

London's housing market

Dean Garratt, Economist, Council of Mortgage Lenders, and Shaun Stevens, Senior Policy Adviser, Council of Mortgage Lenders

- *Recent house price growth in London has eased, and stable economic conditions suggest that house prices will not experience the sort of fall encountered in the early 1990s.*
- *While the average house price in London was 58% above the UK average in the third quarter 2000, within London the pattern of house prices and affordability varies significantly.*
- *The cost of entry to the London housing market increased in the late 1990s as deposit to income ratios rose, but despite the recent strong increase in house prices, there are large parts of the London housing market accessible to first-time buyers.*
- *Despite higher entry costs, low debt servicing costs mean that home-ownership remains an affordable option for households.*
- *Demand for property in London is expected to remain strong, with demographic indicators pointing to population and household growth. Low rates of new construction compared to other parts of the UK and the poor quality of the existing housing stock are constraining London's ability to meet housing demand. These factors will continue to put pressure on house prices.*

Introduction

The creation of a new layer of regional government for London presents an opportune time to consider the London housing market and some of its unique features. The article also follows the publication of the London Housing Commission's report *Homes for a World City* (GLA, 2000) on the problems of housing affordability in London. As such, the main focus of the article is the performance of London's housing market, in particular the factors which have contributed to prices in London substantially out-performing other parts of the UK and the debate about access to housing in the Capital.

The article provides a brief background to London's key political and economic features, before describing the performance of its housing market in the UK context. It examines the consequences of growing demand, the impacts on affordability and the longer-term factors likely to influence the market. The article then considers the limitations on London's existing and new supply to meet projected growth in demand.

London: an overview

London is the capital city of the UK and accounts for about one sixth of the UK's total GDP. Its major industry is the business and financial services sector and it holds a position as one of the three most important financial centres in the world.

London covers an area of 174,000 hectares, and despite being a predominantly urban area; over a fifth of London's land is green belt – the highest proportion of any UK region. Moreover more than a third of London is described as semi-natural.

Regional Government for London

Following the Greater London Authority Act 1999, London now has a two tier political administrative system. The lower tier of government comprises 32 boroughs and the City of London. The upper tier comprises an elected Greater London Assembly, and an elected Mayor. The elections took place in May 2000 and the new Authority assumed its main responsibilities on 3 July 2000.

The Greater London Assembly provides a strategic citywide government for London. The Mayor prepares strategies to deal with London-wide issues, and co-ordinates action on a London-wide basis. The Assembly scrutinises the Mayor's activities, questioning the Mayor about his decisions. The Assembly also investigates other issues of relevance to London, and makes proposals to the Mayor. There is a separation of powers within the Authority with the Mayor making decisions on behalf of the Greater London Authority (GLA) in an executive role and the Assembly performing a scrutiny role.

The GLA's main areas of responsibility are transport, planning, economic development, environment, policing, fire and emergency, planning, culture and health. It is mainly through the planning function that the current Mayor and the Authority have indicated that they will try to influence how the Capital's land supply is used to provide housing to meet the region's needs.

Economic background

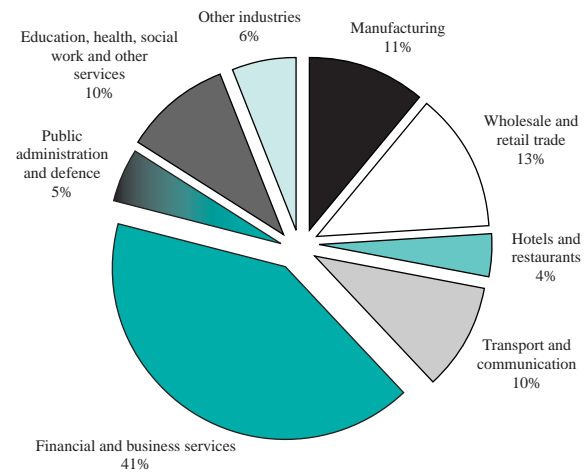
London's Gross Domestic Product (GDP) per head was around 30% higher than the UK average between 1989 and 1998. When an adjustment is made to allocate the income of commuters to where they work, rather than where they live, London's GDP per head has been approaching 50% higher than the UK average. London has seen its share of the UK's GDP rise from 14.9% in 1990 to 15.6% in 1998.

In a European context, over the period 1995-1997, inner London has the highest GDP per head relative to the EU average. Its workplace-based GDP per head was 229% above the EU average (Outer London was 90% above EU average). This was higher than Hamburg (198%), Luxembourg (172%) and Brussels (170%).

The mix of industries in a region affects the level of GDP per head. In London financial and business services in 1997 accounted for 41% of its GDP (see Chart 1). In contrast, in the North East, East Midlands, Wales and Northern Ireland the figure is less than one-fifth. Manufacturing, on the other hand, contributed just 11% of London's GDP.

London's importance as a major financial and business centre helps to explain why it has a greater proportion of households on the highest average gross incomes of £750 or more per week (see Table 1). However, while London has a greater proportion of high earners than the national average this does conceal the significant proportion of low income households in the region's wide income distribution. At the other end of the income scale London has 12%

CHART 1: BREAKDOWN OF LONDON'S GDP BY INDUSTRY GROUP



Source: National Statistics

of households with gross incomes of under £100, which is in line with the UK average.

