

Chris Walker | February 2016

THE HOMES LONDON NEEDS

Part 1

A Policy Exchange Essay Series

Introduction

There is an acute housing shortage in our Capital and housing ranks first as an electoral issue for Londoners as we head into the Mayoral race.^{1 2}Housing clearly has to be one of the top Mayoral priorities for 2016.

But even under optimistic assumptions, London's housing affordability – already bad - is likely to be even worse in 2020 and 2025, unless some radical policy changes are adopted to boost housing supply. 2020 in particular is a year for both General and London Mayoral Elections and housing is likely to feature prominently as an issue.

We need to build around 50,000 new homes a year to accommodate London's growing population and to address the current housing shortage³ - including for those on the housing waiting lists. But London's new housing supply remains stubbornly low at around 27,000 a year currently.⁴

Policy makers have struggled for years to turn things around, but without any meaningful success. More recent housing supply policies could nudge the supply of new homes to the low 30,000s - if London's economy remains buoyant - but even that is clearly way short of the number required to prevent affordability from getting worse and the £1 million average London house price within 10 years. The ramifications of such worsening affordability are both social and economic and they are severe.

Doing nothing is simply not an option and urgent action is needed. London is failing to build enough new homes and communities. For London to continue to succeed, there needs to be more ambition and radical solutions that are achievable politically - not in five years but immediately. This essay introduces two essays, each offering a possible and distinctive way forward.

The problem of not enough new homes

We are not building the homes London needs. We have not been for the last twenty years. After declining during the post-war years, London's population has been growing since the mid-1990s, by nearly 100,000 a year on average (table 1). That's roughly 40,000 households a year. This 'urban renaissance' is attributable to a number of factors, including the revival British economy in the 1980s and an apparent revival in the attractiveness of urban living.⁵

Table 1: London's population⁶

1991	6.4 m
2001	7.2 m
2011	8.2 m
2015 (latest est.)	8.6 m
2031 (projected)	10.1m

Yet, the supply of new homes – both new builds as well as the conversion and subdivision of existing homes – has been only 27,000 a year (table 2).

Table 2: London's supply of new homes, 2004/05 to 2013/14⁷

	Number of new homes
2004/05	26,870
2005/06	28,850
2006/07	30,930
2007/08	31,560
2008/09	32,290
2009/10	28,330
2010/11	21,820
2011/12	24,870
2012/13	21,040
2013/14	23,580
10-year average	27,014

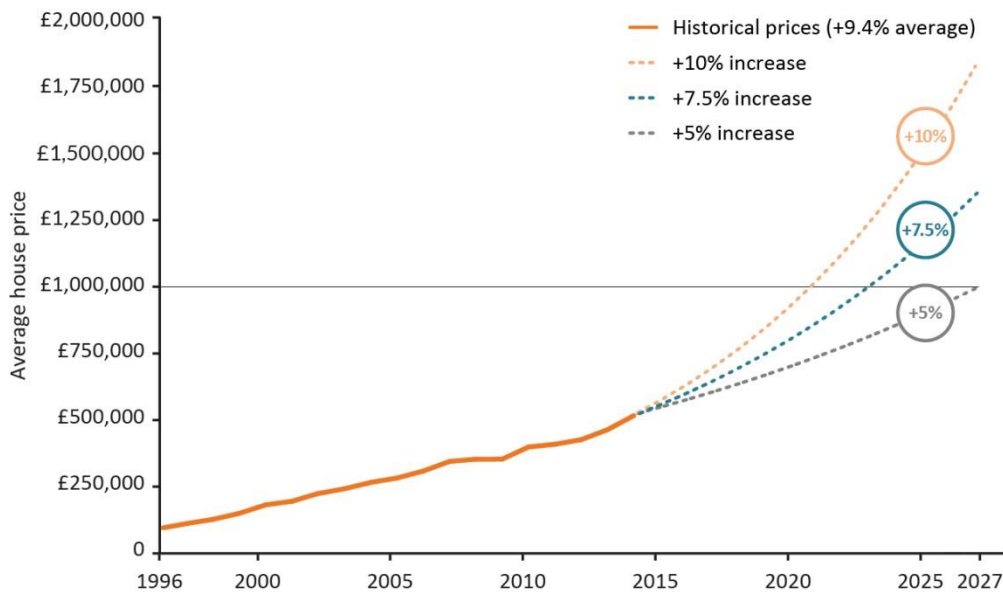
Moreover, the cumulative shortfall in housing supply year after year has created today's shortage of nearly 200,000 homes in our Capital – including those on the housing waiting lists.⁸ In order to meet the expected future growth in London's population, as well as catch-up on the 200,000 homes that have not been built, we actually need nearly 50,000 additional homes a year over the next twenty years⁹ - the homes London needs (see table 3).

