London land is developed.
- Less than 10% of London land is used for homes.
- 22% of London land is protected greenbelt.⁷

However, as well as within, we will need to look beyond the capital for new homes.

“If well-connected areas with low housing density were to match the density of similarly connected but higher density areas, this would – in principle – create approximately 1.4 million new homes across London.” SAVILLS

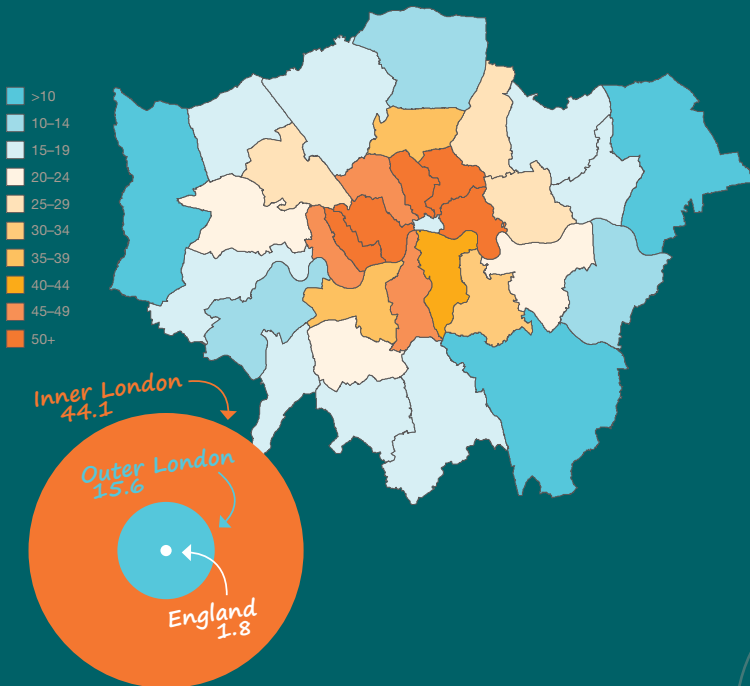
Housing density

Greater London is less dense than other major cities – Paris, New York and Hong Kong all have higher densities across their administrative areas.⁸

Land use falls rapidly from central areas to suburbia. Housing density in outer London is approximately one-third of the density in inner London,⁹ but the London Plan is focussed primarily on increasing capacity in inner London.

FIGURE 5

Housing density in outer London is roughly one-third what it is in inner London
Homes per hectare, 2014



PLANNING ELEMENT 2

The pipeline of planning permissions is insufficient to enable London to build the number of new homes it needs.

- The monthly target for new approvals needs to be at least 4,250 across London, but we are regularly falling **1,500** short.¹⁰

Quality is just as important as quantity. We need more consents that are likely to be turned into actual homes.

- Only **60%** of private planning permissions will realistically be delivered, according to one review of planned building work.¹¹

Plans don't get delivered for many reasons.

- Big sites requiring complex infrastructure can take decades to turn from a plan into a development.
- Sites are held by companies that can make more money from trading land that has received planning permission than from turning it into homes.

¹⁰ GLA 2015

¹¹ Molior 2014

Planning departments

Councils have also seen their capacity to manage planning deteriorate in recent years.

- Local planning departments across England have seen an average reduction in budgets of 40%.¹²
- The effect on London's planning departments is estimated to be an annual shortfall of **£37–45 million**.¹³

FIGURE 6

London falls short of monthly planning consent targets more often than not
New residential approvals versus monthly target, April 2013 – April 2015



¹² NAO 2014

¹³ London Councils submission

INVESTMENT ELEMENT 3

Increasing private investment in London will be critical to increasing housing supply.

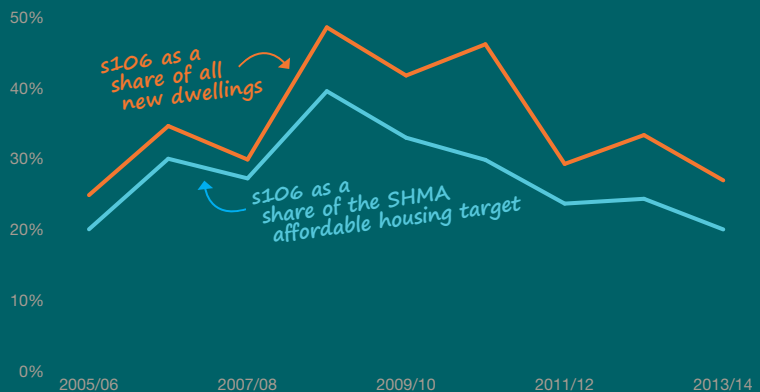
London's housing market is seeing huge levels of investment. Private sector construction output in new homes was worth **£6.4bn** in 2014-15.¹⁴