TABLE 1: DISTRIBUTION OF GROSS HOUSEHOLD INCOME, 1996-1999

Average weekly gross income	London	UK
Less than £100	12	12
£100-£149	9	10
£150-£249	13	16
£250-£449	22	24
£450-£749	23	23
£750 or more	21	14

Source: Family Expenditure Survey, National Statistics
Note: Excludes Housing Benefit, Council Tax Benefit

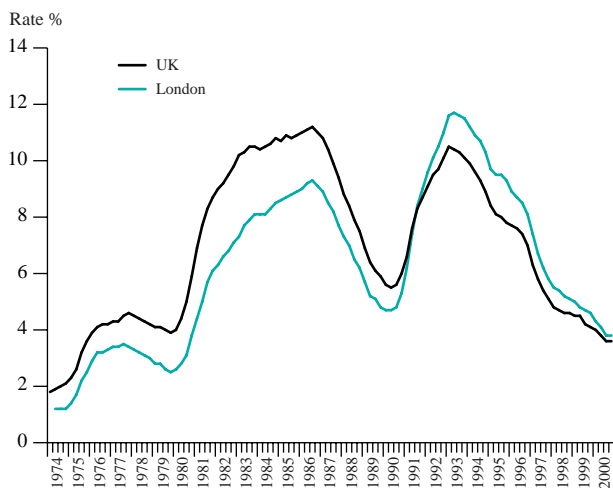
Further analysis confirms the income inequality in London. DETR in 1998 used 12 indicators to compile an Index of Deprivation across the local authority districts of England. The index covered unemployment, low income, health, education, crime and housing amongst others. Of the 30 most depressed districts in England 15 were in London, and of the 20 most depressed 13 were in London. This highlights the danger of concentrating solely on broad aggregate indicators of economic prosperity.

Inequality is evident in the large variations in the employment rates (percentage of household population of working age in employment) across the London boroughs. Tower Hamlets has the lowest employment rate, not only of the London boroughs but also in Britain, at 44% (March 1998 to February 1999). Employment rates in Hackney and Newham are also below 50%. In contrast, several boroughs in Outer London, particularly in the south and west, have employment rates in excess of two-thirds of the household population of working age.

Prior to 1990 the claimant unemployment rate in London was lower than the UK average. However,

since then the London rate has remained above the UK rate, with the gap peaking at the end of 1995. The gap in the second half of 2000 fell to 0.2 percentage points with unemployment rates of 3.8% and 3.6% in London and the UK respectively (see Chart 2).

CHART 2: CLAIMANT COUNT UNEMPLOYMENT RATES



Source: National Statistics

Unsurprisingly, London's inner boroughs have the highest rates of claimant unemployment. The highest recorded claimant rate in November 2000 was in Haringey at 11.2%, some 7½ percentage points above the average for the London region. Table 2 shows the five boroughs of London with the highest and lowest unemployment rates.

TABLE 2: UNEMPLOYMENT RATES IN LONDON BOROUGH, NOVEMBER 2000

London Borough	Claimant unemployment rate %, n.s.a.
Highest	
Haringey	11.2
Newham	10.6
Lewisham	10.3
Waltham Forest	8.7
Lowest	
City of London	0
Westminster	0.8
Hillingdon	1.4
Hounslow	1.5
Kingston-Upon-Thames	1.6

Source: Labour Market Trends, National Statistics

Current trends in the London housing market

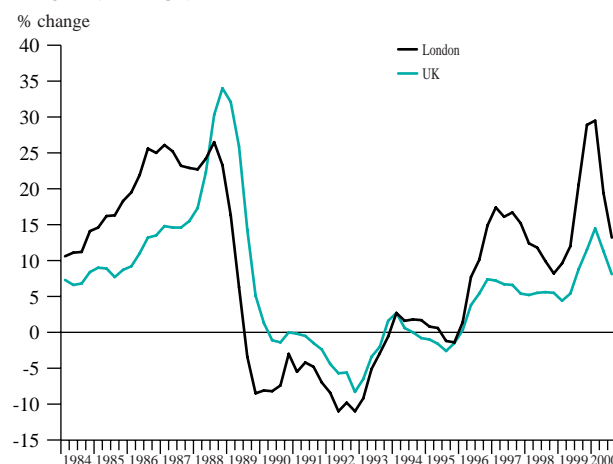
House Prices

At the start of 2000 the strong performance of the London housing market attracted the attention of the media and comparisons were drawn with the 1980s boom. From the second quarter of 1986 until the end of 1988 London house price inflation never went below 20% (Halifax) and at the start of 2000 it

reached 30% (see Chart 3 below). A year later things look quite different. Housing market activity in London slowed quickly during 2000 and at a rate that surprised many. However, the benign macroeconomic backdrop and high household sector incomes should enable a soft landing rather than a repeat of the late 1980s/early 1990s.

It is also evident from Chart 3 that whereas in the late 1980s strong house price growth in London rippled out or was experienced by the rest of the UK with a short lag, this time around London and UK house price inflation have peaked simultaneously.

CHART 3: LONDON AND UK ANNUAL HOUSE PRICE INFLATION



Source: Halifax plc

Affordability

There are two aspects to affordability. The first is access to the housing market or moving along the property ladder. The second is the sustainability of home-ownership, ie meeting the costs associated with home-ownership.

Strong house price growth since the mid-1990s led to affordability deteriorating in London making access to the market more difficult (see Table 3). Across all buyers in London the average house price to income ratio peaked at 3.78 in the second quarter of 2000. This is substantially higher than in 1999 and even higher than the 3.36 at the peak of the late 1980s housing market boom. However, this ratio has fallen and its decline is most noticeable amongst first-time buyers in London so it is now back to the average level seen in 1999.