Table 3: London's Housing Requirements¹⁰

Published SHMA ¹¹	New Housing Requirements, per annum	Required for
2004	35,400	Future household growth only
2008	32,600	Future household growth only
2013	49,000	Future household growth + addressing the current shortage

In 1997 the price of the average London home was 4 times average London earnings. Today it is 11 times.¹² The average London house price now stands at £525,000 and nearly double the England average of £266,000¹³. The average London rent is around £1,500 a month and it is becoming the norm for rents to consume more than a half of take-home pay. And although we have a *national* - albeit not ubiquitous - housing shortage, the disparity between London house prices and those in the rest of the country continues to grow. Over the last 20 years London house prices have risen on average 7½% a year compared to little over 5% for the rest of England. If house prices in the capital continue to rise at this rate, the average London house price will comfortably top £1million within the next 10 years. That's double (+100%) current levels, whereas wages will barely rise a third (+33%) on the basis of their historical trend growth.

The average London house price is likely to hit £1m in the 2020s



Source: London Datastore – Average House Prices, Borough

Many will sensibly ask how house prices could possibly have risen so much faster than wages and over such a sustained period, given wages are a key constraint to housing affordability and demand. Part of the answer lies in the fact that London is a global city and an international financial hub. Shifting global credit conditions mean London-specific drivers in its property market are acting alongside the domestic factors.

Historically this has always been the case. But the credit crunch and subsequent Eurozone crisis especially, saw global capital flows into London as investors sought a safe haven from the financial malaise, giving rise to such phenomenon as the “safety deposit box” flat (though not unique to London). Savills research (2013) found that 46% of Prime London sales – those in areas where the average house price was £1 million or more - were to international buyers.¹⁴

But more broadly, London’s property market has been without question a good investment for international investors during the last twenty years and this has attracted further investment flows – a ‘virtuous’ circle (or a ‘vicious’ one, depending on who you are). Obviously this is not wholly distinct from the fact we are not building enough homes in our Capital. In short, London’s property market has become a one way bet – prices can only go one way - underwritten by its housing shortage.¹⁵

The credit crunch also ushered in an era of ultra cheap money - record low mortgage interest rates currently being enjoyed by homeowners. Average mortgage interest rates today are around 3% compared around 6% in 1997¹⁶ - closer to the longer term historical average. This has meant that households can service a far higher level of mortgage debt for a given level of income. For example, the household can borrow £200,000 today for the same interest cost as borrowing £100,000 in the mid-1990s i.e. 2 times as much debt. Cheaper mortgage debt will invariably mean higher mortgage debt – that, in turn, will be capitalised into higher house prices without a commensurate increase in housing supply as we have seen in London.

This all matters. According to Savills, by 2012, an average home in whole sections of London – including the City of London, Kensington and Westminster – had become completely unaffordable to families earning £45,000 a year net, putting them among the top 10 per cent of all earners. The situation has become markedly more difficult since then, with prices continuing to recover from the 2009 slump.¹⁷

The ramifications for social cohesion and social mobility in London could not be starker. As London becomes increasingly expensive more and more people - including those traditionally seen as the middle classes – can no longer afford to live there. Much of London is now out of reach for many, including hundreds of thousands of affluent young professionals in their thirties who live in a city where they can never own or even part own, and where the private rented sector is an often poor substitute.

In other words, London is fast becoming the preserve of the wealthy as talented and creative people are forced away and a “hollowing out” effect plays out - London for the rich and the poor, not for the middle.

