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London Affordability

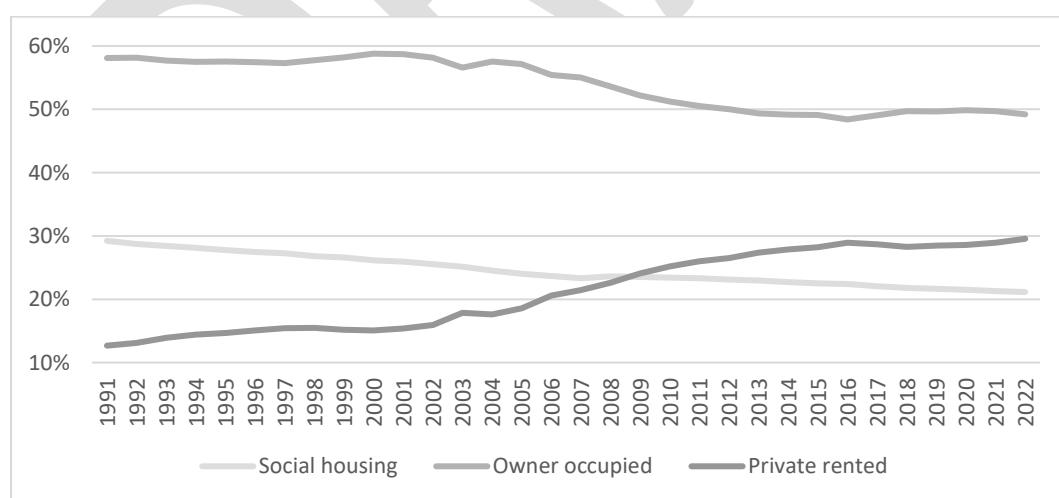
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Social to council and back again

London was an early laboratory for the development of social housing and the city features a wide variety of architectures, financial models, target populations and construction types.

The first social homes were built in the nineteenth century by philanthropists including American banker George Peabody and many tenement blocks from this time still punctuate central London neighbourhoods and are still rented to social tenants. The first council housing estate was the Boundary Estate in Shoreditch, East London (1890), built by the London County Council (LCC). It began a movement towards public delivery and management – replicated in all UK towns and cities – and over the 20th century local authorities eclipsed housing associations and other charities to become the main providers.

Figure 1: Housing tenure in London, 1991-2022



Source: author's calculations based on DLUHC Live Table 109: Dwelling stock by tenure and region

The two main periods of public housing construction were after the world wars of the 20th century. In the wake of World War I the UK government funded the construction of large

cottage estates of 'Homes for Heroes' for returning veterans, and in the decades after World War II there was an unprecedented wave of construction of high density, often high rise estates.

This era continues to inspire architects and planners and there are coffee table books of the estates created by Camden council during the 1970s. However, estates built with discredited large panel systems during the same era were demolished as unsafe just a few decades after their construction. Many more of London's estates have passed through both good and bad periods since they were built, as described in *The Fall and Rise of Social Housing* by Rebecca Tunstall [2020].

Much postwar housing was built on WWII bomb sites or in slum clearance neighbourhoods. In contrast to Paris, where the social housing *banlieues* form a ring around the historic centre, in London there is more social housing in central areas than in outlying neighbourhoods. The three boroughs with the highest proportion of social housing in 2022 were Islington, Hackney (both with 39%) and Southwark (38%)—all in inner London.

Public housing construction tapered off in the 1970s and ended completely in the 1980s. Prime Minister Margaret Thatcher took office in 1979 and one of her flagship policies was to give council tenants the 'Right to Buy' their rented homes at a discount. This policy—strongly criticised by housing advocates, but popular amongst tenants themselves—is still in force. Although councils (but not housing associations) were required to sell properties to eligible tenants at a discount, they were not permitted to use the sales receipts to build new affordable homes¹. This led to an inexorable shrinkage in the size of the sector (Figure 1) and changed the tenure composition of council estates, which now house a mix of social tenants, owner-occupiers and (increasingly) private tenants. Another legacy of the 1980s

¹ These restrictions have now been lifted and local authorities are again building new social and affordable homes, albeit from a low base.

and the messaging of this time is the shift in perception of social housing. Once seen as aspirational, it became stigmatised.