The average advance to income ratio for the UK has remained relatively steady since 1995, reflecting lower house price inflation in other UK regions. However, in London the ratio rose from 2.2 in 1997 to 2.4 in 1999, the same as in 1988, and peaked at 2.6

in the second quarter of 2000. However, advance to income ratio data for the third quarter shows an improvement in affordability. As with house price to income ratios this improvement is most apparent for first-time buyers.

The ease of access to the housing market can be measured by the size of buyers' deposits. Across all buyers in the UK the size of the average deposit since 1969 has been 0.93 times income. While this increased slightly in the third quarter of 2000 to 1.01 this compares favourably with years such as 1974 and 1980 when the ratio was 1.3 times income. At a national level the housing market remains accessible. In London too, the current level of accessibility is higher than in 1974 and 1980, although lower than for the rest of the UK. In the third quarter of 2000 the average deposit in London was 1.2 times income compared to 1.4 times income, but above the long-run average of 1.0.

Although the figures on access to the housing market suggest this is only slightly less than the long-term average, it has deteriorated since the mid 1990s with most attention focused on first-time buyers. In 1996 the average first-time buyer deposit was 0.26 times income in London and 0.23 times income in the UK generally (see Chart 4) but by the first quarter of 2000 deposit to income ratios rose to 0.83 and 0.61 in London and the UK generally. The widening of this gap between London and the UK average has inevitably generated much of the media attention on house prices.

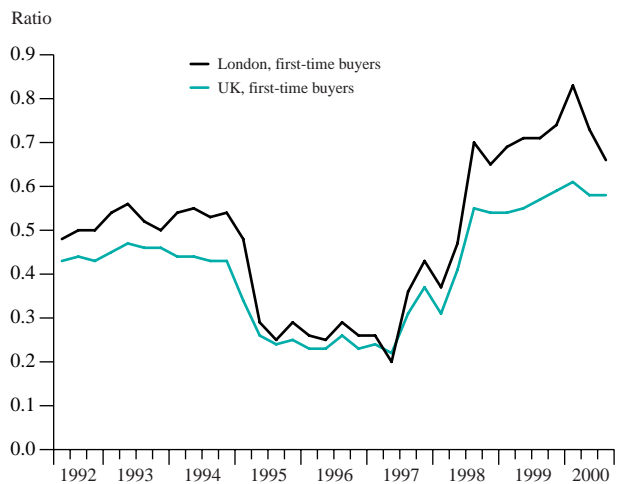
TABLE 3: AFFORDABILITY RATIOS

	House price income ratio (all buyers)		Advance to income ratio (all buyers)		Mortgage interest payments in income, % (all buyers)		Deposit to income ratio (first-time buyers)	
	London	UK	London	UK	London	UK	London	UK
1995	2.95	2.84	2.16	2.21	15.0	14.1	0.33	0.28
1996	2.99	2.85	2.18	2.22	13.3	12.4	0.26	0.25
1997	3.13	2.92	2.23	2.23	15.9	14.7	0.32	0.28
1998	3.25	3.00	2.30	2.24	16.1	14.6	0.56	0.46
1999	3.46	3.10	2.37	2.27	14.9	13.5	0.72	0.57
1998 Q1	3.27	2.94	2.32	2.11	16.8	15.0	0.37	0.31
Q2	3.16	2.99	2.27	2.15	17.0	15.9	0.47	0.41
Q3	3.31	3.03	2.29	2.11	17.4	15.8	0.70	0.55
Q4	3.28	3.01	2.34	2.14	17.3	15.5	0.65	0.54
1999 Q1	3.31	2.99	2.31	2.13	15.1	13.7	0.69	0.54
Q2	3.37	3.05	2.33	2.16	14.4	12.2	0.71	0.55
Q3	3.43	3.13	2.35	2.18	14.4	13.2	0.71	0.57
Q4	3.67	3.20	2.49	2.22	15.4	13.6	0.74	0.59
2000 Q1	3.59	3.21	2.41	2.25	15.7	14.4	0.83	0.61
Q2	3.78	3.27	2.56	2.29	17.6	15.7	0.73	0.58
Q3	3.74	3.26	2.52	2.25	17.2	15.4	0.66	0.58

Source: DETR/CML

Although access to the housing market in terms of entry costs has deteriorated, the costs of servicing mortgage debt continue to be small as a proportion of income by historic standards. Debt servicing costs are crucial to all households ability to sustain home-ownership, whether they have just entered the

CHART 4: DEPOSIT TO INCOME RATIO, FIRST-TIME BUYERS IN LONDON AND UK, 1992 TO 2000



Source: DETR/CML

market, as with first-time buyers, or are existing home-owners. A sound economic background with steady economic growth, low interest rates and the household sector's sound financial position and confidence will help to underpin the future sustainability of home-ownership.

House prices within London

Concentrating solely on average house prices, advances and incomes can be misleading. London prices in the third quarter of 2000 may have been 58% above the UK average but prices in London vary greatly. According to Land Registry data for the same period, the highest priced London Borough was Kensington and Chelsea where a home cost an average of £307,626. In contrast, in Barking and Dagenham the average price of a property was £83,262 – less than the average property price in Glamorgan.