It matters economically too. According to a recent survey by the CBI, a lack of housing is impacting on business growth with 50% of businesses having to pay a premium to attract and retain staff. 80% of businesses are pessimistic about the affordability of the London housing market in the next 1-3 years.¹⁸ This is bound to have an effect on London’s economic performance and its international competitiveness. There are also implications for our public services and their ability to attract and retain staff.

The changes we need

Sadly, the supply of new homes in our Capital is entrenched at low levels. What has been happening over the last decade closely mirrors what was happening in the couple of decades before that. The Mayor of London's Housing Strategy, too, acknowledges the shortfall between the present rate of supply and London's *theoretical* maximum land capacity for new homes, of only 42,000 homes a year.¹⁹

The decades ahead won't be much better without radical (and brave) policy changes starting with an overhaul of the Mayor's Statutory London Housing Strategy (box 1). In essence, many of the failures are institutional as well as policy ones. The "system" – including the planning system, which is the biggest determinant of the supply of new homes - is set up to fail in delivering the homes London needs, in at least two important respects.

Firstly, current housing supply policy in the capital is pretty much to build on brownfield land only. The latest Strategic Housing Land Availability Assessment for London, based on that policy, has estimated there is sufficient land capacity for only 42,000 homes a year over the next decade, yet the actual sites for only 29,000 of these (i.e. 70%) have been identified.^{20 21} So in this respect the provision of adequate land for housing is based on something of a wing and a prayer.

Notwithstanding, brownfield land for at least 50,000 homes a year - the homes London needs - should be clearly identified. So not 42,000 homes and certainly not 70% of 42,000. There needs to be more of a statement of intent.

Secondly, housing is infrastructure. Yet planning policy implicitly doesn't recognise it as such. Any infrastructure project has an allowance for contingency - a cushion for when things go wrong. With infrastructure projects they almost inevitably do. Government infrastructure projects have a contingency of +50%.²²

Box 1: The Mayor' Statutory London Housing Strategy²³

The Mayor's statutory London Housing Strategy sets out his policies to meet the requirement for new housing - driven mostly by London's growing population which is projected to top 10m by 2031, from 8.6m today. The London Plan's Strategic Objective

1 “A city that meets the challenges of economic and population growth” encompasses a number of housing supply policy objectives to meet these challenges.²⁴ The key over-arching housing supply strategic objectives include:

- (i) achieving average new housing supply of a minimum 42,000 homes (net) per year;
- (ii) delivering nearly all of London’s new housing supply (96%) on previously developed (brownfield) land; and
- (iii) minimum density requirements for new build housing that comply with the “housing density location and density matrix”

Given the capacity for new homes, the Mayor’s statutory London Housing Strategy (2014) sets out a long term ambition to increase supply to 42,000 new homes a year (by 2025). The latest Further Alterations to the London Plan (2015) adopted this as the pan-London housing provision target. In historical context this is an ambitious target – being much higher than the previous one of 32,210.

London Plan Housing Provision Targets

Published	Housing Provision targets for London*	Housing provision target as % of requirement
2004 LP	23,000	65% (of 35,400)
2008 LP	30,500	94% (of 32,600)
2011 LP	32,210	99% (of 32,600)
2015 FALP	42,000	86% (of 49,000)

*as set out in the London Plan (LP) 2004, 2008, 2011 and Further Alternations to the London Plan (FALP) 2015, underpinned by the 2004, 2008 and 2013 Strategic Housing Land Availability Assessments

With the system set up to deliver 42,000 homes a year and no contingency on top, it ignores all manner of risks; the development risk (which is, ironically, even more acute on brownfield land) and the risk of recession which history tells us would see housebuilding plummet, even from the current lacklustre levels. The chances are we *will* have another recession within the next 5 to 10 years. A 50% contingency on the 50,000 figure suggests we should be aiming to build 75,000 homes a year.

So if we are to accept a brownfield-only stance we will need policies that bring forward vastly increased amounts of brownfield land for a process of intensification – i.e. denser housing and a denser London, including an increasing proportion of its land

designated for housing. In most respects this seems a reasonable and sensible proposition, not least because London is one of the least dense capital cities in the world.

