

## PRICED OUT? THE AFFORDABILITY CRISIS IN LONDON

Luke Murphy and Darren Baxter | September 2017

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### 60-SECOND SUMMARY

London's housing market is increasingly unaffordable for those on low to middle incomes. While it has always been more expensive to rent or buy in the capital, the scale of the unaffordability of housing has never been greater. As a result, today's Londoners or would-be Londoners face a range of consequences including lower levels of home ownership, increased overcrowding, and rising levels of homelessness and rough sleeping. There are also wider consequences including increasing wealth inequality and higher costs to the public purse, not least through a rising housing benefit bill. It is also affecting London's economic competitiveness, with businesses finding it increasingly difficult to recruit and retain staff in the capital.

Building more homes, particularly affordable homes, will be crucial to tackling the affordability crisis that the capital faces. Yet the evidence shows that housing delivery is falling well short of estimated need – and the provision of affordable housing even more so. Despite a range of products on offer in the capital, the level of intermediate housing to rent and buy to support those on low to middle incomes is extremely modest. Moreover, our analysis reveals that many sub-market home ownership products on offer in the capital are in fact unaffordable and some fail to meet the aim of many households to achieve full home ownership.

The new Mayor of London, Sadiq Khan, has made a promising start, committing to a long-term strategic aim for 50 per cent of new homes to be affordable, introducing lower benchmark rents for the London Affordable Rent product, and introducing a new intermediate product in the form of the new London Living Rent. However, there's more that can be done at all levels. Central government should, in the short term, seek to increase the capital subsidy to the London Mayor in order to increase affordable housing output. This should be followed in the medium to long term by the devolution of additional powers for the Mayor to set and retain property taxes in the capital so that London can determine its own housing future.

### KEY FINDINGS

- London is failing to deliver the homes it requires to meet housing need – the annual minimum target is 42,000 homes but the average delivery over the past 12 years (2004/5 to 2015/16) has been 31,125.
- The delivery of net additional affordable housing is falling even further short of need than for overall supply – the

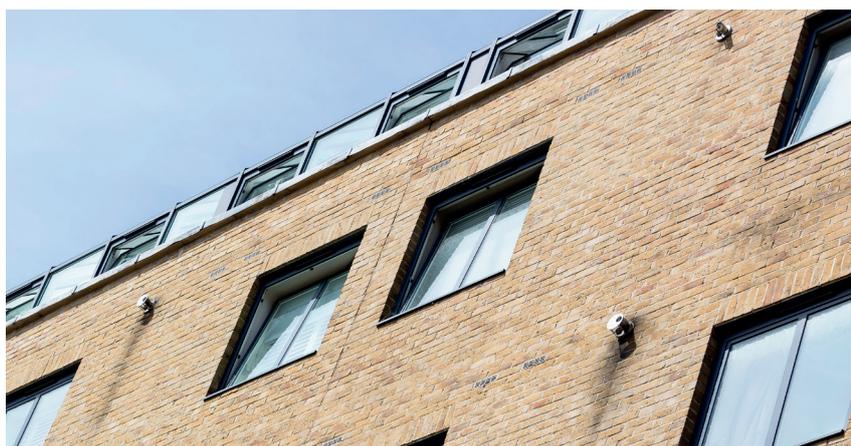
### RECOMMENDATIONS

**There needs to be a clear and universal understanding of what 'affordable' means and each and every affordable housing product should be rated against it; those that don't match up should not be eligible to be considered as affordable housing or supported by subsidy.**

1. Devolved funding and increased investment: the government should increase the capital subsidy to the London Mayor to increase the number of affordable homes that can be built. In the long term, the capital grant should be gradually replaced in exchange for additional devolved powers for the Mayor to set and retain property taxes in the capital.
2. A clear measure of affordability – and mapping the affordability of sub-market housing products: a universally understood affordability measure should be developed, linked to earnings, and applied transparently for every affordable housing product – with the development of an affordability matrix that sets out when each product becomes affordable.

overall shortfall is 50 per cent under target over a three-year period (2013/14–2015/16). With a new London Plan in development and a new methodology for assessing housing need, it is likely that assessed housing need is only likely to increase, making the shortfall even greater.

- A single person (working full time) on lower quartile or median earnings living in London would find all affordable home ownership products in the capital unaffordable under a 35 per cent net income cap.
- A couple with a child (one working full time and the other working part time) on lower quartile earnings would find all affordable home ownership products unaffordable under a 35 per cent income cap. On median earnings, shared ownership would be affordable in six boroughs, while London Help to Buy would be affordable in one borough.
- For a couple (both working full time), far more products come into reach, with shared ownership becoming affordable to those on lower quartile earnings in over a third of boroughs. For a couple both on median earnings, shared ownership becomes affordable in the majority of boroughs and London Help to Buy in more than half of boroughs.
- Starter homes perform poorly and are inaccessible to all those except on the very highest incomes. They would be affordable only to a typical couple with one child on upper quartile earnings in just five boroughs and the same for a couple working full time on median earnings.
- Some affordable housing products don't meet their specified aims; for instance a household living in a Rent to Buy home wouldn't be able to save for a sufficient deposit to buy a home outright in any London borough when saving the difference between their rent and market levels.



3. Clear targeting of subsidy to meet stated aims: subsidy should be targeted at those products that are clearly affordable, and it should be withdrawn from products that do not meet the need of those for whom they are designed to assist. This should include London Help to Buy, the funding for which should be placed under the control of the London Mayor to direct as they see fit.
4. Support of innovation and encouragement of the development of alternative affordable housing models: the government and the Mayor should consider how new and innovative products and delivery models might contribute to meeting the capital's affordable housing need. This should include the reform of compulsory purchase orders to enable the purchase of land at a lower value and the funding of affordable housing at lower costs.

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