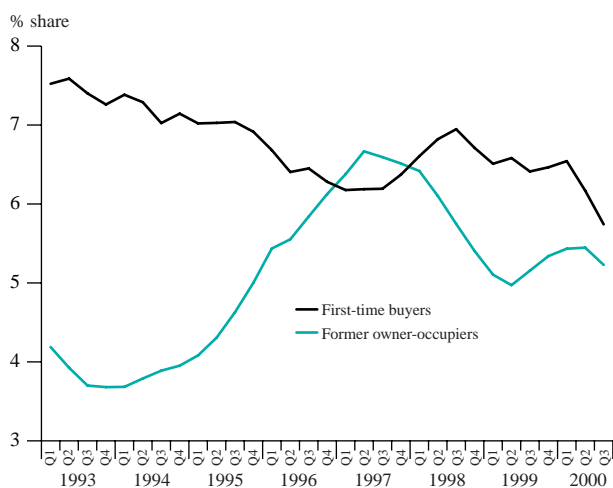
The CML's Survey of Mortgage Lending reinforces this picture of variations in prices across the London market. The lower quartile house price paid by first-time buyers in London was £78,973 in the third quarter of 2000. Moreover, the median income for first-time buyers purchasing in London was £30,857 whilst the lower quartile figure for the period was £23,362.

Housing demand

Ease of access to the housing market is crucial in explaining the recent fall in house purchases in London. Access has been affected by house prices as they have increased to equate demand and supply. The fall in demand is apparent from looking at London's proportion of UK lending for house

purchase. In the first quarter of 1998 loans for house purchases in London accounted for 13% of the UK total, but by the third quarter of 2000 this had fallen to just under 11%. Both groups of buyers have contributed to the fall. The share of lending to former owner-occupiers fell in 1998 before stabilising, while in 2000 there was a marked reduction in the number of first-time buyers from the London market.

CHART 5: LONDON'S SHARE OF UK LENDING FOR HOUSE PURCHASE, 1993 TO 2000



Source: Survey of Mortgage Lenders

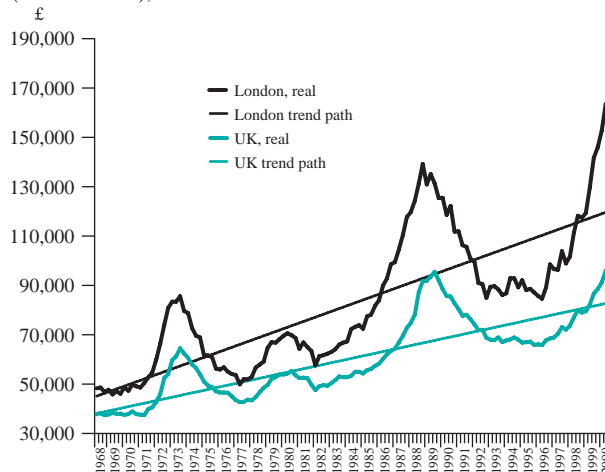
Over the first three quarters of 2000 there were 17% fewer loans for house purchase in London than in the same period in 1999, but there were only 6% fewer in the rest of the UK. The decline in the number of first-time buyers in London has been most significant. London witnessed a 22% decline in first-time buyers in the first three quarters of 2000 compared with the same period in 1999. While a reduction in first-time buyers was not unique to London, the percentage fall was double that seen in the rest of the UK. On the same comparison the number of former owner-occupiers fell by 11% in London, compared with a 2% increase in the rest of the UK. These figures show that while the housing market cooled across most of the UK in 2000, the London market cooled considerably more.

Comparing trends in house prices in London and the rest of the UK

Since 1968 nominal house prices in London have risen by a factor of 30 compared with a factor of 25 for the UK as a whole. However, prices in London also fell by a larger proportion in the slump of the early 1990s. London prices peaked in the second quarter of 1989 at £101,200, but fell by 20% to 78,200 by the last quarter of 1992. For the UK, the fall was much less at 8%.

Once the effect of inflation is stripped out London house prices rose by a factor of 3.2 in this period, while real house prices across the UK as a whole rose by a factor of 2.6. This is shown in Chart 6, which also illustrates the long-term trends in real house prices in London and the UK. These trends translate into annual average increases in real house prices of (or inflation plus) 4.6% and 3.4% per annum.

CHART 6: REAL LONDON AND UK HOUSE PRICES (1968 PRICES), 1968 TO 2000



Source: DETR and National Statistics

Note: House prices are deflated by the consumers' expenditure deflator

Table 4 shows the average annual increases across the regions and countries of the UK. All parts of the UK have experienced real increases in house prices over the past 30, whereby house prices have grown more quickly than inflation. However, London has seen the highest average real increase in house prices per annum, followed by those regions closest to it.

TABLE 4: AVERAGE GROWTH IN REAL HOUSE PRICES ACROSS UK COUNTRIES AND REGIONS, 1968 TO 2000

Region	Percentage growth
UK	3.44
London	4.61
South East	3.94
South West	3.74
East Anglia	3.67
East Midlands	3.05
West Midlands	3.03
Yorkshire and Humberside	3.02
North West	2.83
Wales	2.62
North	2.52
Northern Ireland	2.35
Scotland	2.08

Source: DETR and National Statistics

Quarterly movements in real house prices in London are most strongly correlated with those in the adjoining regions of the South East, South West and East Anglia and least correlated with those in the

Northern region of England and in Northern Ireland. These correlations show the important influence of London on housing demand in neighbouring regions. For instance, commuters are an important element of London's workforce causing the effective functional region of London to stretch well outside the Greater London boundary. This is illustrated by the fact that the contribution of commuters to London's wealth was enough to increase the level of GDP per head to 50% of the UK average, as opposed to 30% under a residual-based approach. The performance of London's economy and housing market will therefore affect other areas but with a smaller impact the greater the distance from London. However, this relationship will depend, amongst other things, upon commuting times and the quality of transport.