At the same time, housing associations grew through transfers of existing stock from local authorities (incentivised by generous grants) and new construction (partly funded by private-sector borrowing). Associations could redevelop homes and, importantly, develop new ones in any tenure including for market sale to private landlords or homeowners. This has become an important source of income to cross-subsidise their affordable provision.

City powers & limitations

There are enormous differences between the powers of London Mayor Sadiq Khan and New York City Mayor Eric Adams, reflecting fundamental relationships between different levels of government in each system. The US constitution created a federal system in which those powers not specifically allocated to the federal government are reserved to the states or to the people. New York City thus can design its own municipal housing policy, impose its own taxes and spend the revenues as it sees fit. The UK, by contrast, has no written constitution: rather, all power flows from Parliament and local authorities can only perform those activities for which Parliament has given specific authorisation.

In many policy areas councils have little autonomy; policies and funding are decided nationally and local governments function almost as agencies of central government—as for example in the case of right to buy, where there is no opt out. Most importantly, local governments have very limited fiscal powers. The Mayor of London has no power to enact new taxes and central government rules limit how revenues must be spent. And finally the Mayor of London has no power to regulate rents within the capital, although he has long argued for it (Guardian 2022).

Affordable Housing Types

Despite upheaval over the past 40 years, London is still fortunate in having a relatively large stock of affordable homes compared to most American cities. In 2022, some 21% of

London's homes were social housing (vs 16% for England as a whole). But while this figure is high in US terms, it is low in historical perspective: in 1981 over 1/3 of homes in London (34.8%) were socially rented.

On the other hand, New York City has a large stock of 'affordable' rent stabilised housing in the hands of private landlords. There is no rent stabilisation in London, but the private rental sector (PRS) does house a high proportion of low-income tenants, many of whom pay their rent with the help of a welfare payment known as housing benefit (roughly the equivalent of a Section 8 housing voucher, though not cash limited). Private renting is the only option for most low-income households seeking housing in London because turnover in the social stock is so low, but such housing is not technically classified as 'affordable'.

Social housing – both council and housing association owned - accounts for most of London's existing stock of affordable housing, but for *new* housing the situation is different. Over the last few decades UK national governments have introduced new types of affordable housing whose costs sit between social and market housing. This was for two reasons: first, to help those earning too much to qualify for social housing but who could not afford market prices (various types of intermediate housing) and second, to help marginal households attain owner occupation. Across the city the various affordable housing 'products' now being built by councils, housing association, community groups and the private sector include:

- Social housing

Social housing is the least costly form of housing, at least in London², where the median social rent of £450/month for a one-bed is about 33% of the median private rent (Trust for London 2023). Social homes are provided by local authorities or housing associations and allocated to qualifying (usually low-income) households.

² In some parts of the country social rents can be higher than private rents for similar units.

Social renting is a secure tenure—that is, tenants who comply with their lease conditions can remain for life—and there is no ongoing means test.

Initial rents are set by a formula based mostly on local earnings, and allowable rent increases are set by central government. Because social rents are so far below market rents, building new social units requires deep subsidy. This can be in the form of government grant (distributed via the GLA in London), S106 developer contributions, or cross-subsidy within housing associations.

In London, but not elsewhere in England, a product called ‘London Affordable Rent’ offers rents comparable to social rents.

Alongside social housing and London Affordable Rent there are a number of ‘intermediate’ housing products that target households who would not qualify for social housing but cannot pay market rents or house prices. These products also require subsidy in London. Most intermediate products are provided by housing associations³ and include

- Affordable rent

Homes with submarket rents, capped at 80% of market rates, provided by social landlords to eligible households.

- Shared ownership

Provided by housing associations and intended to increase access to owner occupation for lower-middle income households. Buyers purchase a proportion of the home (usually from 5-25% initially) and pay rent on the remainder, and can ‘staircase’ up to higher levels of ownership over time. Shared ownership homes are valued in a similar way to market housing; their relative affordability is because buyers do not purchase 100%.