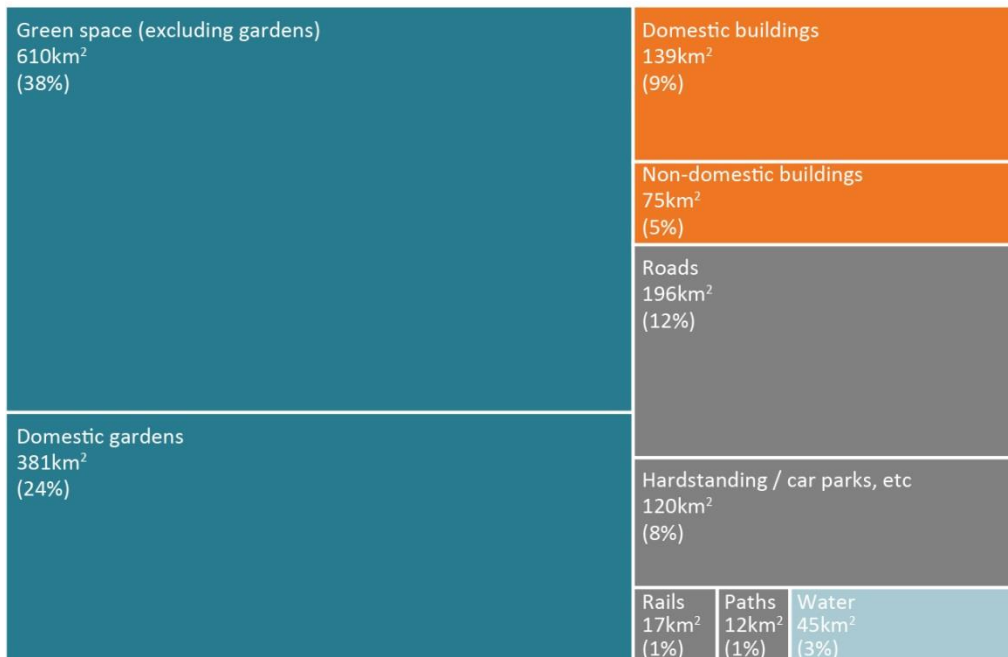
There has been much debate, most especially in recent years, about building on London's Green Belt. It is estimated, for example, that by building on just 10% of London's Green Belt within the M25 we could build a million homes²⁵ – the homes London needs for 20 years. Yet despite such a potentially great prize, the subject of building on Britain's Green Belt remains a political taboo.

This essay series focusses therefore on policy solutions that are about the densification of existing residential areas as well as shifting the balance of *land use* in our capital from commercial (industrial) use to residential. It presents two essays, each putting forward deliberately radical proposals to deliver the step-change in new housing delivery of the magnitude required. *A Direct Planning Revolution for London*, by Nicholas Boys Smith, is primarily concerned with the densification of Social Estates. *Mass-delivery of Manufactured Homes for Rent*, by Jamie Ratcliff, is about changing the way some commercial land is used, looking especially at underused (surplus) private industrial land, public land and other brownfield land.

There are some common themes. A key one is the buy-in and say-so of local people about what gets built in their local communities by forging a much stronger connection between Londoners and the planning process. Nicholas Boys Smith in his essay talks of a planning revolution - planning by the people – to overcome a current disconnect between people and planning that makes many new homes so unpopular, itself a political constraint on new supply because it encourages NIMBYism. But these essays are not a NIMBYs charter. It is not argued that people should be able to say “no” to reasonable new housing development. But they should be able to say *how* and *what*.

The essays in this series are fundamentally about how we use land in London more effectively to build the number of homes London needs, whether through densification or changing the balance of land use from commercial to residential, though probably a mixture of the two.

Land use in London



Source: Land Use Statistics (Generalised Land Use Database), 2005

The essays are also about the densification of London in a way that makes it a better place to live. Simply, “less dense” doesn’t mean “more desirable”. This theme underpins, or at least motivates, much of the thinking in all two essays presented. London is one of the least-dense capital cities - with both a low density centre and an even lower density periphery. Inner London today has 1.7 million fewer people living there than in 1939, but it is still over 2½ times denser than outer London, measured in terms of population per hectare. Nicholas Boys Smith provides an illustration of the potential for housing growth in our capital through densification to create better places in Box 2.