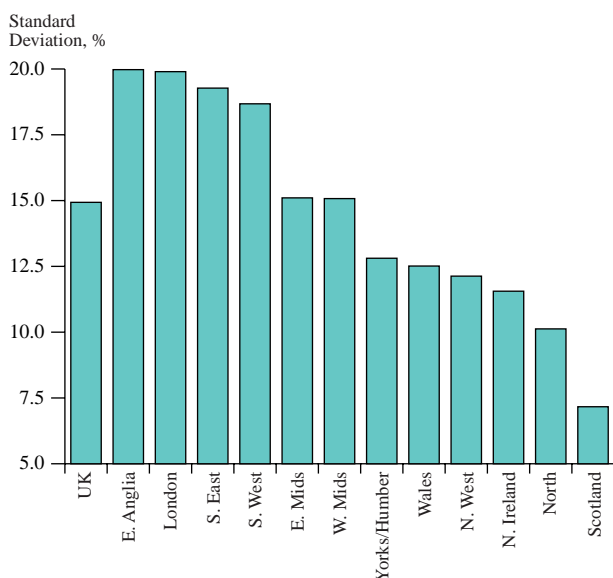
TABLE 5: CORRELATION BETWEEN QUARTERLY REAL HOUSE PRICE INFLATION IN LONDON AND UK COUNTRIES/REGIONS, 1969 TO 2000

Region	Correlation coefficient
UK	0.719
South East	0.688
South West	0.575
East Anglia	0.526
West Midlands	0.457
Wales	0.417
Yorkshire and Humberside	0.379
East Midlands	0.379
North West	0.372
Scotland	0.333
North	0.196
Northern Ireland	-0.033

Source: CML calculations
 Note: +1 and -1 are perfect positive and negative correlations respectively; 0 indicates no relationship

While real house prices in London and the UK have risen over the long-term, there is a considerable degree of volatility in house prices. The most common measure of volatility is the standard

CHART 7: MEASURING THE VOLATILITY OF HOUSE PRICES IN THE UK, COUNTRIES AND REGIONS, 1968-2000

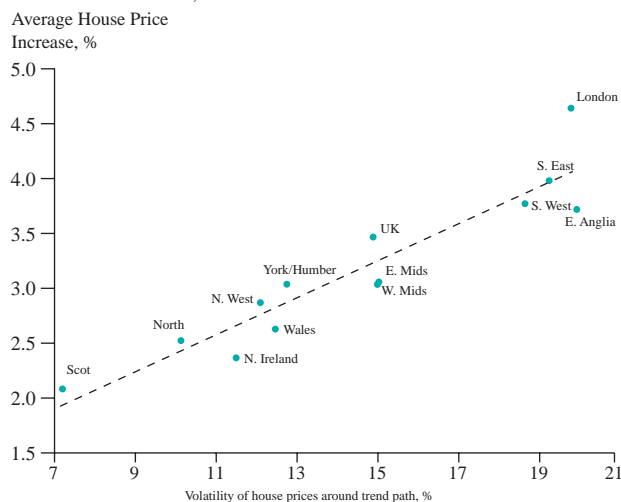


Source: CML calculations

deviation from a long run trend. Chart 7 shows this for each UK region/country. What this reveals is that London not only experiences large increases in house prices but a comparatively high level of volatility too. Furthermore the regions immediately surrounding London also experience high levels of volatility, which is consistent with the price correlation discussed above.

Chart 8 shows that the higher the long-term increase in real house prices, the greater the volatility exhibited by house prices around their trend. London typically experiences the largest increases in house prices anywhere in UK, and next to East Anglia, the highest level of volatility too. In contrast, Scotland, Wales, Northern Ireland and the northern-most regions of England experience much lower annual growth rates and considerably less volatility.

CHART 8: HOUSE PRICE INCREASES AND VOLATILITY OF HOUSE PRICES, 1969 TO 2000

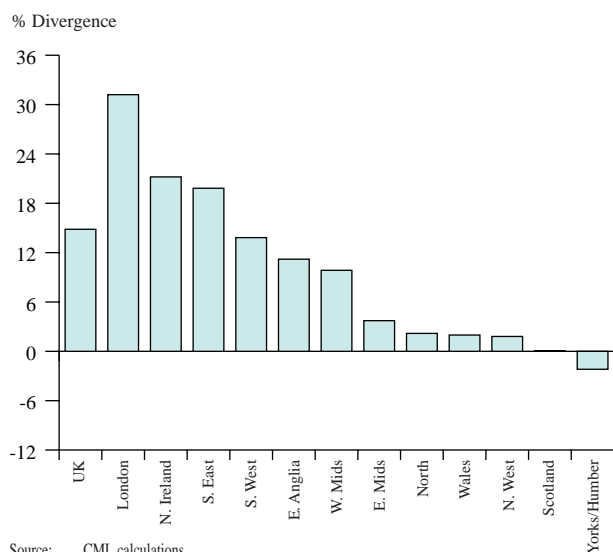


Source: CML calculations

House price volatility means house prices over- and under-shooting their long run trend rate of growth. London prices overshoot when housing demand rises and while under-shoots are milder they tend to be more prolonged. This suggests that house prices are more flexible upwards than they are downwards. Estimates for the first three quarters of 2000 show that the extent of the over-shoot in London was significantly larger than anywhere else in the UK, although this is now receding. Again the South East exhibits similar, but less extreme, characteristics to neighbouring London. As for Northern Ireland there has undoubtedly been strong growth in house prices in recent times, but to some extent house prices are likely to have been depressed in the past. This calls into question the exact position of the current underlying trend. For most parts of the UK house

prices cannot be said to have been significantly away from their estimated trend.