³ Community led housing schemes (eg cohousing) often aspire to affordability but in London that is impossible without significant subsidy (grant, free land etc).

- London Living Rent

A rent-to-buy product, where tenants pay a below-market rent in order to save for a deposit for home ownership. Rents are set at 1/3 of local median incomes and leases run for between three and ten years. Providers are mostly housing associations and they are expected to allow tenants to buy their homes on a shared ownership basis within ten years; if not the tenancy ends and the property goes back to the landlord.

Each of these products has its own eligibility rules, and for some the household income ceiling is as high as £90,000 (about \$114,000).

Enabling affordability

Speaking of London's dramatic shortage of affordable housing, Sadiq Khan has said:

'...we have failed to build enough homes, particularly the new homes for social rent and for first-time buyers that we so desperately need. As a result, many Londoners have had to move out of the city. Others have been left living in overcrowded homes or struggling to afford sky-high rents. Home ownership is now beyond the reach of most Londoners.' (Mayor of London 2018, p. 5).

The appropriateness of using the term 'affordable' for rental payments of up to 80% of market in London, which has one of the most costly housing markets in the world, is contested and it is an increasingly disputed term. Mayor Khan is one of its critics and is at pains in his own housing strategy to refer to the 'genuinely affordable' housing he aims to create.

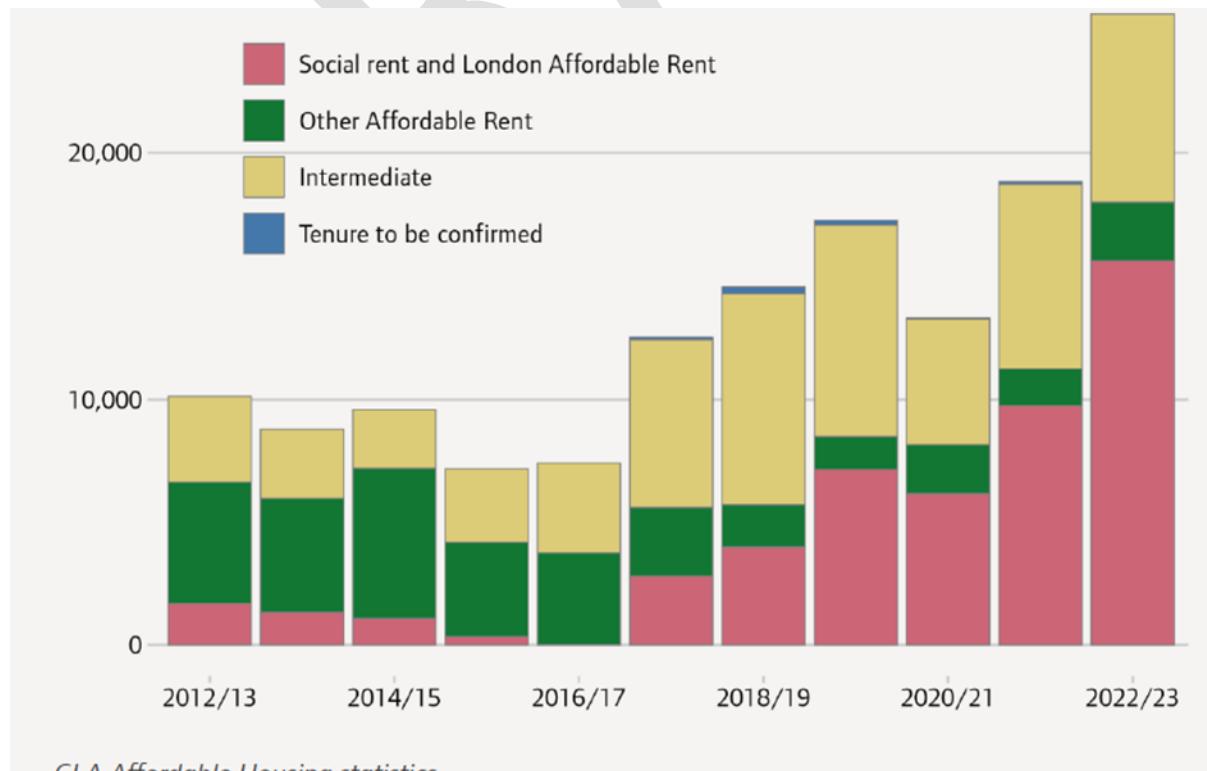
Until the late 20th century, new social housing was funded with generous and regular grants from central government. Such grants have since been radically scaled back, but through Homes for Londoners the Mayor still controls a sizeable pot of funding allocated by central government to subsidise new affordable homes. London's 'Affordable Homes Programme 2016-2023' had a budget of £4.82 billion; a further £4 billion was allocated for the 2021-26