Box 2: The potential for London's densification

There was a 'dramatic decline' in London's population from its pre-war peak until the mid 1980s. In fact, only in 2015, after 76 years, did London's population exceed the peak (8.65m) of late summer 1939 as Hitler planned his Polish invasion.

The population rise, decline and rise in inner and outer London, 1801–2021²⁶



Most of the post-war developments in London – as the rest of Britain - were influenced by the Le Corbusier ideal of shared spaces. This meant that they surrounded their tower blocks and linked slabs with large open communal spaces. And where more conventional streets of houses were built there were normally of suburban not urban densities – even in inner London.

The consequence was that most post-war London developments actually very materially *decreased* housing density. For example, during the post-war rebuilding period the population density of Southwark, the borough that built more high rises than any other comparable area - 9,640, actually *decreased* by two thirds.²⁷ In Newham, the population fell by 20 per cent from 1951 to 1971 as the council built 6,740 tower block dwellings.²⁸ 'The era of very high house-building during the 1950s-70s resulted in a managed decline in housing density which both responded to and accelerated the population exodus....it has proved to be an inappropriate response in the light of subsequent, fast-rising population.'²⁹

Returning to just *half* of the borough-wide historic densities in inner London would provide 17 years housing supply at current projections.³⁰ Almost by definition, such densities should not normally require high rise or large multi-storey blocks. Densities *twice* as high were previously contained within a purely low rise (though unacceptably overcrowded) form.

The question of density leads us into the equally important question of what we want London to look like; its urban form, the types of homes we want – flats or houses and, of course, archetypes (e.g. medium-rise blocks, or terraced houses). At one extreme we have Kensington and Chelsea with its beautiful Georgian and Victorian terraces in leafy streets, grand stuccoed villas, attractive cobbled mews, and the smattering of spacious Edwardian mansion apartment blocks. It is one of the densest the London Boroughs, ranking fourth in terms of population per hectare.³¹ It is also one of the most desirable (and certainly the most expensive). In many respects, other than in architectural style, its built form resembles that of central Paris.

Clearly not all of London can be like Kensington and Chelsea. Indeed, we do not want all of London to be or look the same. But it does serve as a useful illustration of desirable densities and urban forms. And the other extreme we have over 3,500 social housing estates, many high rise but actually *low* density.

Nonetheless different archetypes – including tower blocks – can work well in the right settings and the oft-cited Barbican serves as a useful reminder. There are countless others. Many will be quick to point out that Kensington and Chelsea and Barbican have in common the affluence of the people living there. London (and Londoners) should be a diverse mix of people with high levels of integration *and* have great places to live. That should clearly be the aim - there is no reason why it should not be possible.

In many ways housing supply and affordability is also implicitly about the expectations of ordinary Londoners. Is it a reasonable expectation, for example, for Londoners on the average London wage to be able to own (or even rent) a 3-bedroomed terraced home with a small garden in zone 3? Should that be a policy objective? Are uber-densities, typified by huge blocks and towers, only suitable for zone 1? What about green space (“green lungs”) – how much green space do we want and should it be predominantly public (e.g. parks) or private (i.e. back gardens)? Central London enjoys an abundance of great parks which makes it pretty unique as a capital – indeed that is

one of the reasons it is has a relatively low-density centre. These are some of the thoughts the reader should bear in mind as they read on.

In many respects, then, this collection of essays isn't just about building the homes London needs and avoiding the average £1 million house price by 2025. It is as much about building the homes London *wants*. The two are intrinsically linked.

Endnotes

¹ <https://www.ipsos-mori.com/researchpublications/researcharchive/3634/Londoners-say-housing-is-now-the-number-one-issue-facing-the-capital.aspx>

² <http://www.standard.co.uk/news/uk/londons-population-could-soar-to-11-million-by-2039-as-uk-predicted-to-become-the-biggest-nation-in-a3102366.html>

³ According to the London Strategic Housing Market Assessment (2013) and Mayor of London's Housing Strategy (2014)

http://www.london.gov.uk/sites/default/files/Draft%20London%20Housing%20Strategy%20April%202014_0.pdf

⁴ DCLG live table 122, *Net Additional Dwellings by Local Authority District, 2004/5 to 2013/14*.