CHART 9: DIVERGENCE OF REAL HOUSE PRICE FROM TREND ACROSS UK COUNTRIES AND REGIONS IN 2000



Source: CML calculations
 Note: 1. Simple average across first three quarters of 2000
 2. Figures are calculated from estimating long-term linear trend for real house prices.

The two characteristics of London house prices, high annual growth and high volatility, highlight the need to consider the underlying causes. As argued in Garratt (2000), these characteristics can arise from housing demand being highly responsive to income and/or insensitive to price and/or housing supply being unresponsive to price.

Longer term housing demand

The strength of demand for housing in London, contributing to strong growth in house prices and the high cost of entry into the market, is related to the changing long-term demographics of the city. A combination of the reversal of the trend in population decline, increased international migration and diminishing average household size have all contributed to increasing demand for housing in the capital.

London's population

London's population was estimated to be 7.19 million in 1998 and has been increasing by an average of 28,000 every year since 1983. The reversal of London's population decline has been due to a combination of London's natural rate of population change and increase in the net migration largely due to international migration (see Table 6). Interestingly although London's population gains substantially from international migration, it is a net exporter of population through internal migration, mainly to the

South East and Eastern regions of England. But this population loss is compensated by the growth in the number of births exceeding the number of deaths, as well as international migration.

TABLE 6: LONDON'S VITAL STATISTICS

	London	UK
Population 1998 (000s)	7,187	58,807
International migration 1996-98 (000s)	122.2	211.4
Internal migration (1996-98) (000s)	-94.1	15.7
Birth rate (persons per 1000)	14.7	12.1
Death rate 1998 (persons per 1000)	8.7	10.6
Natural rate of population change 1998 (persons per 1000)	6.0	1.5
% Adults of pensionable age as proportion of population 1998	14.9	18.1

Source: National Statistics, General Register Office for Scotland, Northern Ireland Statistics and Research Agency and the Government Actuary Department.

London's population is younger than the rest of the UK, with proportionately more children aged under 5 and a lower proportion of adults of pensionable age. London has a much higher proportion of residents in the 20-44 household-forming age group, than the rest of the UK. The mortality rate is also approaching 20% below the UK trend, reflecting the younger age structure of the capital's population.

Population density

London's population density is higher than any other UK town or city, with 4,554 people per square kilometre in 1998. This rises to 8,613 in Inner London, with the borough of Kensington and Chelsea at 14,200 per sq km. In contrast Birmingham's population density is only 3,826 people per sq km. London also has one of the highest densities in Europe, exceeded only by Paris and Brussels, which also have considerably smaller populations.

This picture of existing high-density rates in London is perhaps at odds with current proposals for regeneration by encouraging higher density residential development. The Urban White Paper, *Our Towns and Cities: The Future – Delivering an Urban Renaissance* (DETR, 2000) and *Towards an Urban Renaissance, The Report of the Urban Task Force* (HMSO, 1999), to different degrees, argue for increased density in new development to reverse urban decline. The Urban Task Force report in particular, argued that British cities should consider the type of high-density developments achieved by continental cities like Barcelona and Amsterdam. Paradoxically, if London and other major UK cities were to match the density rates of their continental counterparts, less, rather than more intense development, would be required.

Household composition

According to the latest household estimates, the number of households in London was 3.122 million in 1999 (DETR, December 2000). The number of households increased by 4.0% over the period 1996-99, a rate which is matched only by the Eastern and South East regions of England and is well above the 2.8% growth rate for England as a whole (see below).

London has a much higher proportion of single person households, 34% in 1998, than England (29%) as a whole (National Statistics, 2000). This is reflected by London having the lowest average household size of all the regions in England, 2.32 and 2.37 persons per household respectively in 1998.

Population and household trends in London

London's population is projected to increase by 9.4 % over the period 1996 to 2021 which is considerably higher than for England as a whole yet according to the DETR's 1996 based household projections (DETR, 1999) the number of households in London is projected to increase by 643,000 between 1996 and 2021 or 21.4%. The rate of household growth is twice the rate of population growth due to the trend in people forming smaller households.

TABLE 7: POPULATION AND HOUSEHOLD GROWTH IN LONDON, 1996-2021

	1996 (000s)	2001 (000s)	2011 (000s)	2021 (000s)	Growth, % 1996-2021
London					
Population	7,074	7,215	7,470	7,736	9.4
Households	3,002	3,128	3,377	3,645	21.4
England					
Population	49,089	-	-	53,715	9.4
Households	20,186	20,992	22,519	24,000	18.9

Source: DETR Household projections, National Statistics

The 1996 based household projections suggest single person households will increase by 43% in London between 1996 and 2021, which is lower than the rate for England as a whole but average household size is still projected to fall to 2.1 persons per household by 2021, the lowest for all English regions (see Table 8).