programme. This funding was meant to support construction of over 150,000 new affordable homes, though the target was later reduced because of financial challenges in the construction sector.

Local authorities, housing associations and other developers can apply for grant funding for new affordable housing of all types, and major providers can enter into 'strategic partnerships' to build hundreds or thousands of new homes. Grant covers a proportion of land acquisition, construction costs and on-costs. In 2021, grant awards for social housing in London averaged £150,000 - £200,000/unit; awards for other affordable tenures, which require less subsidy, were lower (Pickles 2021).

Figure 2 shows the fluctuations in the proportions of affordable-housing products funded by Homes for Londoners over the last ten years. It shows that the absolute number of affordable home starts funded by the GLA more than doubled over the period, while the share of social and London Affordable Rent (the most affordable products) increased from none in 2016/17 when Khan took office to more than half in 2022/23.

Figure 2: Affordable housing starts in London funded by the GLA, 2012/13 to 2022/23



Section 106

The Mayor's aim is for 50% of all new housing to be 'affordable', although there is a *de facto* requirement of 35%. Alongside the GLA grant, much new social and affordable housing is a byproduct of market development. In the USA the 'bundle' of rights conferred by land ownership includes the right to develop, but the UK nationalised that right in 1947. Planning authorities can thus require 'developer contributions' of affordable housing as a condition of planning permission. This policy, known as Section 106⁴, is similar to inclusionary zoning in the USA and accounts for about 50% of new social/affordable housing⁵. There is normally no additional government subsidy: in effect this is a tax on development or, ultimately, a tax on land value.

Developers are normally required to provide the affordable housing on the same site as the market homes, to foster local social and income mix. This is in stark contrast to the practice in the 1960s and 70s of building large mono-tenure social estates. Under Section 106 developers can also (or instead) be required to make other contributions such as new schools, infrastructure improvements or libraries.

Future

There are many criticisms of London's affordable housing system. The plethora of affordable housing products and their various criteria could be simplified: the system is confusing even to housing professionals. The mayor is responsible for producing a citywide housing strategy, but lacks the powers and fiscal autonomy effectively to implement it. Despite building many new homes, local authorities still struggle to replace the housing lost through right to buy. Additionally, increases in the rent element paid by shared owners have made this tenure much less affordable than originally envisaged.

⁴ For the relevant section of (national) law: Section 106 of the Town and Country Planning Act 1990

Ultimately, the problem for London is that there simply is not enough genuinely affordable housing. This shortage is driven by factors far beyond the housing market itself. For decades the city's rapid population growth has outpaced the production of new homes, in part because of strong planning constraints including the 1947 Green Belt which limits lateral spread.

In 2024, Sadiq Khan won a historic third term as mayor, promising to create '40,000 more council homes and 6,000 rent control homes'⁶. However, without a sustained 1970s-style public construction programme of social housing or an equally sustained housing market crash, there is little prospect of closing the gap between current market rents and what many Londoners are able to pay. At present, London has no choice but to build subsidised homes, not just for the poorest, but for middle-income households as well.

Further Reading

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⁶ 'Sadiq promises to build the fairer, safer and greener London that all of London's communities deserve' 07 May 2024 <https://www.london.gov.uk/sadiq-khan-pledges-make-london-byword-opportunity-he-signs-historic-third-term-mayor-london>

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