While major developers are finding it easier to access investment finance than in the years after the crash, small and medium-sized developers are struggling to get loans needed to buy and build on smaller sites - sites that the bigger developers will not usually build on.¹⁵

Private investment is also critical to building new affordable housing through section 106 agreements - deals to build affordable homes as a condition of receiving planning permission. However, through policy change and site-by-site negotiation the share of affordable housing funded by developers is falling:

FIGURE 7

Section 106 is not making a sufficiently big contribution to London's building targets - and especially not to affordable home targets¹⁶



¹⁴ ONS 2015

¹⁵ Molior 2014

¹⁶ Brownill et al submission

The funding gap

Private investment on its own will not be enough - public grants, loans and guarantees are critical to underpinning private and social housebuilding.

The current funding for affordable housing, at £550 million per year, is not enough to bridge the gap between affordable housing delivery and housing need - and funding per new home has fallen by **60%** between 2011 and 2015.¹⁷

New sources of finance will need to be tapped to transform the delivery of new homes. But social builders face constraints on their borrowing. While London boroughs have over £25bn of housing assets, they are able to borrow only **£1.6bn**.

Housing Associations face similar problems - government rules prevent their housing stock being valued at market rates, limiting their ability to borrow to build new homes.

While public spending on new homes in London is limited, the buying and selling of homes in London brings in more than £3bn a year in tax revenues to central government.¹⁸

“Even at the peak, s106 delivered less than half of the affordable homes required in the SHMA. Section 106 alone cannot meet affordable housing targets of around 25,000 new homes a year in London.”

BROWNILL ET AL SUBMISSION

17 IPPR analysis of NAO 2015

18 HMRC 2015

HOUSEBUILDERS ELEMENT 4

Private housebuilders are responsible for **62%** of new homes built in London¹⁹ – and we need them to build more. The Mayor's plan estimates a need for 25,000 new private homes every year.

After a long recession, their delivery of new homes has now recovered to near pre-crisis peaks. However, only once in the last 50 years has private enterprise built more than 16,000.

Increasing the availability and lowering the cost of land - particularly smaller sites for SMEs and for new private rented schemes - will be key to unlocking additional private sector development.

But London has delivered the most homes when the public sector was building them too.

Local authorities and housing associations

London boroughs once delivered the majority of new homes for the capital – peaking at 27,000 new homes in 1973. Last year they built only **280**.²⁰

Housing associations are responsible for around one-third of new development – but cuts to social rent and uncertainty around the future of housing benefit threaten to undermine their building plans.

¹⁹ DCLG 2015

²⁰ DCLG 2015

Building skills

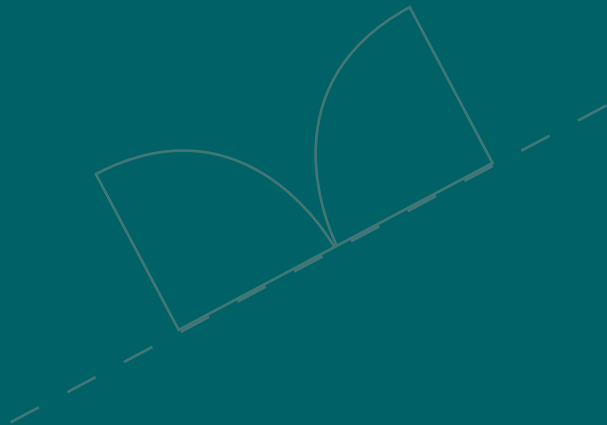
The building capacity of developers is also compromised by looming labour shortages.

- Around half of London surveyors are now reporting a shortage of skilled trades.²¹
- There is also a major gender imbalance in the workforce. Only 10% of the UK construction sector are women.²²

“The skills shortage in the industry is now at the highest levels seen since the Royal Institute of Chartered Surveyors started monitoring it. Meanwhile the existing workforce is staying in roles for much longer, creating a 'knowledge cliff' when their retirement eventually comes around.” RICS SUBMISSION

²¹ RICS submission

²² CIOB 2012



IF WE DON'T ACT TO BUILD NEW HOMES...

