The government needs to invest in affordable housing in London

Christine Whitehead *and* **Tony Travers** *show that, in terms of housing need, wider economic impact and housing numbers, the case for investing in London's affordable housing in overwhelmingly compelling.*

The new government has decided to massively reduce the subsidies paid to social housing providers to build and renew social housing and to let Housing Benefit paid to lower income tenants take the strain of higher rents.

In particular they have put in place a new affordable rents regime by which social sector rents on new and re-let properties may be increased to up to 80% of market levels – allowing greater borrowing and therefore more investment. As London now has the lowest social rents as compared to market, the potential to implement this policy at first glance seems to be greatest in the capital.

It is in this context that LSE London was asked by the G15 group of housing associations – the largest social housing providers in London – to clarify the case for continued government support for investment in social housing in London. The starting point was the requirement of 13,000 affordable homes each year identified in the Replacement London Plan – a figure which reflects estimates of both the growth in housing requirements and capacity constraints.

Rationale for subsidy

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

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

Housing Need

The need for additional affordable housing in London is far stronger than in any other part of the country. In 2008 households and dwellings were almost in balance (table 1).This is a situation that has not been seen for over forty years when the capital was still recovering from wartime housing shortages.

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

Source: DCLG Live Tables 109 and 403

Londoners on average have far less space than elsewhere in the country and 40% of overcrowded households are in London. Moreover, housing is more expensive in London than elsewhere and even new social tenants are on average paying rents at above 35% of income including housing benefit, as compared to 31% for England overall. Private tenants pay far more. Owner-occupation is out of reach of the majority of younger households.

Most importantly Londoners account for around 25% of all homeless households in the country and 75% of those who have to be accommodated in temporary accommodation, including more than 55,000 children

(table 2)

Table 2 : Households accepted as homeless and households in temporary accommodation (2010)			
	London	**England**	**London/England**
Homeless			
Numbers	9,700	42,390	
Rate per thousand	3.0	2.0	23%
Households in Temporary Accommodation			
Numbers	36,020	48,010	75%
Rate per thousand	11.1	2.2	

Source: DCLG Live tables 772 and 783

Investment, value for money and rates of return to government

Poor housing increases health and education costs; reduces employability and productivity; contributes to family breakdown; and is associated with crime and anti social behaviour. The cost of addressing these problems in London is greater than in the rest of the country, in part because of the higher unit costs of service provision but also because of the negative impact on others in densely populated urban areas.

Homelessness, living in temporary accommodation and, to a lesser extent, overcrowding are the main sources of these costs to government and society. Providing additional affordable housing is the best way of reducing these costs – particularly in London where there is the greatest housing shortage. Housing and land in London is used more effectively than elsewhere in the country. Development is denser and the necessary infrastructure is also more likely to be in place ahead of development.

New homes in London are also more intensively used than elsewhere in the country, with a much higher proportion of households allocated to homes that just meet their occupancy standards. So costs per person assisted are lower than implied by simply looking at averages. Social investment in affordable housing levers in additional private investment in market housing and so increases overall housing supply. This has been particularly true since the financial crisis.

Supporting low and middle income households to find affordable homes is essential to the competitiveness of the London economy. The capacity to provide low cost home ownership, which both helps employed households to gain the type of accommodation they are looking for and enables grant to be recycled more rapidly, is also greatest in London.

Affordable housing numbers

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

London is currently providing around 30% of all social housing completions and an even higher proportion of starts. Without London's disproportionate capacity to deliver, the Coalition's national pledge to provide 150,000 affordable homes within this Parliament cannot be achieved.

London has the greatest opportunity to increase revenues and therefore borrowing power as a substitute for grant under the Coalition's new affordable rents regime. However there are limits to what is possible including: problems of affordability among London's lower income employed households; the need to avoid unreasonably increasing the housing benefit bill with its associated disincentive to work; the risks and costs of private finance as subsidy support declines; the slow turnover in the social sector which means fewer re-lets; and the particularly heavy impact of the welfare cap on social sector households in London.

Conclusions

The case for investment in affordable housing in London based on relative housing need is overwhelming. The case for including need as a core criterion for allocating capital grant for housing investment is equally

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

The fact that affordable housing investment in London will be used more intensively than elsewhere and will have greater impact on reducing the need for public money by alleviating the social costs associated with poor housing is also of core significance.

In addition investment in affordable housing in London helps to support the broader economy and the growth agenda by delivering more market housing, more employment and a stronger labour market in London with spillover benefits to the rest of the country. Subsidy remains a necessary part of the successful delivery of the overall investment programme. Affordable housing needs subsidy and London has the greatest need for that subsidised housing.

This article is a summary of a report entitled 'Investing in London's Affordable Housing' that is available online.