⁵ The clean air Acts are also likely to have played their part

⁶ 1991, 2001, 2011 historical Census data. 2015 and 2031 GLA trend-based population projections

⁷ DCLG live table 122 Net Additional Dwellings by Local Authority District, 2004/5 to 2013/14

<https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing>

⁸ Exact number 179,780, based on the London Strategic Housing Market Assessment (2013) figures

⁹ 40,000 a year for our growing population *plus* 10,000 a year to address the current shortage

¹⁰ 2004, 2008 and 2013 Strategic Housing Market Assessments (SHMAs). The SHMAs are objective assessments of the housing need

¹¹ Strategic Housing Market Assessment

¹² DCLG live tables 576 and 577 Ratio of median house price to median earnings

<http://data.london.gov.uk/dataset/ratio-house-prices-earnings-borough>

¹³ DCLG live table 581 Housing market: mean house prices based on Land Registry data, by district, from 1996. <http://data.london.gov.uk/dataset/average-house-prices-borough/resource/347f5ac3-919b-480f-bfd9-346349ab3da2>

¹⁴ Savills Spotlight, *The World in London* (2013)

¹⁵ It has also left the Bank of England with the unenviable task of preventing a speculative bubble

¹⁶ Bank of England MLAR table 1.22 Residential loans to individuals : Interest rate analysis

<http://www.bankofengland.co.uk/prd/Pages/regulatorydata/mlar/2015/sep.aspx>

The council of Mortgage Lenders (CML) are of the view that average mortgage rates in London are not too dissimilar to those of the rest of the UK. Mortgage tax relief also had a bearing on mortgage interest costs in the late 1990s before it was abolished

¹⁷ <http://www.ft.com/cms/s/0/0664615a-90dc-11e3-a2bd-00144feab7de.html#axzz3ydXZyhLt>

¹⁸ <http://news.cbi.org.uk/news/capital-s-firms-to-next-mayor-transport-and-housing-must-improve-cbi-cbre/cbi-cbre-london-business-survey/>

¹⁹ Identified by the London Strategic Housing Land Availability Assessment (SHLAA) (2013)

²⁰ With small sites, conversions and bringing empty homes back into use making up the remainder.

²¹ Further Alternations to the London Plan (FALP) (2015). The 43,000 is estimated in the London Strategic Housing Land Availability Assessment (SHLAA) (2013). This, implicitly, is the amount of land available under current housing and planning policy

²² HMT Treasury's Green book of option appraisal

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

²³ Mayor of London's Housing Strategy (2014)

http://www.london.gov.uk/sites/default/files/Draft%20London%20Housing%20Strategy%20April%202014_0.pdf

²⁴ The London Plan is the overall strategic plan for London, and it sets out a fully integrated economic, environmental, transport and social framework for the development of the capital to 2036. It forms part of the development plan for Greater London

- ²⁵ Within the M25 there are over 100,000 hectares of greenbelt land
<http://www.theguardian.com/housing-network/2013/oct/25/green-belt-london-boris-johnson>
Building on 10% of this (10,000 hectares) at a density of 100 homes per hectare would provide 1 million homes
- ²⁶ Savills analysis in Adonis, A., Davies, B. (2015) *City Villages*, p.57
- ²⁷ Coleman, A. (1985) *Utopia on trial*, p. 82
- ²⁸ Dunleavy, P. (1981), *The Politics of mass housing in Britain*, p. 48, pp. 205-7
- ²⁹ Adonis, A., Davies, B. (2015) *City Villages*, p.57
- ³⁰ Barnes, Y. (2015), A tale of Seven Cities, pp. 2-3. Adonis, A., Davies, B. (2015) *City Villages*, p.11
- ³¹ <http://data.london.gov.uk/dataset/land-area-and-population-density-ward-and-borough>