Housing costs will continue to rise.

- The average price of a London home is now £500,000, more than 10 times the average income and 44% above pre-crisis levels.²³
- To afford the average first property, London buyers need to assemble a deposit of around **£74,000**.

Homeownership will continue to drop as the shortfall in supply exacerbates the affordability crisis.

- In the last 10 years, the proportion of households who own their home with a mortgage has fallen from 39% to 27%.²⁴

Families and businesses will bear the brunt.

- People will leave London: key workers will be priced out, and low-income households will be forced to move away, disrupting families and communities.
- Jobs will go unfilled – half of businesses in London are concerned about rising housing costs affecting their ability to recruit and retain staff.
- Homelessness is rising and will rise further – London already has 50,000 households living in temporary accommodation, including some 80,000 children.²⁵
- The shortage of available housing has an economic as well as human cost – the bill to boroughs last year for temporary accommodation was estimated at £630 million.²⁶

²³ Land Registry 2015

²⁴ DCLG 2015a

²⁵ DCLG 2015b

²⁶ Spurr 2014

...MORE PEOPLE WILL RENT FOR LONGER

London's private rented sector (PRS) is large and growing quickly:

- **22%** of all private-renting households in England are in London, and the total number of PRS households in London has **doubled** in the last decade.²⁷

We will need to build many more rented homes as part of the answer to the supply crisis.

New supply will have to be better than the current stock, much of which is currently expensive and poor quality.

- The average monthly rent for a two-bedroom home in London is twice the England average.
- Rents continue to outstrip earnings – in the past five years, weekly pay has grown by 2%, while rents have grown by **16%**.²⁸
- High rents are reflected in the housing benefit bill – while only 17% of housing benefit claimants live in London, 26% of housing benefit spending goes on the capital.²⁹
- The cost does not guarantee quality. Across the capital, one-third of PRS homes fail to meet the Decent Homes standard, and **one in seven** is unsafe.³⁰

²⁷ GLA 2015

²⁸ IPPR analysis of ONS 2015

²⁹ DWP 2015

³⁰ GLA 2012

WHAT NEXT?

London's housing crisis is critical, and its problems are complex and well-entrenched. There is no single magic bullet solution or simple policy fix.

We need to get the housebuilding industry in London firing on all cylinders.

London's housing problems are unique in England but are not unassailable. Other cities in the world are more densely populated, more affordable, and better able to deliver more homes. Tackling London's deeply entrenched problems demands an equally unique strategy and set of reforms, led from within the capital.

London's housing situation can be improved. In 2016 the London Housing Commission will bring forward a new strategy for the next mayor of London, including proposals to:

- Identify and release more land for the next London Plan
- Strengthen planning capacity and efficiency
- Increase building on large, stalled sites
- Unlock capacity across the whole development industry
- Provide stable and long-term investment for affordable housing
- Improve housing quality in the private rented sector, and lengthen tenancies in order to stabilise rents.

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GLA (2015) '2014 Round of Demographic Projects'

2–3

GLA (2015) '2014 Round of Demographic Projects'

GLA (2013) *Strategic Housing Market Assessment*

NPI (2015) 'Overcrowded households by tenure over time', London's Poverty Profile

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DCLG (2015a) 'Permanent dwellings started and completed'

DCLG (2015b) 'Net additional dwellings by local authority district, England 2004–05 to 2014–15'

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London First (2014) *The Greenbelt: A Place for Londoners*

Savills (2015) *The World and London*

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DWP (2015) 'Housing benefit expenditure and caseloads'

GLA (2012) *Bleak Houses: Improving London's Private Rented Housing*

ABOUT THE LONDON HOUSING COMMISSION

The aim of the London Housing Commission is to consider the challenges facing the London housing market, and produce a clear programme of action to address the supply of new homes, affordability, and the quality of the private rented sector.

Visit: www.IPPR.org/major-programmes/london-housing-commission

Members

- Lord Bob Kerslake, former head of the UK Civil Service and DCLG (chair)
- Terrie Alafat, chief executive, Chartered Institute for Housing
- Mark Clare, former chief executive, Barratt Homes
- Professor Rebecca Tunstall, professor of housing, University of York
- Nick Walkley, chief executive, London Borough of Haringey
- Professor Christine M Whitehead, emeritus professor of housing economics, LSE

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The final report of the London Housing Commission will be launched in March 2016.