TABLE 8: AVERAGE HOUSEHOLD SIZE BY REGION, 1996-2021

	1996	2021
North East	2.38	2.12
North West	2.41	2.16
Yorkshire and Humberside	2.39	2.16
East Midlands	2.42	2.20
West Midlands	2.47	2.23
East of England	2.41	2.17
London	2.32	2.10
South East	2.40	2.16
South West	2.36	2.12
England	2.40	2.15

Source: DETR Household Projections

London's supply of housing and future capacity

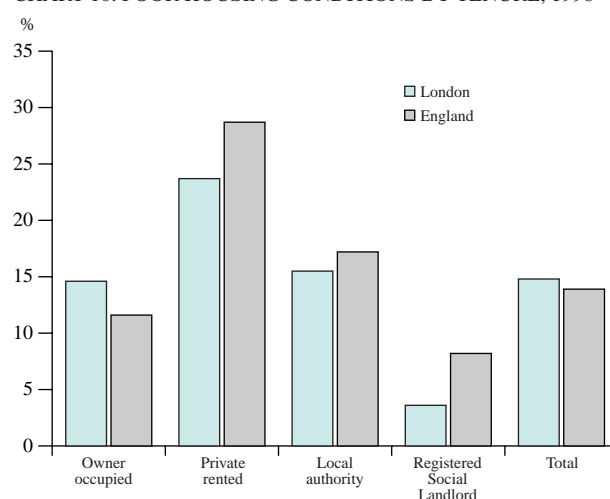
The ability of the London market to respond to demand is related to the size, quality and location of housing supply available. The pattern of tenure, the condition of existing supply and the levels of future supply are considered below.

Housing tenure and housing condition

Owner-occupation in London rose steadily throughout the 1980s from 50% of all dwellings in 1981 to 57% in 1991. The Right to Buy scheme introduced by the Housing Act 1980 was a significant factor in owner-occupation growth. Since 1991 the rate of owner-occupation has stabilised and in 1998 stood at 56%. This is well below the figure for Great Britain (68%). Private renting has seen a significant increase in the 1990s from 13% in 1991 to 17% of all the stock in 1998 (source DETR) and the proportion of households renting from a social landlord is 27%, significantly higher than the rest of Great Britain (22%).

London has some of the poorest condition housing stock in England. In 1998 approaching one in twelve properties in the capital were estimated to be unfit for human habitation according to London boroughs and more than three quarters of these were privately owned. In addition the 1996 *English House Condition Survey* reported 14.8% of London's households lived in poor housing conditions compared with 13.9% of the UK as a whole (Mattheson, Edwards, 2000).

CHART 10: POOR HOUSING CONDITIONS BY TENURE, 1996



Source: English House Condition Survey, DETR

Part of the explanation for higher rates of poor condition housing in London is the age profile of London's housing stock. More than a third of

London's stock was built before 1919, compared with 25% for England as a whole.

New house building

The UK has a low level of per capita new build (Barlow, 2000) compared with other European countries and within the UK, London has the lowest rate of new provision. In 1998, just 1.8 new dwellings per thousand people were built compared to 2.9 per thousand in England as a whole. Private sector house building in London achieves half the rate of completions of other parts of England. However, in contrast, the rate of completions for new social housing is higher than the rest of England. Social landlords built more than 20% of new dwellings in 1999.

In 1999 12,450 new dwellings were completed in London down from 13,074 in 1997. The London Housing Commission (GLA, 2000) estimated that there are about 19,000 new additions to the stock, including conversions and change of use, each year according to Council Tax registers.

Housing Corporation funded affordable housing development

A significant proportion of London's total housing stock is owned by Registered Social Landlords (RSLs) and estimates of future housing need in the capital suggest that they may have a significant role to play in meeting future housing demand for affordable housing. In 2000/2001 the Housing Corporation will provide £276 million for new or refurbished affordable homes in London. It estimates that it will fund 5,800 rented homes in London, and more than 1,200 homes for people through its Low Cost Home-Ownership programmes (Housing Corporation, 2000)

Government measures for increasing market access: the Starter Home Initiative

Conscious of the difficulties some groups of key worker households experience accessing the housing market in high demand and high value areas like London, the Government announced a new initiative in its Housing Green Paper, *Quality and Choice: A decent home for all*, in April 2000.

The Starter Home Initiative (SHI) will help people into low cost home-ownership and is expected to help around 10,000 key workers such as nurses, teachers and the police to buy homes reasonably close to their work in high prices areas like London. In particular funding will be targeted at "areas where house price affordability is a significant problem and where there is demonstrable excess demand for housing" (DETR,

2000). The scheme is also intended to promote a better mix of housing tenures and mixed-income communities.

The Government announced £250 million between 2001 and 2004 to fund the Initiative. The schemes will normally be focused on homes in the bottom quartile of house prices in a local housing market and travel to work area and could include existing government funded Low Cost Home-Ownership programmes such as shared-ownership, repayable equity loans along the lines of the Homebuy scheme funded by the Housing Corporation and cash grants to assist with a home purchase.

While these initiatives may help to meet demand at the lower end of designated housing markets, the local market adjustment to this kind of intervention may have the unintended consequence of raising prices at the lower end of the market as demand for such properties increases. This will be exacerbated if there is no new housing to meet this demand. The end effect may therefore be to increase the entry costs of owner-occupation for lower income groups, particularly those not qualifying as key workers.

Future housing supply

Looking beyond the current imbalances in housing demand and supply and examining the ability of London to meet future housing demand, the Greater London Assembly's Housing Capacity Study (GLA, 2000) suggests the region has the land capacity to provide 23,000 new homes a year to meet projected demand over the 25 years to 2016. This figure matches the housing figure the London Planning Advisory Committee (LPAC) estimate based on the 1992 DETR household projections. The GLA will review this figure using the 1996-based household projections.

The London Housing Commission

Amid growing concerns that many Londoners were unable to find suitable housing they could afford in the capital the Mayor established a Housing Commission to examine the requirements for affordable housing for London, in the summer of 1999. The Commission's report *Homes for a World City* (GLA, 2000) estimated that London's housing requirement was for an additional 43,000 homes a year for the period 1997 to 2016.

The figure is considerably higher than the 25,160 new households a year the 1992 household projections suggested and higher than the London Planning Advisory Committee's own earlier estimates of land capacity for 23,000 dwellings.

Within the Housing Commission's estimate for new housing, is a recommendation by the Greater London Authority that 28,000 rented and low cost home-ownership homes a year are needed to meet demand for 'affordable' housing in the City. This leaves a shortfall of 15,000 homes.

The London Housing Commission's estimate for new building in London is a target for meeting London's future and existing unmet demand for housing. Such a rate of new building would see nearly 500,000 homes added to the London landscape by 2010. With nearly two thirds of this new provision earmarked for 'affordable' housing, it is questionable whether this new supply would make the London housing market more accessible to the majority of households since almost all this new, 'affordable' housing would be targeted at groups defined as being in housing need and requiring subsidised housing.

Research for the National Housing Federation by the University of Cambridge *Who Needs Housing* (NHF, 1999) doubts whether London will be able to expand its capacity to meet the level of expected demand indicated by the DETR household projections.

Conclusions

London's housing market has performed more strongly than the rest of the UK over the past 30 years, despite notable periods of volatility. This strength of performance has reflected the increasing pre-eminence of the City within the UK's overall economy. Large increases in house prices have raised concerns about access to home-ownership for some groups as the rising costs of entering the market have effectively priced people out.

But it is important to recognise that the pattern of house prices and relative affordability across London is diverse, with significant variations in prices between London boroughs. It is important that the performance of London's housing market is not confused with the price of prime residential in its central areas. While such property is beyond the reach of the majority of the population, some property in London is among the cheapest in the country.

The recent cooling in the London market does not signal a return to the housing market recession of the early 1990s. The economic background is considerably different, and most importantly mortgage debt servicing, which is crucial to the sustainability of home-ownership, remains low by historic standards. Moreover, there remains strong underlying demand for housing in London both in

the short term and longer term resulting from international migration, natural rates of population change and the trend towards smaller households.

There appears to be considerable scope for growth in owner-occupation in the Capital. Home-ownership is approximately 10 percentage points below the UK average, despite the clear demand for the tenure in the region. Given the universal aspiration towards home-ownership recorded by opinion surveys, there is considerable potential for growth over the next decade.

As demand pressures increase, attention focuses on the extent and quality of London's supply. The existing supply of housing is poor by UK standards and the rate of new supply is low both by UK and European standards. These supply problems may have exacerbated house price inflation and the volatility of house prices.

Policy responses to the pressures faced by lower income purchasers in high value housing markets like London include the £250 million Starter Home Initiative to subsidise the housing costs of key workers priced out of certain housing markets. However, in the absence of an increased supply of housing, it is questionable whether a measure aimed at increasing demand will cure affordability problems, or simply shift the problem onto another group of participants in the housing market.

The response of the London Housing Commission to the housing problems facing certain households was to call for a huge increase in new supply of largely affordable housing. In addition, the Mayor has proposed that planning obligations will help to ensure this. Whether meeting housing need in this way will also deal with London's overall supply shortages and address the volatility in the market remains far from certain.

The long-term problems of access to the housing market for lower income households are unlikely to be resolved by short-term measures like the Starter Home Initiative. However, increasing supply over the long term is more problematic. There are physical and planning constraints on London's ability to meet the housing demand fostered by London's economic and administrative position within the UK, as well as political issues to overcome. London already has one of the highest population densities in Europe and while London's strategic planners suggest that London can cope with current levels of housebuilding the levels proposed by the London Housing Commission would not be possible. Ultimately policy makers will have to consider more radical solutions to London's housing problems, given the limited current and future housing capacity of the region.

References

- Greater London Authority (2000), *Homes for a World City*, GLA, London
- Greater London Authority (2000), *London's Housing Capacity*, GLA, London
- Department of the Environment Transport and the Regions (2000), *Our Towns and Cities: The Future – Delivering an Urban Renaissance*, The Stationery Office (TSO) London
- Department of the Environment Transport and the Regions (1999), *Towards an Urban Renaissance*, TSO, London
- Department of the Environment Transport and the Regions (2000), *Housing and Construction Statistics Part 1* DETR, London
- Department of the Environment Transport and the Regions (2000), *Housing and Construction Statistics Part 2* DETR, London
- National Statistics *Regional Trends* (2000), TSO, London
- J Matheson and G Edwards *Focus on London 2000* (2000), Office for National Statistics, Government Office for London and London Research Centre, London
- A Mayor and Assembly for London (1998), *The Government's Proposals For Modernising The Governance Of London*, TSO, London
- Greater London Authority Act 1999, TSO London.
- Housing Corporation (2000), *Allocations Statement for London 2000/2001*, Housing Corporation, London.
- National Housing Federation (1999), *Who Needs Housing NHF*, London
- Barlow, J. (2000), *Private Sector Housebuilding: Structure and Strategies into the 21st Century*, CML Research Report, Council of Mortgage Lenders, London.
- Garratt, D. (2000), The Housing Market and the New Macroeconomic Framework, *Housing Finance*, No. 48, Council of Mortgage Lenders, London.